// SECTION 3

Accountability failures in local government

3 ACCOUNTABILITY FAILURES IN LOCAL GOVERNMENT

In local government administration, the political leadership and municipal officials must achieve their municipalities' objectives while acting in the public interest at all times and consistently adhering to the requirements of legislation and government policies. **Accountability is critical** and means that municipal leaders are answerable to local communities and take responsibility for their actions, decisions and policies. Municipalities should be able to demonstrate the appropriateness of all of their actions and should have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law. These concepts of public interest and accountability are entrenched in the country's constitution and the legislation that governs local government.

The Medium-Term Strategic Framework (derived from the National Development Plan) defines the overall outcome for local government (outcome 9) to be **'a responsive, accountable, effective and efficient developmental local government system'**. This is the target that municipalities are working towards, with the support of national and provincial government and oversight.

Through the 2015-16 general report and the many engagements we had with the newly elected mayors and councillors, **we highlighted the shortcomings** we identified in financial and performance management and compliance with legislation as well as in the development and maintenance of infrastructure. We also called on the municipal leadership to ensure that accountability is given the highest priority, as the 2016-17 audit outcomes could be negatively affected if the new administration 'disowned' the audit outcomes of the previous year and did not follow through on the commitments made by their predecessors to improve audit outcomes. We urged them to take responsibility for the role that they play and to ensure that accountability is enforced and that failures are adequately dealt with by implementing consequences. We **warned leadership against regressions in audit outcomes** as a result of the instability following changes in the political leadership – which we also witnessed in 2011-12.

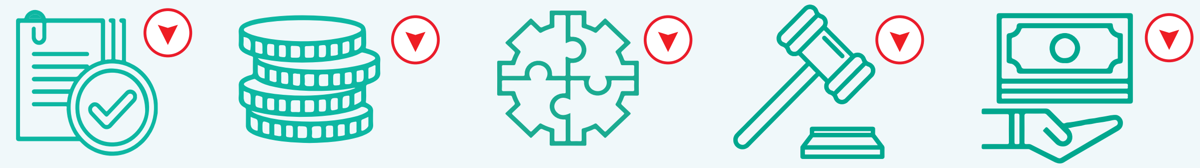
Consequences and accountability featured as prominent elements of our messages and we provided many recommendations, including the use of the **accountability cycle**. The cycle encourages a commitment to continuous improvement, which will ensure a solid foundation for accountability in the work of municipalities.

Additional information on the contents of this section is available in the summary of audit outcomes in section 4.

THREE INDICATORS OF ACCOUNTABILITY FAILURES

The key message that we can take from the results of the 2016-17 audits is that **accountability continues to fail in local government**. There are three main indicators of these accountability failures, as detailed below.

INDICATOR 1: AUDIT OUTCOMES REGRESSED AND IRREGULAR EXPENDITURE INCREASED



Clean audits: 13%
(2015-16: 20%)

Quality financial statements: 61%
(2015-16: 68%)

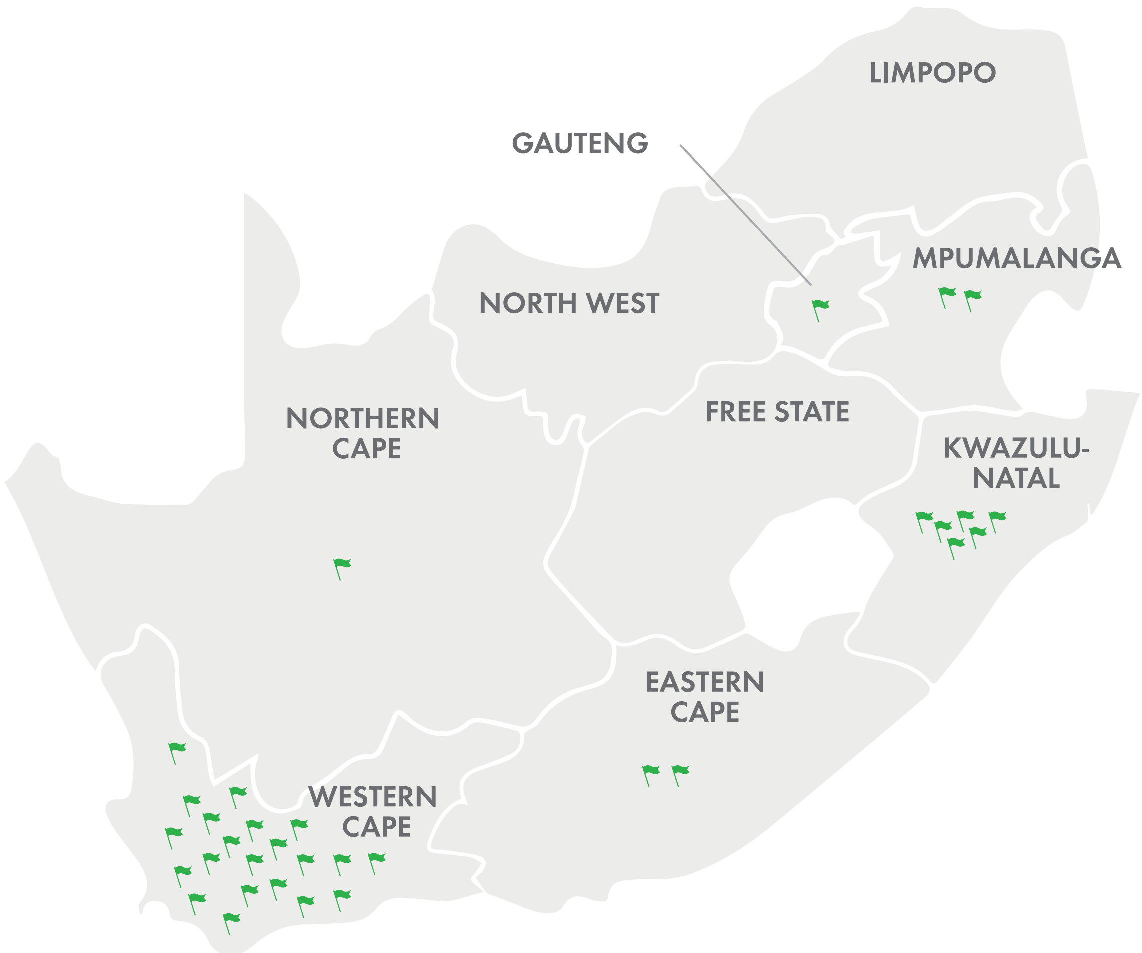
Quality performance report: 37%
(2015-16: 48%)

