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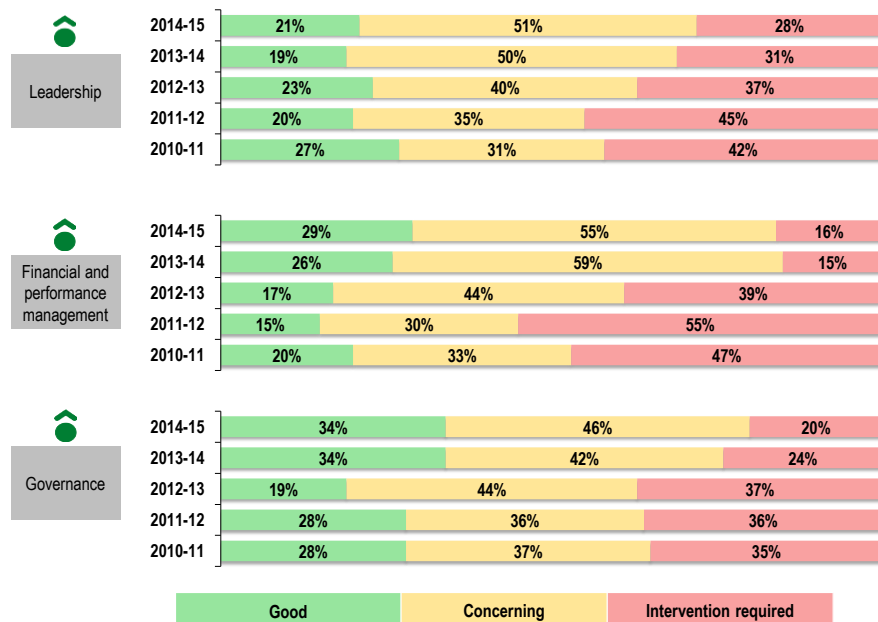
Root causes

5.1 Status of internal control

A key responsibility of municipal managers, senior managers and municipal officials is to implement and maintain effective and efficient systems of internal control.

Figure 1 shows the status of the different drivers of internal control and their overall movement over the past five years. We determined the movements taking into account either increases in good controls or reductions in controls requiring intervention.

Figure 1: Drivers of internal controls



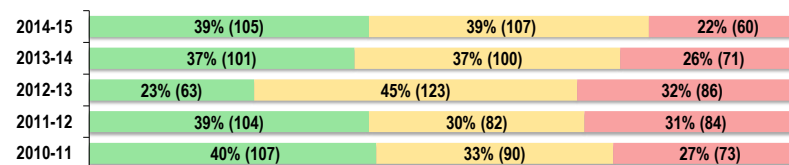
As illustrated in figure 1, all three drivers of internal controls have improved over the five-year period. We observed a general regression in local government audit outcomes in 2011-12. This also reflected in municipalities' key controls of that year, which was the first year of the new leadership following the local elections.

Although the number of municipalities whose **leadership controls** were assessed as being 'good' has declined, those whose **leadership controls** had an 'intervention required' status decreased significantly; hence an overall improvement.

Drivers of both **financial and performance management** and **governance controls** have improved over the past five years in terms of an increase in 'good' controls as well as a reduction in controls that require intervention.

We discuss five of the seven basic controls that should receive specific attention in the remainder of this section and discuss human resource management and IT controls in sections 5.2 and 5.4, respectively. Figures 2 to 6 show the movement in these five basic controls over the past five years.

Figure 2: Effective leadership



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.

Figure 2 indicates that leadership culture controls had remained unchanged overall, despite the slight reduction in controls that required intervention.

Figure 3: Audit action plans

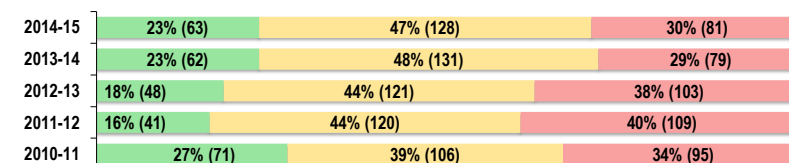


Figure 3 illustrates that controls relating to audit action plans had regressed slightly. The reason for this is that in many cases audit action plans responded only to our audit findings and did not always address the associated root causes, while not all audit action plans that were drawn up were fully implemented. Furthermore, action plans did not sufficiently take into account recommendations relating to other role players, such as internal audit units and audit committees, and risks emanating from municipalities' own risk assessment processes.

Figure 4: Proper record keeping

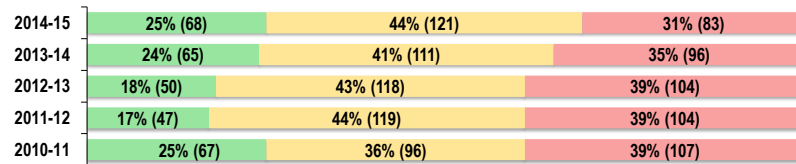
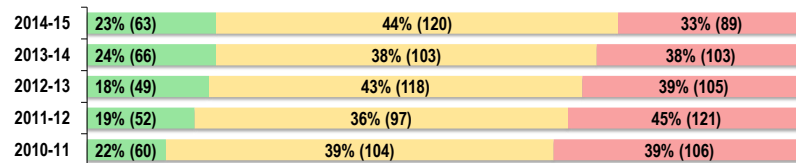


Figure 4 shows that record-keeping controls have improved due to a reduction in the number of municipalities whose controls required intervention; however, the number of municipalities with good controls in this area remains low. All provinces were significant contributors to the reduction in controls requiring intervention, except the Free State, Gauteng, KwaZulu-Natal and the Northern Cape.

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.

Figure 5: Daily and monthly controls



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.

Figure 5 reflects an improvement in daily and monthly controls due to a reduction in controls that require intervention. Significant contributors to this reduction over the five-year period were the Eastern Cape, Free State, North West and the Western Cape.

Figure 6: Review and monitor compliance

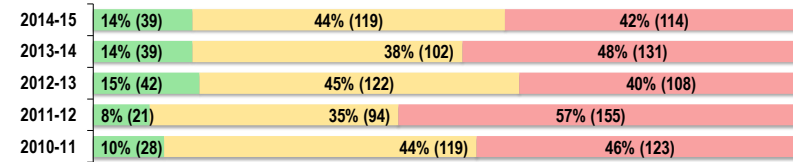
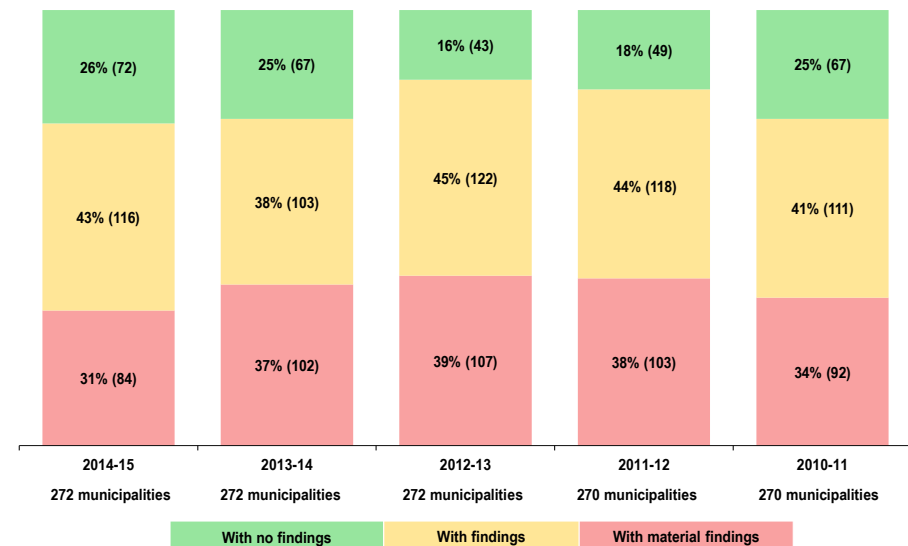


Figure 6 shows a slight improvement in controls relating to monitoring of compliance. As detailed in section 3.2, many municipalities did not comply with legislation. Most of the irregular expenditure incurred was still identified during the audit process. This indicates that the internal controls of most municipalities not only failed to prevent non-compliance with legislation, but also failed to timeously detect the deviations, some of which were only detected and responded to following our audits.

5.2 Human resource management

Figure 1 provides the status of human resource management controls from 2010-11 to 2014-15.

Figure 1: Status of human resource management controls



Human resource management has improved only slightly since 2010-11 and the previous year. The regression in 2011-12 is mainly due to inadequate

appointment processes and difficulty in attracting and retaining skilled staff, exacerbated by the instability created by a change in political and administrative leadership after the elections in 2010-11.

The improvement in 2013-14 is mainly due to increased adherence to requirements relating to minimum competencies and qualifications, improved monitoring of senior management performance as per their signed performance contracts, and a focus by leadership on filling vacancies.

One of the biggest challenges for local government is to attract and retain qualified and competent persons in all areas of administration. Since 2012-13 our audits have focused on the management of vacancies and retention of key personnel.

In the past three years the average overall vacancy rate at year-end showed little improvement – from 19% in 2012-13 to 20% in 2014-15. The vacancy rate at senior management level was 19% in 2012-13 as well as in 2014-15.

As part of our audits, we considered the vacancies and resourcing of finance units, as inadequate capacity in these units negatively affects the management, controls and quality of financial reporting. The average vacancy rate in finance units at year-end was 17% in 2014-15, which represents a slight regression compared to 16% in 2012-13.