No findings on compliance with legislation: 14%
(2015-16: 21%)

Irregular expenditure: R28 376 m
(2015-16: R16 212 m)

The **audit outcomes of 45 municipalities regressed** (of which 17 were from a clean audit status) and those of only 16 improved. **Only 33 municipalities** (13%) managed to produce quality financial statements and performance reports and to comply with key legislation, thereby **receiving a clean audit**.

Only six of the nine provinces had municipalities with clean audits, as illustrated below.



Credible financial statements and performance reports are crucial to enable accountability and transparency, but municipalities are failing in these areas.

WHY ARE THE FINANCIAL STATEMENTS IMPORTANT?

The financial statements of a municipality show how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the municipality, and whether it is expected that the money owed will be received.

It also provides crucial information on how the budget was adhered to, the unauthorised, irregular and fruitless and wasteful expenditure incurred as well as the overall financial position of the municipality – whether its operations are financially sustainable.

The financial statements are used by the municipal council to call the municipal manager to account and to make decisions on the financial management of the municipality. It is also used by creditors, banks and rating agencies to determine the level of risk in extending debt to a municipality and by the public to know how well the municipality is using the rates and taxes they pay to provide services.

WHAT DID WE FIND?

Not only did the overall quality of the financial statements regress, the **financial statements provided to us for auditing were even worse than in previous years.** Only 22% of the municipalities could give us financial statements without material misstatements.

This means that if we had not identified the misstatements for the municipalities and allowed them to correct these, 78% of the municipalities would have published financial statements that were not credible.

This is a poor reflection on the financial management and capabilities in local government. Even bringing in consultants at a cost of R757 million to prepare financial statements and underlying records did not have the desired impact – at 101 municipalities (42%), the financial statements submitted for auditing included material misstatements in the areas in which consultants did work.

WHY IS THE PERFORMANCE REPORT IMPORTANT?

The performance report describes the progress made on commitments to the community on services and developments through the integrated development plan for the five years of the new administration. In its simplest form, this is where election promises are accounted for.

Municipalities determine how the progress will be measured (through performance indicators) and what the annual targets will be. The budget of a specific year is then matched to what the municipality needs to achieve for that year. This annual performance plan is included in the service delivery and budget implementation plan prepared by the municipality.

The performance report shows the performance measures, planned targets and achievements for the year. The municipal council represents the community's interest as its elected officials – they use this report to determine if the municipality achieved the objectives for the year, to make decisions on the next year's budget, and to hold the administration to account for any failings in delivery. This is also the report that the public uses to assess delivery by the municipality.

WHAT DID WE FIND?

The poor results for 2016-17 mean that **the performance reports of 62% of the municipalities had material flaws and were not credible enough for the council or the public to use**.

At 46% of the municipalities, these flaws were caused by poor planning as evidenced by performance indicators that were not well defined or verifiable; and targets that were not measurable or specific enough to ensure that the required performance could be measured and reported in a useful manner. We also found municipalities reporting on indicators or targets that differed significantly from what was in the plans.

At 51% of the municipalities, the achievement reported was not reliable – we either found evidence that disputed what was reported or could not find evidence for the reported achievements.

Four municipalities did not even prepare reports, while 10 prepared a report but could not give us the plans or any evidence in support of the report.

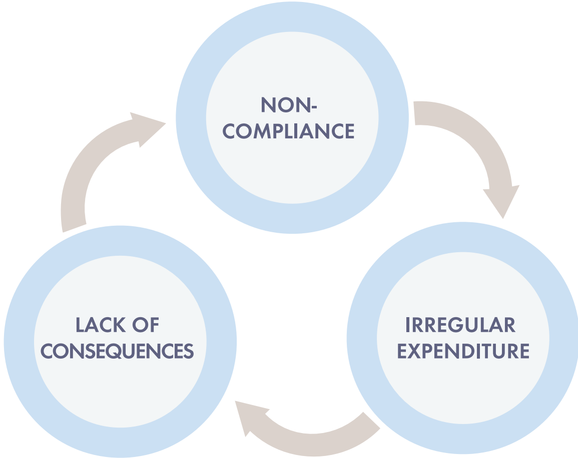
As with the financial statements, we had to point out misstatements in the reports and allowed municipalities to correct these. If we had not done so, 90% of the municipalities would have published performance reports that were not credible.

The poor planning, management and reporting of performance do not bode well for the delivery of services and the achievement of commitments contained in integrated development plans.

We reported material non-compliance with key local government legislation at 86% of the municipalities. This is the highest percentage of non-compliance since 2012-13.

The non-compliance was common in most of the areas for which the municipal manager is accountable – the preparation of financial statements, prevention of unauthorised and fruitless and wasteful expenditure, strategic and performance management as well as management of expenditure, assets, revenue, and human resources.

But the areas with consistently the highest non-compliance were the prevention of irregular expenditure, procurement and contract management, and effecting consequences. These three areas are interrelated: non-compliance with procurement and contract management most often leads to irregular expenditure, while a lack of consequences for the irregular expenditure leads to an environment in which further non-compliance is likely.



Municipalities with material non-compliance findings on procurement and contract management increased from 141 (63%) to 174 (73%).

At 67% of the municipalities, the material findings related to uncompetitive and unfair procurement processes – the most common findings being municipalities not inviting quotations or competitive bids. Often the reasons sighted for these deviations were that it was an emergency or that no other suppliers were available – but the real reasons were either poor planning or a deliberate attempt to favour a specific supplier.

The aim of the Preferential Procurement Regulations is to support socio-economic transformation. The public sector should lead by example in its procurement processes to achieve this goal, but we again found municipalities failing in this area. Countrywide, 38% of the municipalities did not apply – or incorrectly applied – the preference point system, while 57% of the 102 municipalities where we audited local content did not comply with the requirements to procure certain commodities from local producers.

We identified material non-compliance with legislation on **contract management** at 33% of the municipalities – the most common findings being municipalities not monitoring the performance of contractors on a monthly basis and/or inadequate contract performance measures and monitoring.

Although prohibited by legislation, we identified that contracts and quotations worth R15 million were **awarded to suppliers in which employees and councillors have an interest**. Legislation also prohibits awards to any suppliers in which any state official has an interest – we identified such awards worth R2 075 million.

Often this non-compliance was caused by **suppliers falsely declaring** that they have no connection to anyone at the municipality or any other state institution or to their close family members – we identified such false declarations by 1 440 suppliers, while such declarations were not even requested as part of the procurement processes at 82 municipalities.

We were **unable to audit procurement processes of contracts and quotations** worth R1 296 million at 52 municipalities, as the required documentation was missing or incomplete. There was no evidence that these municipalities had followed a fair, transparent and competitive process for all awards. We could not determine whether these awards were irregular and, as a result, could not determine the true extent of irregular expenditure.

The effect of accountability failures on procurement and contract management can be seen in the following examples:

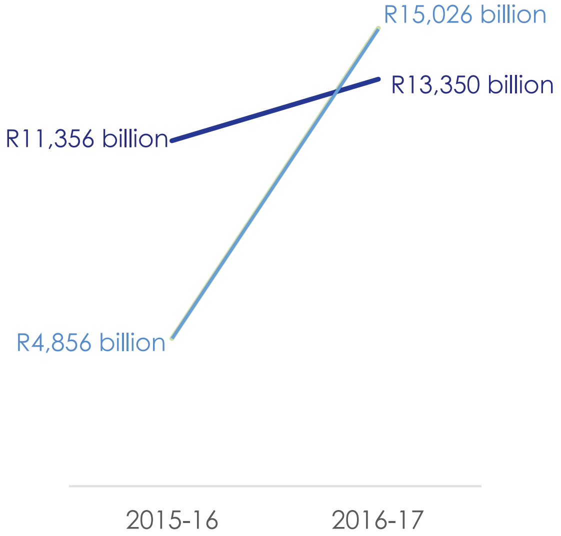
- A common supply chain management transgression was participating in contracts secured by other organs of state (in terms of supply chain management regulation 32) without ensuring that all of the conditions for participation were met. For example, one municipality in the Eastern Cape used a contract secured by another municipality to appoint consultants to assist with financial reporting at a cost of R62 million over three years. The original contract stipulated a contract value of R7 million over 10 months, which the second municipality exceeded by R55 million and 26 months. Thus, this municipality did not comply with the requirements of regulation 32, as it was not participating in an existing contract but rather entered into a new contract with the supplier. Therefore, this contract was irregular and should have gone out on open tender.

- A municipality in North West awarded a tender for information technology services for R2,7 million per month for 36 months. Although the tender was awarded through a tender process, the contract signed with the supplier then included services not covered in the original bid specifications. At year-end, R3,6 million had been paid for services not included in the original tender. Furthermore, no services were rendered for payments of R2,4 million during the year.

We report all our findings on supply chain management compliance and weaknesses to management for follow-up. If there are **indicators of possible fraud or improper conduct in the supply chain management processes**, we recommend that management conduct an investigation. These findings include the false declarations of interest submitted by suppliers (as mentioned above), employees failing to declare their interest in suppliers, payments in spite of poor delivery by suppliers, and payments to possible fictitious suppliers. In 2016-17, we reported these types of findings at 145 municipalities (61%) – a slight improvement from the 148 municipalities (66%) in 2015-16. In total, 105 (71%) of the municipalities that had such findings in 2015-16 again had similar findings in 2016-17.

The irregular expenditure disclosed by municipalities increased by 75% – it is important to understand what this means.

Irregular expenditure increased from R16,212 billion to R28,376 billion (75% increase)



Irregular expenditure incurred in previous years, identified in current year

53% of the irregular expenditure were payments/expenses in previous years only uncovered and disclosed for the first time in 2016-17.

Municipalities made a significant effort in 2016-17 to identify and transparently report on irregularities in previous years – just over R10 billion more than in 2015-16.

Irregular expenditure identified in current year

47% of the irregular expenditure were payments/expenses in 2016-17.

This represents **4%** of the local government expenditure budget. It includes payments made on contracts irregularly awarded in a previous year – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts continue to be viewed and disclosed as irregular expenditure.

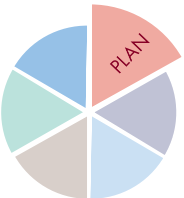
How much of the R28,376 billion then represents **non-compliance in 2016-17?** Based on our analysis of the top 26 contributors, it is estimated to be **16%** (±R4,5 billion).

In other words, 84% of the irregular expenditure relates to non-compliance of prior years that remains unaddressed.

INDICATOR 2: THERE HAS BEEN LITTLE IMPROVEMENT IN THE ACCOUNTABILITY (PLAN+DO+CHECK+ACT) CYCLE

The recommendations we made last year to ensure that the basics are in place and thereby improve audit outcomes and accountability did not receive the necessary attention, as evidenced by the findings from our audits.