We also considered vacancies in key positions at year-end and stability in those positions. These key positions include municipal managers, chief executive officers (CEOs), chief financial officers (CFOs), heads of SCM units and senior managers responsible for strategic planning as well as monitoring and evaluation.

Figures 2, 4 and 6 provide a three-year overview of the number of municipalities where these key positions were vacant at year-end and the period that the positions had been vacant. They further show the average number of months that municipal managers, CFOs and heads of SCM units had been in their positions.

Figure 2: Municipal managers – vacancy and stability

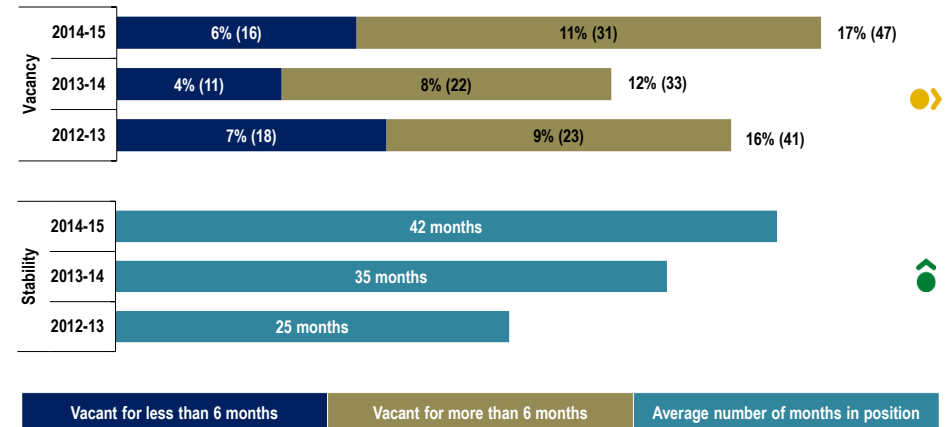


Figure 2 shows that the **municipal manager** vacancy rate had improved slightly in 2013-14 and again regressed slightly in 2014-15, with little improvement over the three-year period. Municipalities in the provinces of Mpumalanga, Northern Cape, Limpopo, KwaZulu-Natal and Eastern Cape were the main contributors to the increased vacancies and longer period of vacancy in 2014-15, which were caused by challenges in attracting qualified officials, especially in rural municipalities; political leadership taking action against municipal managers due to allegations of financial misconduct; municipal managers resigning in some instances due to political pressure; and the reluctance of municipalities to appoint new municipal managers going into a new election cycle.

The average number of months that municipal managers had been in their position improved year on year. By 2014-15 municipal managers at 117 (43%) municipalities had been in the position for three years or longer, a significant improvement when compared to 48 (18%) in 2012-13.

Figure 3 reflects that those municipalities with increased stability at municipal manager level also achieved better audit outcomes.

Figure 3: Municipal managers – average number of months in position (per audit outcome)

Note: Only one auditee received an adverse opinion, namely Westonaria in Gauteng.

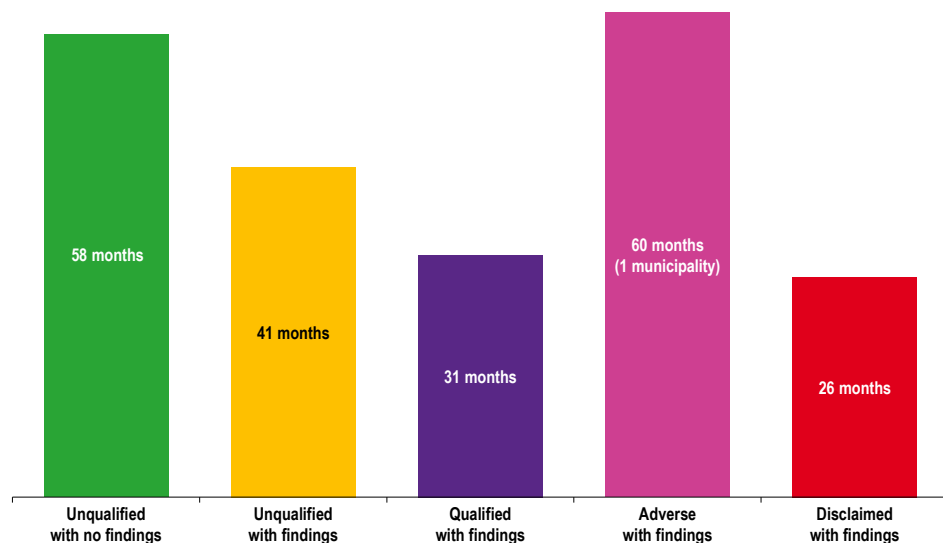


Figure 4: Chief financial officers – vacancy and stability

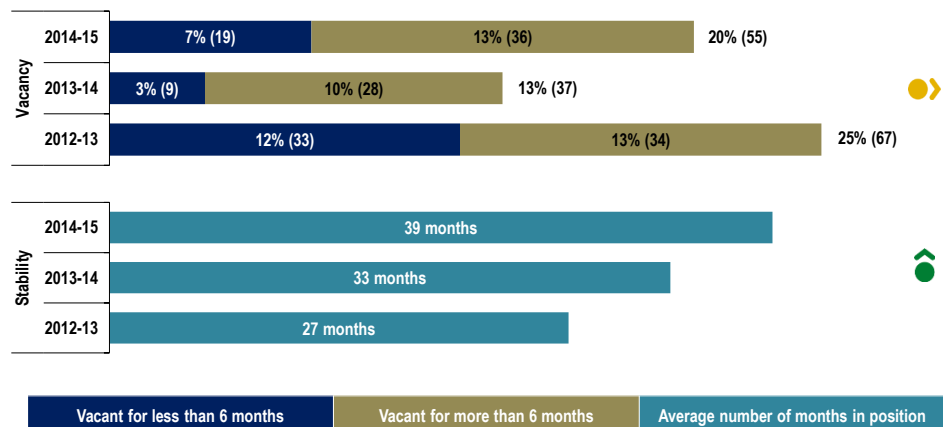


Figure 4 shows that the CFO vacancy rate at municipalities had improved slightly since 2012-13. After a slight improvement in 2013-14, the vacancy rate again regressed in 2014-15.

The municipalities in Limpopo, the Northern Cape, North West and Free State were the main contributors to the regression, which was caused by challenges in attracting qualified officials, especially in rural municipalities; leadership taking action against CFOs due to allegations of financial misconduct; and in some instances the resignation of CFOs because municipalities were placed under administration.

The average number of months that the CFOs had been in their position improved year on year. By 2014-15, CFOs of 84 (31%) municipalities had been in the position for three years or longer. This is a significant improvement compared to 52 (19%) in 2012-13.

Figure 5 indicates that those municipalities with stability in their CFO positions produced better financial statements or audit outcomes (based on the outcomes).

Figure 5: Chief financial officers – average number of months in position (per audit outcome)

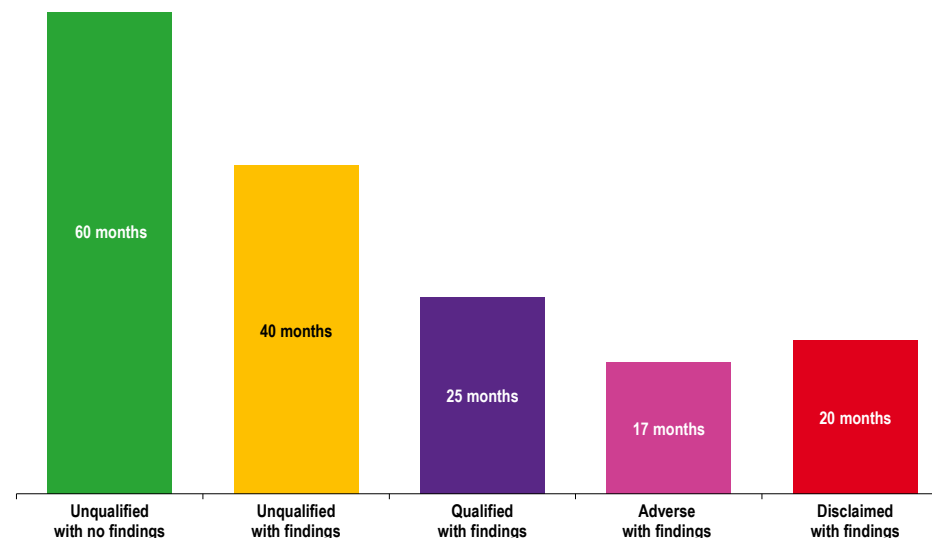


Figure 6: Head of supply chain management units – vacancy and stability

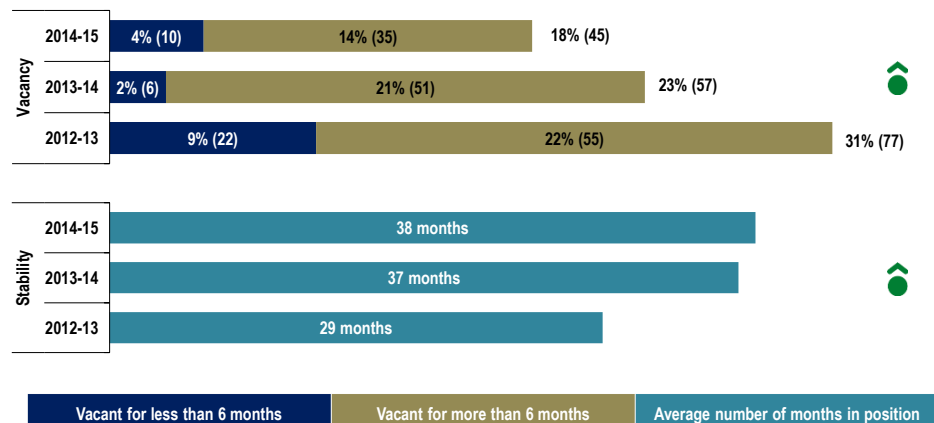


Figure 6 shows that the vacancy rate for heads of SCM units at municipalities had improved over the three-year period, with a slight improvement in 2014-15. The improvement can be attributed to municipalities' efforts to reduce irregular expenditure by filling these positions. However, in 2014-15, 20 municipalities did not have a dedicated position for this role, with the work being performed mostly by the CFO.