PLAN



We recommended: Spend sufficient time and consult widely to clearly define the targets that should be achieved by the municipality in terms of audit outcomes, service delivery (including project delivery and infrastructure maintenance) and financial health using, among others, audit action plans, the new integrated development plan, service delivery and budget implementation plans, annual budgets, and maintenance and project plans. These targets should be specific, measurable, achievable, relevant and time bound.

Findings – audit action plans

The Medium-Term Strategic Framework 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 national Department of Cooperative Governance's back-to basics strategy, which tasks local government with addressing post-audit action plans; and the National Treasury, provincial treasuries and provincial departments responsible for cooperative governance with assessing the capacity of municipalities to develop and implement such plans.

The **status of audit action plans regressed** to only 17% of municipalities having good action plans that addressed the root causes of audit findings and are being implemented. In total, 48% of the municipalities had inadequate audit action plans and 35% had no or very poor action plans.

Findings – performance planning

Although integrated development plans and service delivery and budget implementation plans were developed and adopted, we raised material **findings on the usefulness of performance indicators and targets** in the plans of 46% of the municipalities. This is a regression from the 39% in the previous year.

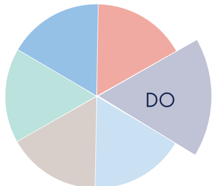
Findings – budgets

Unauthorised expenditure of R12 603 million was incurred at 161 municipalities (67%). Overspending of the budget or main sections within the budget was the reason for R12 540 million (99,5%) of this expenditure, caused by poorly prepared budgets, inadequate budget control, and a lack of monitoring and oversight.

Municipal budgets also make provision for items that do not involve actual cash inflow or outflow. We term these **non-cash items**, which include accounting entries such as reducing the value at which assets are reflected in the financial statements (asset impairments) and providing for other types of potential financial losses. This is not actual expenditure but rather an accounting requirement that enables municipalities to assess the true value of their assets (such as equipment or debtors). It is important for municipalities to correctly budget for these non-cash items to build up reserves for the replacement of assets and to show the true financial state of the municipality.

In total, 40% of the overspending that had caused the unauthorised expenditure related to these estimates that had been incorrectly budgeted for at 111 municipalities. It is of concern that the budgets of some of these municipalities might have been manipulated to show a surplus by incorrectly showing the true extent of the non-cash items in the budget. At year-end, these amounts are audited and are thus shown at the correct value, which then results in unauthorised expenditure.

DO

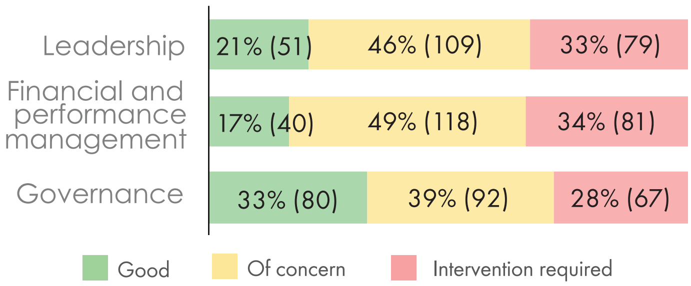


We recommended: Good **internal control** is the key to ensuring that municipalities deliver on their priorities in an effective, efficient and economical manner, produce quality financial statements and performance reports, and comply with applicable legislation – especially in the area of procurement and contract management.

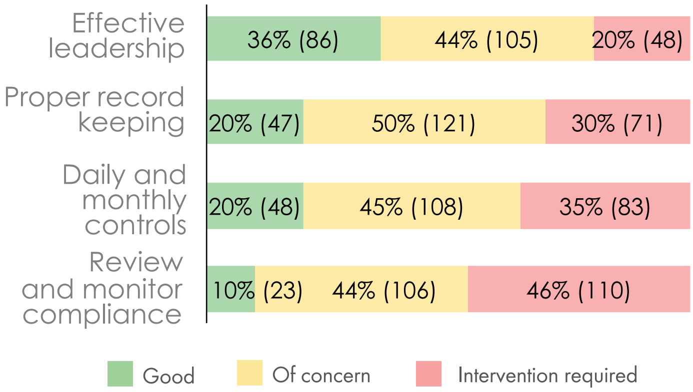
It is the responsibility of municipal managers, senior managers and municipal officials to implement and maintain effective and efficient systems of internal control; hence, it is crucial that the **key positions** of municipal manager, chief financial officer and head of the supply chain management unit are filled with people with the required competencies. Stability in these positions also correlates with good audit outcomes. Municipalities with poor audit outcomes should strengthen their financial and performance management systems through ensuring that the **basics** for a good internal control environment are in place, namely effective leadership, proper record keeping, daily and monthly disciplines, and the review and monitoring of compliance.

Findings – status of controls

The status of **internal control slightly regressed overall**, caused by slight regressions in the areas of leadership and governance and a regression in the area of financial and performance management.



The **basic controls** we recommended municipalities to focus on also **regressed**.

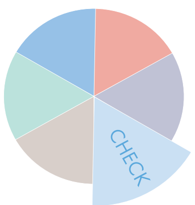


Findings – key positions

The changes in the political leadership after the elections created instability in key positions, as it also did after the 2011 elections. At year-end, **28% of the chief financial officer positions were vacant** (21% for longer than six months) – a slight regression from the 24% at the end of the previous year. **Municipal manager positions were vacant at 27% of the municipalities** (17% for longer than six months) – a regression from the previous year's 20%.

After year-end there were further terminations and resignations, which resulted in a very difficult audit process. The instability in municipal manager positions could become even more evident in 2017-18, as most of these contracts expire in this period.