The average number of months that the heads of SCM units had been in their position improved year on year. By 2014-15 heads of SCM units at 82 (30%) municipalities had been in the position for three years or longer - a significant improvement compared to 51 (19%) in 2012-13.

The **minimum competency levels** of accounting officers, CFOs, senior managers, SCM officials and other finance officials are prescribed by the *Municipal regulations on minimum competency levels* issued by the National Treasury on 15 June 2007. These regulations define the minimum competency levels, taking into account the size and scope of municipalities, and cover proficiency in competency areas, higher education qualifications and work-related experience.

The regulations provided for a phasing-in period for staff currently in those positions to obtain the minimum competency levels through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period ended on 1 January 2013 and, as per the regulations, municipal managers, CFOs, heads of SCM units, senior managers, SCM staff and other finance officials who failed to meet the minimum

competency levels may not continue to fill the positions, which had an impact on the continued employment of these officials. The National Treasury gave municipalities an opportunity until September 2012 to apply for an 18-month extension (until 1 July 2014) to enforce the regulations, as a special merit case, based on the circumstances of the municipality. In March 2014, the National Treasury granted municipalities a further extension until 30 September 2015 to adhere to the regulations.

The information on the competencies of key officials that follows is based on municipalities' own assessment of the achievement of the competency requirements by their key officials.

Figure 7 below provides a three-year overview of the number of municipalities where key officials failed to meet the prescribed minimum competency requirements at year-end. It also shows the number of municipalities where the officials' competencies were not assessed by the auditee, as required by legislation, or where we could not obtain evidence of a competency assessment.

Figure 7: Achievement of competency requirements for key officials

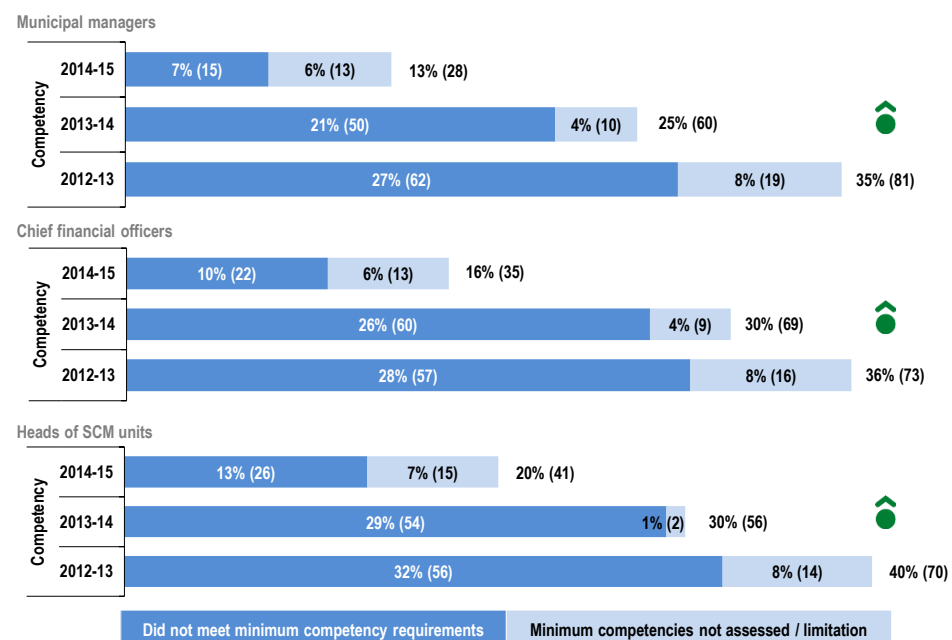


Figure 7 indicates that there has been an improvement in the number of key officials with the required competency since 2012-13. Only a few officials in these positions were still not at the required level or had not been assessed.

The reasons for improvement are mainly the appointment of officials with the required minimum competency (in adherence to the legislation) and monitoring and intervention by the national and provincial treasuries to ensure compliance.

5.3 Effective use of consultants

In 2014-15, local government spent an estimated R3 372 million on consultancy services, which were intellectual or advisory in nature. The amount was spent in the following areas:

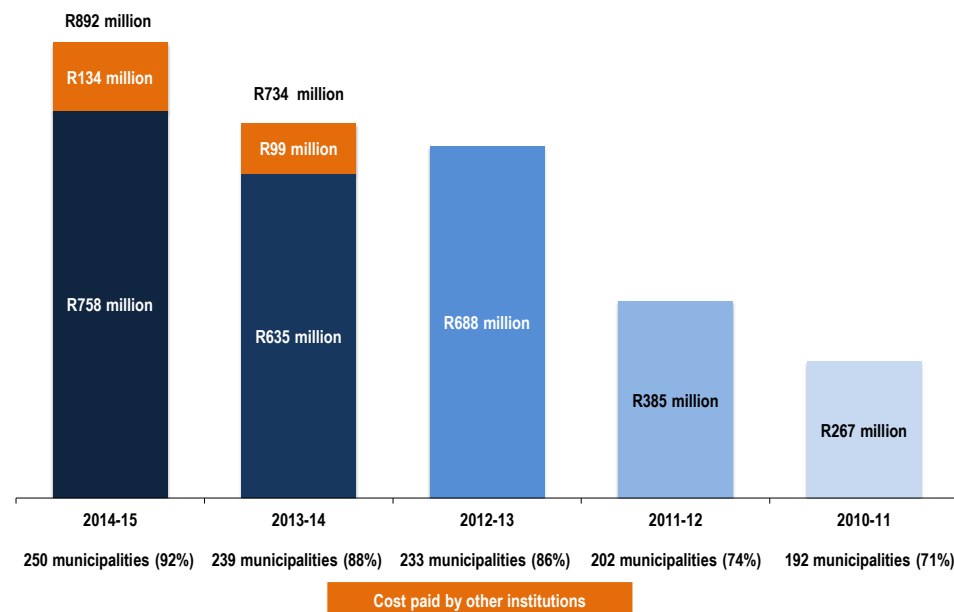
- Financial reporting services – R892 million
- Preparation of performance information – R43 million
- IT services – R615 million
- Other services – R1 822 million.

This includes R135 million paid by the provincial treasuries and departments of cooperative governance on behalf of municipalities for financial reporting services (R134 million) and the preparation of performance information (R1 million).

Financial reporting services

Figure 1 shows the cost of consultants used for financial reporting services since 2010-11. The figure indicates the amounts paid by other institutions since 2013-14 when we started collating this information.

Figure 1: Cost of consultants used for financial reporting over five years



The number of municipalities assisted by consultants and the cost thereof had increased significantly since 2010-11, also with an increase in 2014-15. Municipalities in all the provinces increasingly relied on the services provided by consultants to address a skills gap and/or vacancies in the finance department.

Although the number of municipalities that used consultants increased in all the provinces over the five-year period, the increase since 2010-11 was most prevalent in Gauteng, KwaZulu-Natal, Limpopo and Mpumalanga.

Of the 250 municipalities assisted in 2014-15, 232 (93%) had also used consultants in 2013-14, while 141 municipalities (56%) have been assisted by consultants since 2010-11.

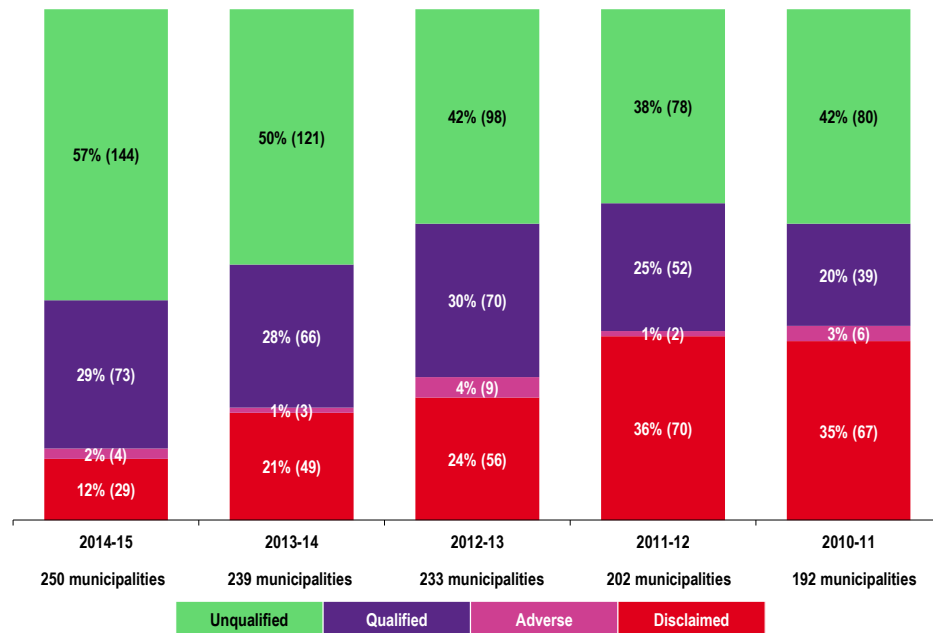
The significant increase in the use of consultants (and the cost thereof) in 2012-13 was in response to poor audit outcomes and the vacancies and inexperience of officials in key positions in the post-election year (2011-12).

In the years thereafter, municipalities, provincial treasuries and CoGTA as well as administrators (where appointed) continued to make use of consultants in an attempt to improve the audit opinions on financial statements, focusing mostly on the prior year qualification areas and fixed asset registers.

The increased cost can be attributed to consultants increasingly being appointed to clean up the accounting records before preparation of the financial statements. As a result, the average cost per municipality has more than doubled since 2010-11 - from R1,4 million to R3,5 million.

The audit outcomes of municipalities assisted by consultants since 2010-11 are reflected in figure 2.

Figure 2: Audit outcomes of municipalities assisted by consultants – financial reporting



The audit opinions on the financial statements of the municipalities assisted by consultants improved since 2010-11, with a slight regression in 2011-12, which is consistent with the audit outcome trend. A slight improvement was also noted in 2014-15.

Of the 33 municipalities that received an adverse or disclaimed audit opinion in 2014-15, 58% have also been using consultants since 2010-11 and 91% since 2012-13.

In 2014-15 the audit opinions of 66 (68%) assisted municipalities remained unchanged, with 25 (26%) improving and six (6%) regressing.

The audit opinion on the financial statements cannot always be attributed to consultants as they might not have done work in the specific areas that led to the poor audit opinion. In 2013-14 we reported that at 118 municipalities (49%) the consultants were doing work specifically in the areas that were qualified.

In 2014-15 we changed our approach and instead considered whether the financial statements submitted for auditing included material misstatements in the areas for which consultants were responsible. We found that at 105 municipalities (42%), the financial statements submitted for auditing included material misstatements in the areas in which consultants did work, which meant the misstatements were identified and corrected by the audit process and not by the consultant. This remains a concern regarding the effective use of these consultants.

Since 2012-13, when we started gathering information on the reasons for the financial reporting consultants being ineffective at some municipalities, the following reasons were identified:

- Auditee ineffectiveness – 50 municipalities (30%) (2012-13: 13 [11%])
- Lack of records and documents – 32 municipalities (20%) (2012-13: 65 [53%])
- Poor project management – 30 municipalities (19%) (2012-13: 19 [16%])
- Poor delivery by consultants – 28 municipalities (17%) (2012-13: 13 [11%])
- Consultants appointed too late – 22 municipalities (14%) (2012-13: 12 [10%]).

Our audit of the management of consultants described below provided further insight into the reasons for ineffective use of consultants.

Management of consultants

We identified weaknesses in the management of consultants at 177 (68%) of the municipalities that used consultancy services (not limited to financial reporting services).

This is a slight regression compared to 169 municipalities (66%) in 2013-14, but an improvement compared to the 183 (73%) in 2012-13 when we started auditing management practices.

Figure 3 shows the number of municipalities that had findings in the different focus areas of the audit of consultants since 2012-13.

Figure 3: Findings arising from the audit on the use of consultants at 260 municipalities (2013-14: 258; 2012-13: 251)

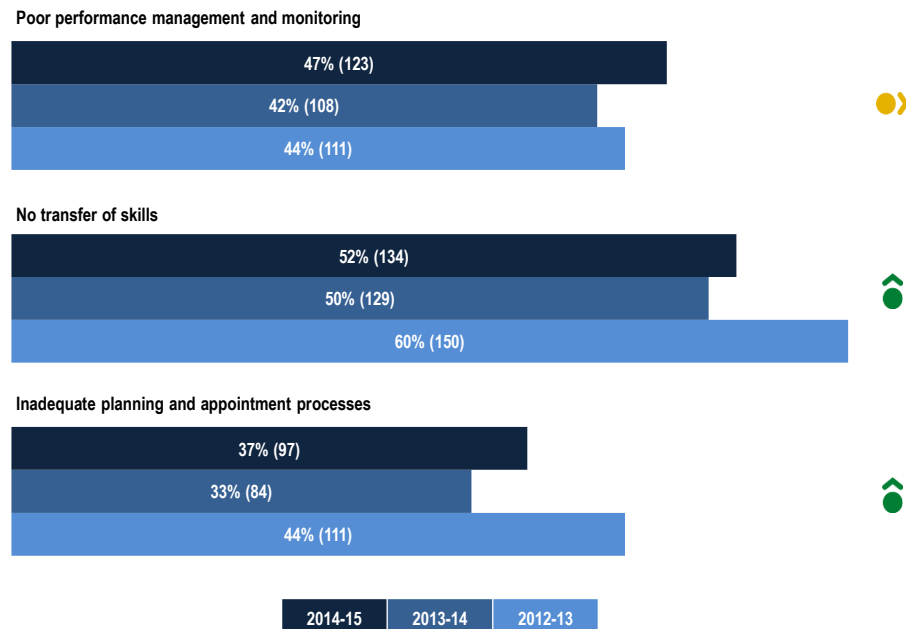


Figure 3 reflects an improvement since 2012-13 in the planning and appointment processes of consultants and the management of transfer of skills, but there was a slight increase in the number of municipalities with findings on consultant performance management and monitoring processes. In all three areas there were slight regressions in 2014-15, mostly attributed to a refinement of our audit approach which allowed for deeper insights into the practices at municipalities.

The following were our key findings on **performance management and monitoring**:

- The measures to monitor contract performance and delivery were not defined and/or implemented – 93 municipalities (36%) (2013-14: 84 [33%])
- The measures to monitor delivery on the consultancy project were inadequate as they failed to detect underperformance by consultants – 43 municipalities (17%) (2013-14: 69 [27%])
- No evaluation was performed to determine whether the consultancy services rendered met the initial project objectives, needs and deliverables – 48 municipalities (18%) (2013-14: Not audited)

- The work of the consultants was monitored by staff members who were not sufficiently experienced/senior to ensure effective contract management – 33 municipalities (13%) (2013-14: Not audited).

The following were our key findings on the **transfer of skills**:

- The requirements for transfer of skills were not included in the terms of reference – 68 municipalities (26%) (2013-14: Not audited)
- Conditions or clauses relating to transfer of skills were not included in the contract – 85 municipalities (33%) (2013-14: 79 [31%])
- Transfer of skills was a requirement of the contract but no evidence could be provided that skills transfer or training had taken place – 106 municipalities (41%) (2013-14: 88 [34%])
- The employees to be trained were not identified or available to attend the training programme – 70 municipalities (27%) (2013-14: 51 [20%])
- The measures to monitor the transfer of skills in accordance with the contract were not implemented – 85 municipalities (33%) (2013-14: 85 [33%]).

The following were our key findings on **planning and appointment processes**:

- Consultants were appointed without conducting a needs assessment – 65 municipalities (25%) (2013-14: 52 [20%])
- Consultants were appointed without any terms of reference – 34 municipalities (13%) (2013-14: 28 [11%])
- The consultant was appointed for purposes that were not contained in the policy of the municipality for the appointment of consultants – 34 municipalities (13%) (2013-14: Not audited).

Mayors, councils as well as national and provincial role players should pay attention to the management of consultants to ensure that this expensive resource is procured economically and used effectively and efficiently.

5.4 Status of IT governance within local government

A government-wide IT governance framework was approved by the cabinet and, in response to a directive from the minister of CoGTA, a national coordinating and monitoring structure has been established to oversee information and communications technology (ICT) in the local government sphere. The purpose of this initiative is to develop implementation requirements and a guideline specific to local government to structure the establishment of an IT governance

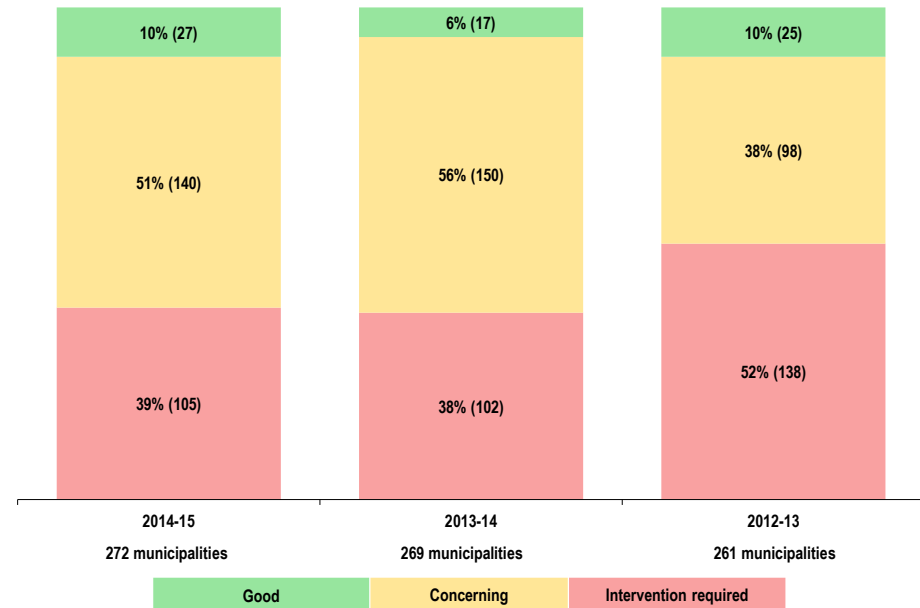
framework. Key stakeholders in the local government sector form part of this ICT coordinating and monitoring structure.