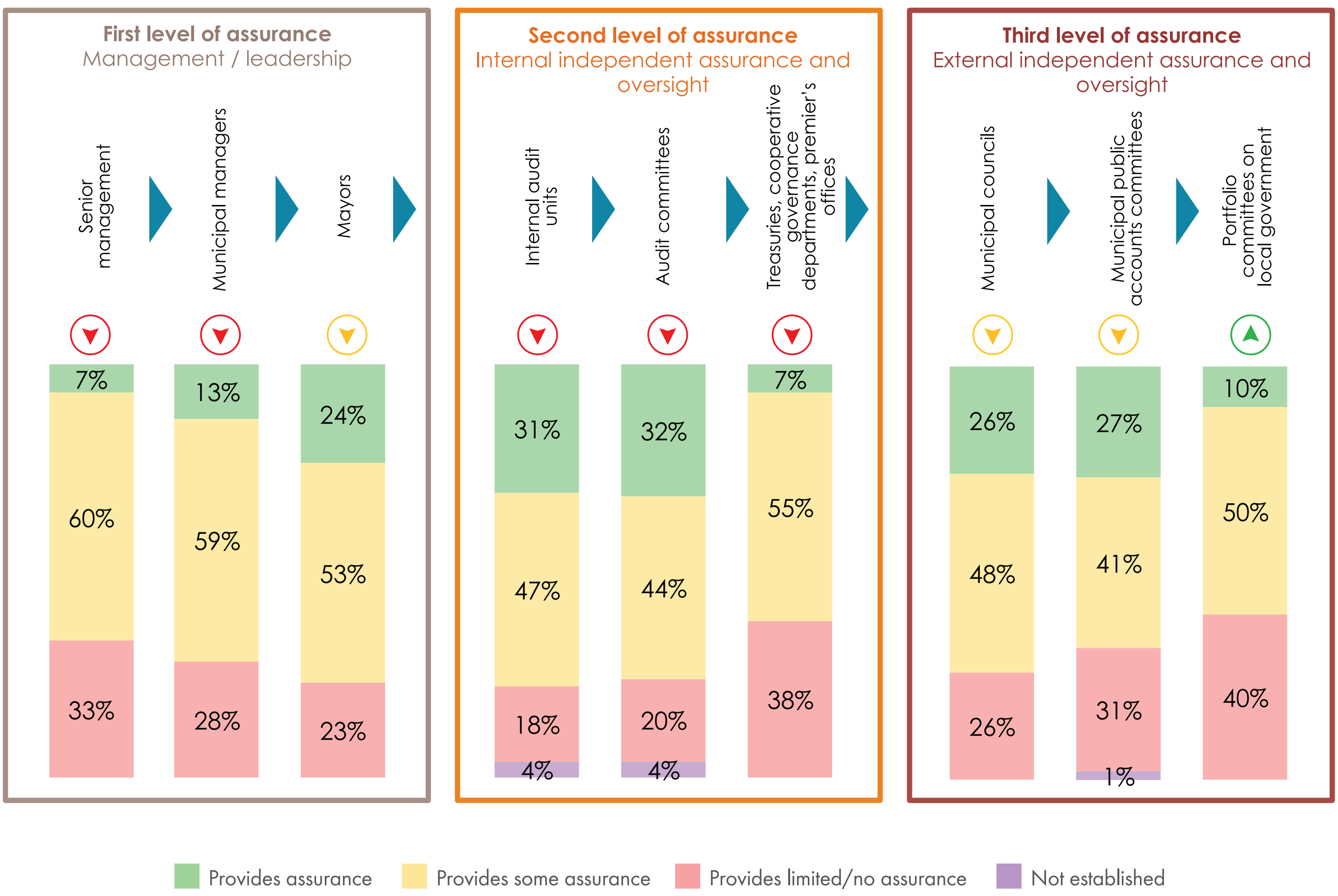
CHECK



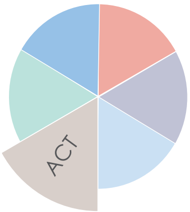
We recommended: A key element of internal control is **monitoring** by the different assurance providers to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved. We urged the new administration to ensure that all the assurance providers understand their roles, are equipped to perform their functions and are given the authority their role requires, and that the outcome of their monitoring and oversight is appropriately responded to.

Findings – assurance provided

The **assurance provided** by the different role players in local government **regressed overall**.



ACT



We recommended: Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, lack of action and poor performance. Municipalities should implement **strict consequences** for officials who fail to comply with 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.

Findings – compliance with legislation on implementation of consequences

We reported **non-compliance with the legislation on the implementation of consequences** at 63% of the municipalities – at 132 municipalities (55%), we reported **material non-compliance** with this legislation – a slight increase from the 50% in the previous year.

Findings – reporting and follow-up of allegations of financial and supply chain management misconduct and fraud

Our audits showed that 34% of the municipalities **did not have all the required mechanisms for reporting and investigating transgressions or possible fraud**. This contributed to 60 (70%) of the municipalities having findings on **inadequate follow-up of allegations of financial and supply chain management misconduct and fraud**. The findings included allegations not being investigated (34%) and investigations that took longer than three months (33%).

Findings – supply chain management findings reported for investigation

In 2016-17, municipalities again **did not pay sufficient attention to the findings on supply chain management** compliance and weaknesses with indicators of possible fraud or improper conduct that we reported and recommended for investigation. In 2015-16, we reported such findings at 148 municipalities. Although 43 of the municipalities (29%) investigated all of the findings reported for investigation in the previous year, 70 (47%) investigated none of the findings and 35 (24%) only some of the findings.

Findings – investigation and follow-up of unauthorised, irregular and fruitless and wasteful expenditure

At 133 (61%) of the municipalities, the **council failed to conduct the required investigations into all instances** of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year – a regression from 113 (52%) in the previous year. A total of 94 of the 113 municipalities (83%) that did not conduct investigations in 2015-16, again did not do so in 2016-17.

Of particular concern is that sufficient **steps were not taken to recover, write off, approve or condone** unauthorised, irregular and fruitless and wasteful expenditure as required by legislation. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R65,32 billion, while that of unauthorised expenditure was R43,5 billion and that of fruitless and wasteful expenditure was R4,24 billion.

INDICATOR 3: INCREASINGLY DIFFICULT ENVIRONMENT FOR AUDITING

The **audit environment became more hostile** with increased contestation of audit findings and pushbacks whereby our audit processes and the motives of our audit teams were questioned. It is acceptable for auditees to question and challenge the outcome of audits based on evidence and solid accounting interpretations or legal grounds. We further acknowledge that many of the accounting and legal matters dealt with in the audits are complex and often open to interpretation. But at some auditees, **pressure is placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure** – without sufficient grounds. Often the findings are communicated throughout the audit and even from previous years, but only at the end of the audit when outcomes become apparent does the contestation arise.

Some auditees also used delaying tactics whereby information and evidence were not provided as requested.

This points to a lack of accountability as a problem is not acknowledged and corrected, but rather the messenger (being the auditor) is attacked. **Leadership should set the tone for accountability** – if audit outcomes are not as desired, energy should be directed to addressing the problem and not to coercing the auditors to change their conclusions.

IMPACT OF ACCOUNTABILITY FAILURES

The accountability failures in local government result in municipalities not achieving their objectives, which in turn has a negative impact on the lives of citizens. Our audits highlighted two key areas of impact: the financial health of municipalities and the delivery and maintenance of municipal infrastructure.

EFFECT OF ACCOUNTABILITY FAILURES ON MUNICIPAL FINANCES

Our analysis of financial health shows a continuing weakening in local government finances at a time when municipalities are under increasing pressure to provide services while financial resources are dwindling.

Revenue management

The **inability to collect debt** from municipal consumers was widespread – 92% of the municipalities disclosed that they will need to write off more than 10% of their debt. The average debt-collection period was 187 days.

Deficits

In these circumstances, it is inevitable that municipalities will s**truggle to balance the books**. In 2016-17, 31% of the municipalities disclosed a deficit – the total deficit for these municipalities amounted to R5,6 billion.

Creditor payments and liabilities

The financial woes of local government weighed heavily on municipal creditors. In total, 87% of the municipalities exceeded the 30-day payment period to their creditors – the average payment period was 161 days. In addition, 43% had more liabilities than assets, which means that they will not be able to pay their creditors.

The impact of this **inability to pay creditors** was most evident in the huge sums owed for the provision of electricity and water. Eskom reported arrears of R9,4 billion by March 2017 and implemented power cuts at non-paying municipalities. By September 2017, the water boards were owed arrears of R6,5 billion.

Municipalities in vulnerable position

A combination of various factors, including poor revenue and budget management and the non-payment of creditors, led to 31% of the municipalities disclosing in their financial statements that they **might not be able to continue operating**. Although they have to continue to do so, they were reporting that they were in a particularly vulnerable position at the end of the financial year. These municipalities also incurred fruitless and wasteful expenditure of R1,1 billion in the same period – mostly as a result of penalties and interest on the late or non-payment of creditors such as Eskom.

While the poor economic climate does play a role in the deterioration of financial health, many municipalities are just not managing their finances as well as they should. They do not produce credible financial statements and in-year reports (which are essential for good financial management), their budgets are underfunded, and their expenditure is not controlled within the budget (leading to the R12,5 billion in unauthorised expenditure). Many have poor collection systems, with billing systems and debtor registers (including indigent registers) that are not credible.

Municipalities also lose money, which they can ill afford. Fruitless and wasteful expenditure amounted to R1,5 billion (a 71% increase from the previous year). It is difficult to say how much money is lost through irregular processes, as this needs to be determined through an investigation, but the non-compliance we reported at 78% of the municipalities can potentially lead to a financial loss.

The impact of accountability failures on municipal financial management is felt directly by the communities and businesses the municipalities serve – particularly so when it comes to inadequate access to basic services and the lack of economic development. It also puts pressure on the country's finances overall, as national and provincial government have to contribute through grants to keep the municipalities functioning.

RESULT OF ACCOUNTABILITY FAILURES ON MUNICIPAL INFRASTRUCTURE

Municipalities are responsible for developing and maintaining infrastructure to ensure that municipal services are delivered. Funding of infrastructure projects is a challenge for most municipalities and as such they receive infrastructure grants from national government for this purpose.

Our audits again identified a number of shortcomings in the development and maintenance of infrastructure. These are symptoms of the larger problem that local government has with managing finances, performance and projects and with taking accountability for outcomes.

Municipal infrastructure grant	R902 million (6%) **was not spent** – 22% of the municipalities underspent by more than 10%.	At 38% of the 518 projects we audited, the **targets for the project were not achieved** or not evaluated, and at 14% the achievement was not reliable.	We identified **supply chain management non-compliance** on 27% of the projects.
Road infrastructure	55% of the municipalities responsible for road infrastructure **did not have a maintenance plan or priority list** for renewal and routine maintenance.	27% of the municipalities **did not do conditional assessments** of all their roads.	26% of the municipalities responsible for road projects **exceeded their planned completion dates**.
Water infrastructure development projects	At 27% of the municipalities, funding for the projects **was not spent** – 17% by more than 10%.	We identified **supply chain management non-compliance** at 21% of the municipalities.	26% of the municipalities responsible for water infrastructure projects **exceeded their planned completion dates**.
Maintenance of water infrastructure	46% of the municipalities responsible for the delivery of water **did not have a maintenance plan** for their infrastructure and 22% **did not budget for maintenance**. 35% **did not do any conditional assessments** of their infrastructure to inform their plans and budget.	The **targets and time frames for routine maintenance of infrastructure were not achieved at** 24%.	41% had **water losses of more than 30%**.