This IT governance framework was approved during the 2014-15 financial year to be implemented as from the 2015-16 financial year following a three-phased approach. Phase 1 is due for implementation by the end of the 2016-17 financial year. In the 2017-18 and 2018-19 financial years, the municipal managers and governance champions will prioritise the implementation of phase 2, while phase 3 will address continuous improvement as ICT delivery assessments are required on an ongoing basis to identify gaps between what is expected and what was realised. When fully implemented, the IT governance framework should have a positive impact on the functioning of the IT control environment and service delivery in the public service domain. However, the lack of an IT governance framework may result in municipalities not having adequate governance structures to align the delivery of ICT services with their IDPs and strategic goals.

Overview of the status of IT focus areas

Figure 1 indicates that we had assessed IT controls at 272 municipalities and found that the number of municipalities that required intervention had decreased significantly from 2012-13 (52%) to 2014-15 (39%). The majority of municipalities have been assessed since 2012-13 due to an increase in the need to use an IT expert as part of the audit team as IT technologies were emerging at a tremendous pace.

Figure 1: Status of IT controls



Our audit included an assessment of the IT controls in the areas of security management, user access management and IT service continuity. Figure 2 outlines the status of the controls in the areas we audited and indicates, per focus area, whether the IT controls are good, concerning or require intervention. A slight improvement was noticed over three years in all focus areas; however, there has been a significant decrease over the same period in the number of municipalities where intervention is required, which indicates that municipalities are moving in the right direction.

The most common findings were the following:

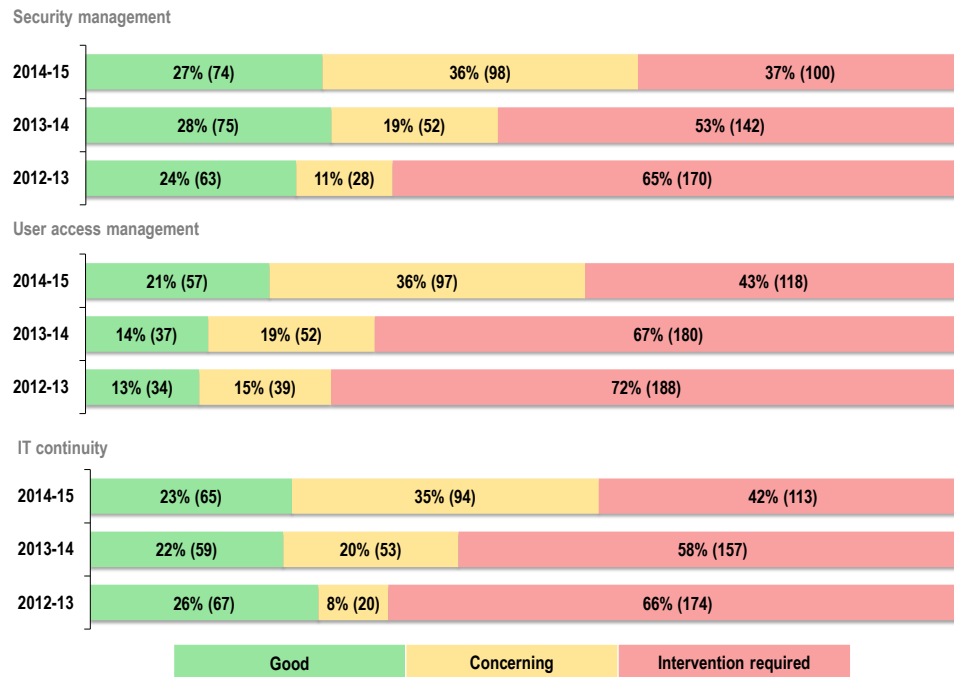
- Most of the municipalities still experienced challenges emanating from a lack of adequately designed security policies and procedures, while some municipalities that had already designed adequate security policies and procedures had not succeeded in implementing them successfully. This contributed to weaknesses, such as password and firewall parameter settings not being effectively configured; outdated anti-virus software; and patch management not being implemented and maintained.
- The design of user access management policies and procedures remained a challenge at most of the municipalities, while some municipalities where user access management policies and procedures

had been developed experienced difficulty in implementing them. This contributed to weaknesses, such as administrator activities and user access rights not being reviewed to ensure that they were in line with their job descriptions, and failure to maintain segregation of duties.

- Most of the municipalities experienced challenges with the design and implementation of appropriate disaster recovery plans (DRPs). The management of backups also remained a challenge, as most of the municipalities did not test their backups to ensure that they could be restored when required.

- Service level agreements with vendors did not include the management or development of IT policies and procedures.
- District municipalities did not provide adequate guidance and support to the local municipalities under their jurisdiction.
- Staff did not fulfil their responsibilities in terms of ensuring compliance with the controls established to secure and regulate municipalities' IT environments. Moreover, they were not held accountable for failing to address previously raised findings.

Figure 2: IT focus areas



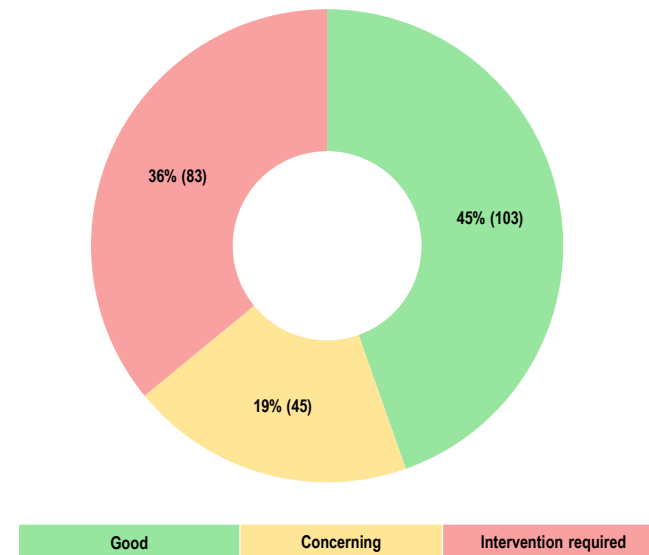
A lack of skills to design and implement appropriate controls for IT systems in order to regulate security management, user access management, IT service continuity and EFTs remained a challenge. This challenge was found to be exacerbated by the following factors:

- Municipalities experienced budget constraints, which limited the development of IT policies and procedures. In other instances, already developed IT policies and procedures were still awaiting approval from management and the council.

Evaluation of qualifications and experience of chief information officers / IT managers

Figure 3 illustrates that the qualifications and experience of chief information officers (CIOs) / IT managers at the majority of municipalities are of concern or require intervention.

Figure 3: Qualifications and experience – CIOs / IT managers



The municipalities where intervention was required in many instances did not have an approved position for this function on the organisational structure or had failed to fill the position. Municipalities made use of consultants to ensure that IT roles and responsibilities were fulfilled in such instances; however, the performance of consultants was not monitored closely. Furthermore, it was a concern that some positions were filled, but the CIO / IT manager did not have

the appropriate qualification and/or years' experience required for the position. The above may have contributed to the areas of concern and where intervention is required on IT controls, as reflected in figure 2.

Forty-five per cent of municipalities employed CIOs / IT managers with the necessary qualifications and experience to implement the IT governance structures and controls and to ensure an improvement in IT controls.

IT support provided by coordinating departments

Coordinating departments play a pivotal role in capacitating and supporting municipalities, especially in respect of the implementation of mSCOA. The roles of each coordinating department interlink, but with a clear indication of the support to be provided.

CoGTA has established an ICT think-tank made up of officials from the National Treasury, CoGTA, State Information Technology Agency (Sita), Department of Public Service and Administration (DPSA) and the AGSA (as an observer). There was a recommendation that the Department of Telecommunication and Postal Services (DTPS) and Salga should be included. The draft terms of reference have been developed and had not yet been finalised. The structure was established to look at the current status of information and communication technologies and both human and systems capacity in local government. Furthermore, it was established to recommend norms and standards, as well as shared services, with the aim of creating a sustainable municipal ICT environment. However, there have been challenges with the functioning of the structure as no further meetings have been called since the last one held in October 2015.

The offices of the premier have initiated a process whereby municipalities are invited to attend the provincial government IT office (PGITO) meetings and are rolling out processes that will provide assistance to municipalities that are struggling with the implementation of IT controls.

The National Treasury issued guidance through MFMA SCOA circulars, and training initiatives were rolled out for mSCOA implementation. The provincial treasury is responsible for providing budgetary assistance to municipalities and for facilitating arrangements for mSCOA training sessions.

Table 1 indicates whether these coordinating departments and committees provided support to municipalities.

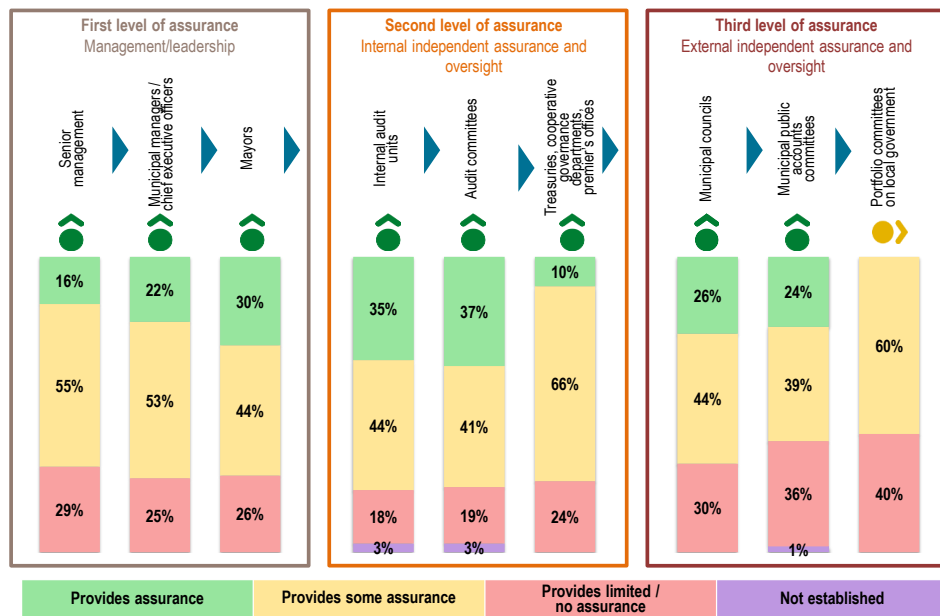
Table 1: Support provided to municipalities

Province	CoGTA	Provincial treasury	Premier's office
Eastern Cape	Yes	No	No
Free State	Yes	No	No
Gauteng	No	No	No
KwaZulu-Natal	Yes	Yes	No
Limpopo	Yes	No	No
Mpumalanga	Yes	Yes	Yes
Northern Cape	Yes	No	Yes
North West	No	No	Yes
Western Cape	Yes	No	No

5.5 Initiatives and impact of key role players on audit outcomes

Figure 1 shows our assessment in 2014-15 of the assurance provided by the management/leadership of municipalities and those that provide independent assurance and oversight. The arrows show the movement in assurance levels since 2011-12 when we started with the assessments. We determined the movements, taking into account either increases in 'providing assurance' or reductions in 'providing limited or no assurance'.

Figure 1: Assurance provided by key role players



The assurance provided by these key role players has improved since 2011-12.

An overview of the level of assurance provided by the role players and important initiatives in 2014-15 is provided in the rest of this section. See section 11 for further detail.

Senior management

Senior management at 84% of the municipalities did not provide the required level of assurance in 2014-15 – an improvement compared to the 87% and 89% of previous year and since 2011-12 respectively. The number of municipalities where senior management is providing limited or no assurance has decreased significantly.

Municipal managers

The assurance provided by municipal managers has improved over the past four years, but municipal managers at 78% (2013-14: 79% and 2011-12: 84%) of municipalities still did not provide the required level of assurance by 2014-15.

Mayors

While having improved since 2011-12, mayors did not yet provide the required level of assurance at 70% of the municipalities by 2014-15 – an improvement compared to 77% of the previous year. The improvement is evidenced by the overall status of leadership controls (as detailed in section 5.1). This is further supported by our assessment of the impact they had on audit outcomes as observed through our regular interactions with mayors and the commitments they had made to improve audit outcomes, not all of which were honoured.

Internal audit units

Internal audits units were in place at all but seven municipalities by 2014-15. Although only 35% of internal audit units provided full assurance, the proportion of those that provided limited or no assurance halved since 2011-12

At some municipalities, well-resourced and effective internal audit units have helped to improve internal controls and have had a positive impact on audit outcomes. We assessed that 48% of the internal audit units (2013-14: 45%) had a positive impact on audit outcomes. The main reason for the lack of positive impact was failure by management to address internal audit findings.

Audit committees

At 37% of the municipalities, audit committees provided full assurance, which is a significant improvement compared to 2011-12 (23%).

The audit committees of 58% of the municipalities had a positive impact on the audit outcomes (2013-14: 58%). The number of audit committees that interacted with the mayors and/or council has increased to 233 (89%) from 221 (85%) in 2013-14.

Municipal councils

The council can provide extensive assurance through its monitoring and oversight role. Although councils are becoming more aware of the important role they have in this regard, most were not functioning at the required level, with only 26% of the municipal councils providing the required level of assurance by 2014-15. This is an improvement compared to 2011-12 (15%).

Municipal public accounts committees and the Association of Public Accounts Committees

At 24% of the municipalities, the MPACs provided full assurance, which is a significant improvement since 2011-12 when only 9% provided full assurance. Only three municipalities failed to establish MPACs, compared to 28 in 2011-12.

MPACs have not demonstrated impact in holding the executive accountable. However, there are pockets of excellence where MPACs have managed to fulfil their primary role of confirming the credibility of the contents of the municipality's annual report for approval or rejection by council. These pockets of excellence are the result of leadership providing the necessary support to MPACs in executing their oversight responsibilities. The formation of provincial MPAC forums, facilitated by the Association of Public Accounts Committees (APAC), also provided a platform for MPAC members to share information, knowledge and experiences. These reinforced the ability of MPACs to collaborate in the co-creation of mechanisms in their oversight environment.

Some of the challenges that affect the work of MPACs are as follows:

- Unwillingness of the council to scrutinise the mayors' use of public resources
- Inadequate allocation of resources to MPACs (human, physical and financial resources)
- Lack of cooperation from administration (accounting officers)
- Failure to table submitted MPAC reports during council meetings
- Reshuffling of members or changes in municipal committees.

The AGSA participated in a national capacity-building roll-out of MPAC members, which was coordinated by APAC and funded by CoGTA.

The programme concentrated on the following topics:

- How to exercise effective oversight
- Introducing strategic partners for oversight and execution of mandates, roles and functions
- Sharing insights on challenges that other jurisdictions experienced and how these were best dealt with.

Portfolio committees on local government and the National Council of Provinces

In 2014-15, only 60% of the portfolio committees provided some assurance. This remained at the same level as in 2011-12, although a regression to 40% was noted in 2012-13.

The National Council of Provinces (NCoP) has a constitutional mandate to represent provinces in Parliament. It therefore serves as a forum where provincial interests are raised and debated at national level. For the period under review, the NCoP undertook various initiatives to provide assurance on its role as an oversight body responsible for local government. The select committees

on CoGTA and Finance were the main drivers of the oversight initiatives undertaken by the NCoP in the local sphere of government.

Select committee on CoGTA

The committee focused its oversight engagements on municipalities that were subject to interventions in terms of sections 139 and 154 of the Constitution. The committee conducted hearings at the following municipalities:

- Makana (Eastern Cape)
- Ventersdorp (North West)
- Tswaing (North West)
- UMkhanyakude district (KwaZulu-Natal)
- Oudtshoorn (Western Cape).

The committee's focus was on seeking clarity on the challenges faced by the above municipalities in areas raised by the AGSA in the 2013-14 financial year. The committee demonstrated a high level of understanding of the issues that derailed the progress of the above municipalities, mainly in respect of following issues:

- Revenue collection
- Improving supply chain management
- Improving the functioning of human resources within departments
- Improvement in the audit outcomes
- Implementation the financial recovery plans
- Non-functionality of audit committees
- Lack of disciplinary measures against officials
- Lack of appropriately skilled employees for key functions of the municipality, such as the CFO.

Select committee on Finance

As part of its five-year oversight plan, the select committee on Finance undertook various oversight initiatives based on the findings contained in the AGSA's 2013-14 MFMA general report. The committee had interactions with the minister of CoGTA and various provincial departmental heads to get an update on the implementation of the back-to-basics programme in all provinces.

Through these interactions, the committee was able to gauge the progress made by municipalities in ensuring oversight in the local sphere.

While they are commended for taking these institution-wide initiatives, the value-add and impact of the oversight within local government remained a serious concern:

- Most of the initiatives proposed have not tangibly led to positive changes in governance and financial management within the local government sphere
- The NCoP has not been able to produce reports with actionable outcomes to enable tracking by provinces and local government in the long term.

The lack of central coordination and tracking of some of the NCoP initiatives weakens the NCoP's ability to have the desired impact, thus delaying the progress of municipalities in taking corrective action.

Treasuries, offices of the premier and departments of cooperative governance (coordinating/monitoring departments)

The Constitution stipulates that national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers, and to perform their duties. The MFMA further requires national and provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the MFMA and the MSA define the responsibilities for monitoring financial and performance management.

The departments with specific coordinating and monitoring responsibilities are the provincial treasuries, National Treasury, the offices of the premier and the departments of cooperative governance. We assessed the impact of these departments on the controls of the municipalities based on interactions with them, commitments given and honoured by them, and the impact of their actions and initiatives. We also look at the role of the Department of Planning, Monitoring and Evaluation (DPME) and Salga, although we did not assess them as assurance providers.

The MTSF for the 2014-19 period defines the overall outcome for local government (outcome 9) as 'a responsive, accountable, effective and efficient developmental local government system'. The following sub-outcomes were developed to address the constraints in local government and achieve this vision:

- Members of society have sustainable and reliable **access to basic services**.

- Strengthening of intergovernmental and democratic governance arrangements for a **functional system of cooperative governance**
- Sound **financial and administrative management**
- Promotion of **social and economic development**
- Local public employment programmes expanded through the **community work programme**.