The effect of accountability failures on municipal infrastructure can be seen in the following examples:

- Themba water purification plant (City of Tshwane Metro) – The project was delayed due to the late or non-payment of contractors, contributing to non-compliance on expenditure management and interest being incurred on late payments. The reasons for non-achievement on the project were inadequate project management of key milestones; lack of planning before appointing the contractor, resulting in overspending on the project; and inadequate monitoring of the contractor.

- Construction of Thabong T16 waterborne sanitation (Matjhabeng) – The project started in 2014-15 at a budgeted amount of R62 million. The municipality prioritised the construction of the toilet structures, plumbing and internal sewers ahead of the bulk network at the pump station, while the sewer pipeline was also not connected to the pump station. This resulted in sewage overflow around the area of construction, which caused pollution and which could potentially compromise the health and safety of the Thabong residents. The appointment of the contractors was irregular and the project was still in progress. To date, R54 million had been spent on this contract.

Additional examples are included in the provincial overviews in section 5.

Although funding and support are generally available from national government for the development and maintenance of municipal infrastructure, the non-delivery thereof at some municipalities and the impact on communities are the issues that need the most focused attention by all role players to ensure that the objectives of a better life for all are achieved.

ROOT CAUSES OF ACCOUNTABILITY FAILURES

Our message on the root causes of poor audit outcomes has remained consistent over the years, but we saw a regression in the rate that municipalities are addressing these three root causes.

Slow response in improving internal controls and addressing risk areas	Inadequate consequences for poor performance and transgressions	Instability or vacancies in key positions or key officials lacking appropriate competencies
77% ▼	61% ▼	59% ▼

The root causes in 2016-17 can be expanded as follows:

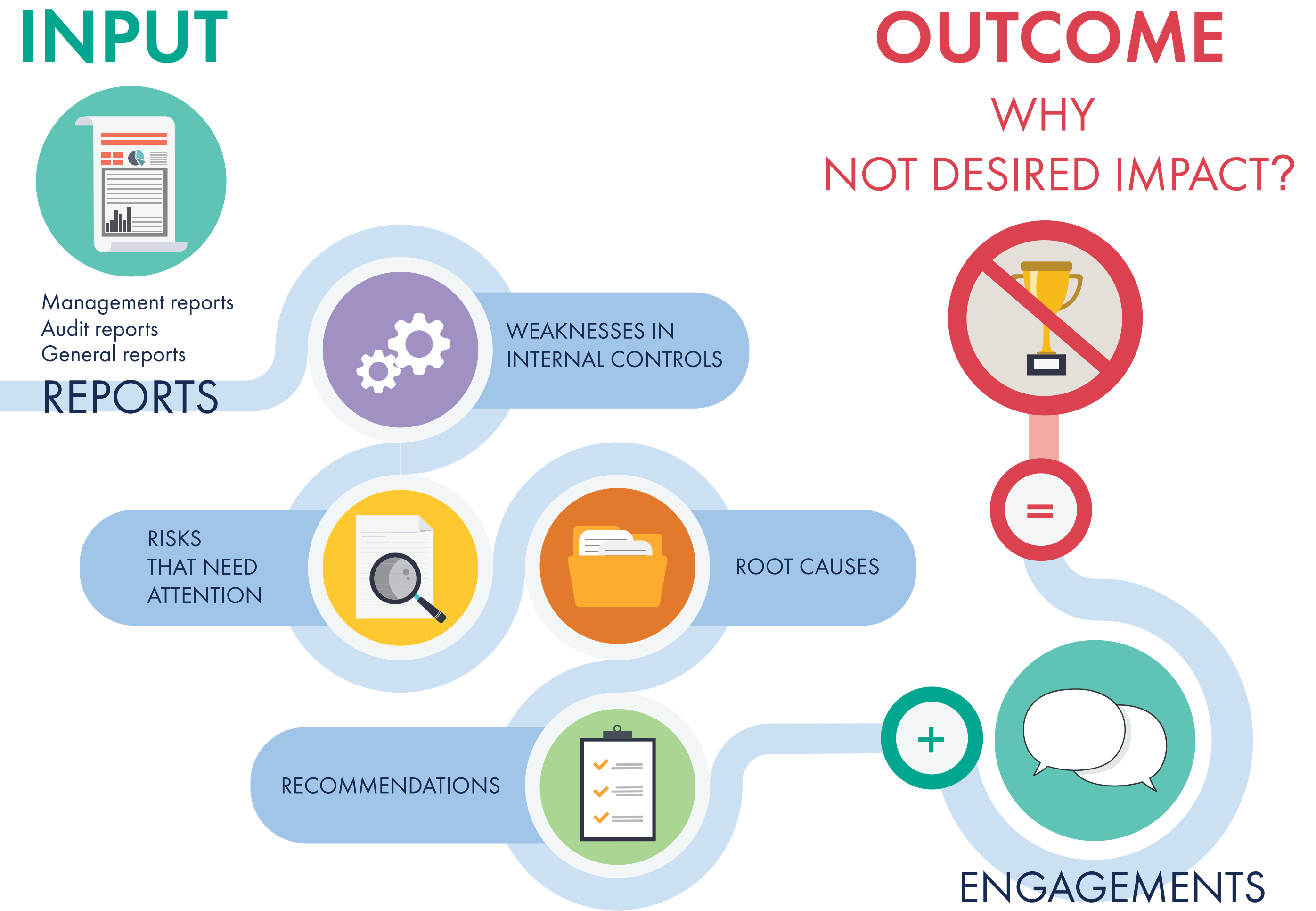
- **Vacancies and instability in key positions** slowed down systematic and disciplined improvements.
- **Inadequate skills led to a lack of oversight** by councils (including the mayor) and insufficient implementation and maintenance of financial and performance management systems by the administration.
- **Political infighting** at council level and **interference** in the administration weakened oversight and the implementation of consequences for transgressions, and made local government less attractive for professionals to join.
- Leadership's inaction, or inconsistent action, created a culture of '**no consequences**', often due to inadequate performance systems and processes.
- At some municipalities there was a **blatant disregard** for controls (including good record keeping) and compliance with key legislation, as it enabled an environment in which it would be easy to commit fraud.
- Leadership did not take our **repeated recommendations** and warnings of risks for which they needed to prepare seriously.
- Municipalities focused on obtaining **unqualified financial statements** at a great cost by using consultants and auditors, which was to the detriment of credible performance reporting and compliance with key legislation.
- Provincial and national role players **did not sufficiently support** municipalities.

These issues are mostly behavioural in nature and can be addressed through strong, ethical leadership at the political and administrative level.

OUR ROLE IN THE ACCOUNTABILITY CHAIN

Our role as auditors is to report to oversight structures on the credibility of the financial statements and performance reports and on whether the municipality complied with key legislation. It is the role of these oversight structures (the council and its committees) to use our audit report to determine whether they can rely on the financial statements and performance reports for oversight and decision-making purposes and to call the administration to account for matters we report in the audit report.

But as public sector auditors with a keen interest in seeing local government succeed, we have always done more than just report.



Through our management, audit and general reports, we have been **reporting the weaknesses in internal controls** and the **risks that need attention** in local government. We have consistently highlighted the need to address the following:

- Quality of financial statements and performance reports submitted for auditing
- Compliance with legislation, supply chain management and irregular expenditure
- Vacancies and instability
- Lack of consequences
- Internal controls

In our reports, we provide **root causes** of audit findings and **recommendations** to address the root causes. We ensure that our messages are heard through **engagements** with senior officials, municipal managers, mayors, municipal public accounts committees, and councils. We will continue with adding value through these practices, but they have not had the desired impact yet – as evidenced in the poor and stagnated audit outcomes.

Hence we are increasing our efforts through extending our engagements with municipal managers to a **status of records review**, which we have been implementing in a phased approach. Such a review is an assessment of records, risks and progress made by the municipality to address prior year issues early in the financial year. This provides an early warning system whereby municipal managers can be alerted to matters that can potentially lead to undesirable audit outcomes. Where it has been implemented in 2016-17, the general response from municipal managers was positive but the results of the engagements were mixed: some municipalities did not respond to the issues we had raised, but where there were stability in leadership and the capacity and competence to respond appropriately, it assisted in improving outcomes or maintaining good audit outcomes.

All of these measures are aimed at assisting the municipal leadership and the council to prevent accountability failures, or to provide them with information on how to deal with such failures where they have occurred. The accountability mechanisms in local government are not working as they should and there have been continued calls for more to be done – particularly by us as the Auditor-General of South Africa. Through the support of our parliamentary oversight committee, we are thus busy **amending the Public Audit Act** to provide us with more power to ensure accountability in the public sector.

The intent of the amendments is not to take over the functions of the municipal manager, the mayor or the council, as their accountability responsibilities are clear in municipal legislation. It is rather to step in where those **responsibilities are not fulfilled** in spite of us alerting leadership of material irregularities that need to be investigated and dealt with.

The amendments, if approved, will provide us with the **power to refer** material irregularities to appropriate authorities to investigate as well as with a level of **remedial power**, including the recovery of money lost as a result of the irregularities. Material irregularities will include any non-compliance with legislation, fraud or theft, or a breach of fiduciary duty that caused or is likely to cause a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.

If we had those powers today already, there would have been a number of cases in local government that would have been referred. This would have been done on the basis of these cases being seen as material irregularities that we had reported to municipal management and the council to deal with, without any success.

If the Public Audit Act had already been amended, these are a few examples of material irregularities identified in 2016-17 that would have been referred:

- We identified various irregularities in the contracting of a consultant in 2015-16 to assist with financial reporting at a municipal entity at a cost of R3,8 million. These included the absence of a signed service level agreement, regular contract extensions, excessive rates per hour, and a lack of monitoring of the work performed by the consultant. Despite us reporting to the board that this contract was potentially fraudulent, the board did not take any action to investigate the matters raised.

- A district municipality incurred R164 million in fruitless and wasteful expenditure relating to a water project initially done by the municipality. Due to substandard work, the Department of Water Affairs had to redo the project from the start. The municipal leadership did not act in the best interest of the municipality, which not only resulted in substantial financial losses but also in service delivery delays.

- A municipality had obtained a disclaimed audit opinion with material findings on performance reporting and compliance with legislation for the past three years. During this period, there was instability in the municipal manager's position, with this position being filled for only two months in the 2016-17 year. As a result, incorrect and misleading information was provided to us, without any consequences.

- Irregular expenditure was common at a municipality, but none of the reported instances were investigated. The municipal manager did not afford the council the opportunity to decide on investigations by deliberately not providing the details. The provincial treasury tried to assist but also hit a stumbling block due to missing information. As a result, it cannot be determined if there are losses that should be recovered.

The extension of our mandate to deal with these types of irregularities will assist in restoring public confidence, solidifying accountability, and entrenching the ethical behaviour that is expected of entrusted officials and elected representatives. It will also mean that our reports will be taken seriously – we could start to see an improvement in the audit outcomes and a definite shift towards municipalities living up to the expectations of the communities they serve.

The information provided in section 4 is meant to expand on the issues raised above. Nothing more needs to be said about the seriousness of the accountability failures in local government. It is now up to the leadership and administration to act decisively on our recommendations, to ultimately ensure a better life for the citizens of South Africa.