The MTSF emphasises that the implementation of these five sub-outcomes will require involvement and collaboration by various role players in national and provincial government in addition to the municipalities. These include CoGTA and the National Treasury as well as the provincial departments of cooperative governance, provincial treasuries and offices of the premier.

The minister of CoGTA launched the **back-to-basics** strategy in September 2014. The strategy supports and complements the achievement of the MTSF outcomes.

Our audits in 2014-15 assessed the extent to which the departments have implemented initiatives linked to the MTSF outcomes with the aim of realising a positive impact on service delivery and audit outcomes.

The assurance provided by the offices of the premier, treasuries and departments of cooperative governance, as well as commentary on their role in implementing the MTSF outcomes, is detailed below:

Offices of the premier

In terms of their mandate, the offices of the premier (OTPs) are responsible for specific coordinating functions and the provision of strategic direction within their respective provinces. While recognising the separation of powers, the OTPs play a critical role in ensuring that local government in their provinces operates as intended and ultimately delivers the required services to their citizens. They are, however, limited by the legislation that governs them as it is not explicit in defining their roles and responsibilities in terms of oversight. This lack of legislation also limits their ability to exercise effective oversight in a consistent manner.

OTPs have an important role to play in enabling both the political and administrative leadership to meet the goals set out in the MTSF by promoting and enabling sound intergovernmental relations and cooperative governance.

The assessment of assurance is based on actions taken and support provided by the OTPs towards the achievement of good governance and clean administration in the province, which is required to drive the objectives contained in the MTSF and back-to-basics strategy. There has been little improvement in the assurance levels since 2011-12.

Although there are functioning intergovernmental forums in all provinces, the actions arising from these forums that are required to improve performance are not implemented in a timely manner. The Western Cape OTP is providing the required level of assurance as it implemented the corporate governance and review outlook process that was developed by the Western Cape cabinet. Members of the executive council (MECs) monitored the implementation of this process and provided regular feedback at cabinet meetings.

There was also a lack of focus on municipalities because some OTPs concentrated more on the provinces. This slowed down progress made in assisting municipalities, which in turn may have resulted in the poor assessment. Ineffectively functioning intergovernmental forums and the lack of effective oversight also contributed to this slow progress.

Provincial treasuries and National Treasury

The assurance provided by the treasuries has improved over the past four years.

The Western Cape provincial treasury provided the level of assurance required from 2013-14, which had a positive impact on the credibility of the province's financial statements and performance reports and its compliance with legislation. The remaining provincial treasuries were assessed as providing some assurance, including the provincial treasury in the Northern Cape which had improved since the previous year's assessment. The National Treasury also improved in 2014-15 in providing the required level of assurance by strengthening its oversight functions to positively impact financial management in local government.

To facilitate the implementation of the MFMA, the National Treasury continued using various forums to assist in executing its mandate regarding financial management. These forums coordinate initiatives between national and provincial departments and conduct specific engagements with municipalities to promote compliance with the MFMA, to improve budgeting, accounting and reporting, and to address audit findings and capacity building. These initiatives complement efforts in the provinces.

The National Treasury also allocates a number of grants with a direct impact on local government. These include the integrated city development grant, the local government financial management grant, the neighbourhood development partnership grant and the infrastructure skills development grant.

Departments of cooperative governance and traditional affairs

The assurance provided by provincial departments of cooperative governance (DCoGs) has shown little improvement over the past four years. The minister for

CoGTA is responsible for the delivery agreement on outcome 9: *A responsive, accountable, effective and efficient local government system*. To achieve the vision of an integrated, responsive and effective system of cooperative governance, DCoGs have identified seven strategic goals, of which strategic goal 6 is to 'Monitor and evaluate the performance of provincial departments of local government and traditional councils'.

Furthermore, the DCoG has roles and responsibilities in terms of the 2014-2019 MTSF which aims to ensure policy coherence, alignment and coordination across government plans, as well as alignment with the budgeting processes for outcome 9.

We assessed that DCoGs did not provide the required level of assurance in the 2014-15 financial year as a number of the implemented initiatives, which were reported as having realised the positive impact on service delivery and audit outcomes as planned, could not always be corroborated. These initiatives included the following:

Implementation of the MTSF-linked initiatives

- The infrastructure development management system (IDMS) to assist in standardising public sector infrastructure delivery in the country had not been developed by March 2015 as required by the MTSF.
- Evidence that updates to the local government fiscal framework with regard to municipal financial sustainability had been discussed by the inter-departmental task team was not provided.
- National DCoG could not corroborate how it had followed up to ensure that recommendations provided to municipalities that had not complied with all the legislative requirements relating to municipal revenue, financial management and sustainability were implemented at municipal level.
- A response team was investigated to investigate root causes of service delivery protests in hotspots and to introduce remedial measures to stabilise council-community relations; however, evidence was not provided that remedial measures had been taken based on the intelligence gathered.
- National DCoG could not confirm that the anti-corruption technical working groups (ACTWGs) had been established/aligned and strengthened in all nine provinces and that all groups were functional to report on the key risk areas. Thus, the effectiveness of the ACTWGs to assist in the prevention and combatting of fraud and corruption in the municipalities could not be assessed.

- National DCoG had planned in its annual performance plan (APP) to develop, implement and monitor the 2013-14 local government audit response plan; however, this was not achieved.
- Community report-back meetings for improved communication on service delivery were not convened by councillors in the Eastern Cape, Gauteng, Mpumalanga and North West.
- Not all ward-level improvement plans were submitted for audit in the provincial departments of the Eastern Cape, Free State, Gauteng and North West to determine whether basic concerns had been included.
- Ward-level improvement plans have not been developed for all wards in the Eastern Cape, KwaZulu-Natal and Mpumalanga.

- MECs report to the ministers and members of the executive councils meeting on the implementation of the back-to-basics where challenges, the performance of municipalities in their province and requests for assistance are addressed. The department could not provide evidence that action plans were implemented to address the concerns that emanated from this process.
- The municipalities are supposed to submit monthly back-to-basics reports to the national DCoG. The department currently has a manual system in place and although the department indicated that 253 municipalities had responded at least once during the year, the target to have all municipalities responding throughout the year was not achieved due to the municipalities' lack of capacity, coordination and willingness to submit.
- A dashboard to facilitate meaningful monthly reporting was supposed to have been developed and implemented by the department during the year; however, the current link which is supposed to provide access to this dashboard report on the DCoG website is still under construction as a result of continued tailoring of the manual process that forms the basis for the dashboard. This was planned to be finalised by April 2016.
- The APPs of the national and provincial DCoGs were not aligned to the back-to-basics plan for the 2014-15 financial year due to the launch of the programme in September 2014. This resulted in the initial focus being placed on awareness campaigns and implementation of key initiatives of the back-to-basics action plan not being adequately tracked for that year.

Implementation of the back-to-basics programme

The minister of CoGTA successfully launched its flagship support programme, namely the back-to-basics programme, in September 2014. This programme aims to ensure that all municipalities execute their basic responsibilities and functions without compromise. The programme is built on the following five pillars, which are aligned to the MTSF sub-outcomes:

- Putting people and their concerns first
- Supporting the delivery of municipal services of the right quality and standards
- Promoting good governance
- Ensuring sound financial management and accounting
- Building institutional capacity and administrative capability.

The following key initiatives regarding the development of the back-to-basics action plan also informed the assessment:

- A desktop review was performed by DCoG on all 278 municipalities by the end of March 2015 to determine whether they are able to get the basics right and perform their functions adequately. The municipalities were subsequently classified into three categories, namely those that are functioning well and getting the basics right (112 municipalities); those that are fairly functional with average performance and the potential to do well (86 municipalities); and those that are dysfunctional and require intervention (80 municipalities). The aim was to identify the interventions required to address the key challenges identified for each category.
- Although the back-to-basics multi-sectorial provincial task teams had been established, we could not assess these interventions due to a lack of records management by the department.

We also assessed the implementation of the specific back-to-basics pillars, contained in the APP as follows:

Putting people first

- We could not confirm that 1 654 ward operational plans had been developed and implemented in municipal wards.
- No evidence could be provided that systems with linkages to the presidential hotline for sourcing community concerns and feedback to communities were developed at all Mpumalanga municipalities (with a total of 402 wards).

Delivering basic services

- Special intervention meetings were held with municipalities that were spending less than 80% of the MIG, also resulting in a reduction in the number of municipalities that were spending less than 51% according to the department. We could not substantiate these interventions and noted that the focus was still on spending rather than on ensuring that the spending was in line with the intended purpose.

- DCoG already had a MIG management information reporting system in place but it was not effectively used by the municipalities for capturing MIG project-related information such as progress and spending against budget, and was deemed not be sufficient to cater for the back-to-basics service delivery reporting requirements. This resulted in the department not having accurate, reliable and complete information to conduct assessments on MIG spending and progress on the implementation of projects. The MIG performance monitoring and reporting system was subsequently developed and required only consultation with provinces prior to the implementation thereof.
- Forty municipalities were assisted in putting mechanisms in place to provide free basic services, resulting in high-level recommendations and actions being agreed upon with each municipality for implementation. These were still in the process of being implemented.

Good governance

- A central database was established during the year for all disciplinary and dismissal cases and more than 2 600 cases were captured. The database will serve as a central repository to enable municipalities to have access to staff who had been or are still subject to disciplinary action or dismissal.
- Although ethics training was conducted for 34 ethics committees during the 2013-14 financial year, this initiative was halted to focus on the review of the local government anti-corruption strategy for the current year. This strategy is in the process of being implemented.

Sound financial management

- A support programme to strengthen the functionality of MPACs resulted in training that was conducted in March 2015 targeting four provinces, namely Gauteng, the Northern Cape, Mpumalanga and Free State. The impact of this intervention will be assessed during the next financial year.
- Six feasibility study reports on revenue enhancement, public-private partnerships and smart meter projects have been completed. However, the implementation and impact of these feasibility studies could not be assessed.
- Indigent policies and registers were reviewed and specific recommendations on the review and update, based on gaps identified, were packaged in guidelines for municipalities to implement; however, the implementation of this was not tracked and monitored.
- We could not determine how the national audit outcome response plan, which was developed to guide provinces and municipalities on the focus

areas and quarterly deliverables in response to audit outcomes, was monitored and whether a report was produced for the 2014-15 financial year.

Building institutional capacity

- A competency assessment centre was established within the department to oversee the implementation of the competency framework and assessment batteries, including operations in all provinces and municipalities. Although it is understood that the purpose of establishing the centre was to professionalise local government, the interventions and focus areas of the centre were not provided to assess its effectiveness.

Impact of other measures implemented by the Department of Cooperative Governance

Apart from the implementation of the back-to-basics programme and MTSF requirements, the DCoG had also planned to implement certain key initiatives in improving and supporting service delivery and financial administration in provincial and local government for the 2014-15 financial year.

- National DCoG was still in the process of reorganising their functions within the organisational structure to ensure alignment with the back-to-basics programme by the end of the 2014-15 financial year.
- The following units were also created to provide monitoring and oversight: Local government support and interventions management branch; performance monitoring unit; litigations and interventions unit; and a performance management unit. The effectiveness of these units will be assessed during the next year as they were only established during 2014-15.
- The inter-ministerial committee was established to address service delivery backlogs at provincial and national level. This committee is led by the minister of CoGTA and had been convened only once as at March 2015. Certain key resolutions, which focused on improving integration and coordination between the relevant stakeholders to facilitate the improvement of service delivery, were adopted by this committee and then implemented and tracked. The impact of these will be assessed during the next year.
- The national department continued to provide minimal support to the provinces despite having supported them through consultative workshops to develop and implement the support, monitoring and intervention plans and the performance management system.
- The terms and reference of the national municipal capacity coordination and monitoring committee were reviewed to ensure joint decision-making

on support and intervention. Actions and resolutions taken by the committee will be assessed for impact during the next year.

- The *Corporate governance of ICT framework* was developed and communicated to all municipalities for initial targeted implementation of phase 1 by 30 June 2014. The framework was then recalled for local government as it was not tailored to the municipal environment. The IT audit outcomes at municipal level for the 2014-15 financial year indicate that there was a risk that the targeted implementation date of 30 June 2017 might not be achieved as many of the municipalities had not completed the development of phase 1 requirements. Capacity challenges in the department's municipal support unit resulted in inadequate tracking, monitoring and evaluation of the implementation.
- Workshops were held with municipalities in Mpumalanga and Limpopo to assist them to comply with schedule 5 of the Local Government: Municipal Systems Act, namely to ensure that municipalities have functional systems/mechanisms in place for community feedback.

Some of these planned key initiatives were also not tracked and monitored as part of the performance reporting process due to the shift in focus to the implementation of the back-to-basics programme, resulting in them not being implemented during the year under review. This included the following:

- The monitoring and reporting system for local government was not designed and implemented by 31 March 2015 as per the planned targeted date. The project was put on hold first to assess all current electronic systems within the department and to cater for the back-to-basics reporting initiatives. The evaluation of the free basic services programme was also discontinued.
- The local government indicators for municipalities were not finalised by the planned targeted date of 31 March 2015 due to monthly reporting indicators for back-to-basics being prioritised and developed. It was noted, however, that only some of the municipalities reported monthly on the new process.
- Forty municipalities were monitored and assessed to determine whether they comply with the Municipal Property Rates Act (MPRA); however, the national DCoG could not demonstrate how it had guided the 29 non-compliant municipalities to implement the recommendations provided as there was no follow-up to ensure implementation at municipal level.

Municipal Infrastructure Support Agent

The Municipal Infrastructure Support Agent (MISA) was established in terms of the Public Service Act with the objective of rendering technical advice and support. The purpose was to enable municipalities to deliver and maintain infrastructure for service provision and to assist municipalities, especially low- and medium-capacity municipalities, to build their internal capacity for the sustainable provision of infrastructure and basic services in the long term.

MISA's programmes are still directly linked to two of the five pillars of the back-to-basics strategy, namely accelerating service delivery and facilitating sustainable infrastructure development and capacity building. Thus the focus remained on implementing initiatives in support of the back-to-basics plan, with a continued focus on supporting the improvement of municipal infrastructure spending and capacity development.

Impact of measures implemented by the Municipal Infrastructure Support Agent to support municipalities

MISA continued to face leadership and capacity challenges during 2014-15 as it only appointed a CEO as from 1 April 2015 and a CFO as from 1 February 2016 to address some of their leadership and capacity challenges. Lack of adequate tracking and monitoring of the performance of the consultants deployed to municipalities further contributed to the entity's failure to achieve its mandate.

The entity continued to identify municipalities that require technical support to plan, deliver, operate or maintain infrastructure. It also deployed technical consultants to assist municipalities with service delivery backlogs and provided support to municipalities in implementing revenue enhancement strategies.

MISA continued its efforts to create capacity through the deployment of section 28 apprentices and water process controllers to municipalities; by assisting municipal officials through training for trade testing as artisans; by awarding bursaries for studies in technical professions; and by ensuring in-service training for ultimate absorption into local government.

Municipalities were further supported to reduce infrastructure and service delivery backlogs in water, sanitation and electricity provision; enhance the functioning of project management units; and improve the financial performance of infrastructure grants.

There has been minimal improvement in MISA's achievement of its intended support targets since the prior year. This was due to its support interventions still not being clearly defined in its strategic planning documents and technical indicator descriptions. The initiatives could therefore not be measured to enable the reliable and complete reporting of achievements.

The specific governance/oversight/monitoring responsibilities of national DCoG were assessed for the financial year under review with the focus on determining whether the following initiatives as per the MTSF were implemented:

- *Basic services:* Determining whether the sector had implemented the relevant monitoring and support initiatives to manage and coordinate the intergovernmental system to ensure sustainable and reliable access to basic services.
- *Governance:* Determining whether the sector had supported municipalities to strengthen their capacity for deliberative public participation through improved consultation, communication and feedback mechanisms, as planned per MTSF chapter 9, sub-outcome 2.
- *Financial and administrative management:* Determining whether the sector had monitored and supported municipalities with regard to sound financial and administration management, as planned per MTSF outcome 9, sub-outcome 3.

Recommendations

In order for the **national DCoG** to enhance its level of oversight and support provided, it must focus on the following areas:

- Finalise the restructuring of functions in order to ensure that there is enough capacity to continue implementing, tracking and monitoring the back-to-basics and other MTSF initiatives.
- Although the APPs of the sector and the national and provincial DCoGs for the 2015-16 financial year were not fully aligned to the back-to-basics plan, they should fully align their strategic planning documents with the back-to-basics programme to ensure that the initiatives and interventions set out in this programme are adequately implemented, tracked and monitored. Furthermore, these strategic planning documents should be crafted in a manner that will allow for the sector to measure the impact of its initiatives, instead of measuring output.
- Continue to improve coordination and alignment between national DCoG and the provincial DCoGs to ensure a coordinated and aligned process of implementing key initiatives such as the back-to-basics plan by including this initiative in all APPs.
- National DCoGs must ensure that the key actions as per the MTSF are implemented as failure to do so could adversely impact on the level of support they are providing in improving service delivery:
 - Expedite the development of the IDMS to ensure that an integrated monitoring system is established for tracking the implementation of the pipeline of projects

- Maintain adequate evidence to support actual achievements against the required MTSF and back-to-basics actions
- Follow up on recommendations provided to municipalities that did not comply with the MPRA to ensure that recommendations are indeed implemented at municipal level
- All 278 municipalities' audit action plans should be assessed annually to ensure that all AGSA findings have been adequately addressed
- ACTWGs should be established and functional in all nine provinces so that they can report on the key risk areas and address such on a quarterly basis.
- Continue with the implementation and monitoring of the back-to-basics programme and lead the coordination and enforcement of good practices of the different role players of local government. The focus should be on implementing the initiatives with the aim of achieving impact in the different areas of service delivery at the end of the MTSF period.
- An action plan with proper milestones should be developed and implemented to track and monitor the implementation of the local government ICT framework. The department's municipal support unit must be capacitated and adequately geared to facilitate this process.
- Although leadership instability has now been addressed through the appointment of a CEO and CFO, MISA must improve on the crafting of its strategic planning documents by including indicators and targets that clearly articulate the intended level of performance in providing support. This will allow the entity to measure and report on its performance in an accurate, complete and reliable manner. These indicators and targets must also be crafted in a manner that will measure positive impact of their interventions at the end of the term of these planned interventions.
- MISA must also implement proper tracking and monitoring systems and processes that will enable it to conduct regular assessments of the performance of consultants and its initiatives in order to measure the impact thereof.

In order for the **treasuries** to enhance their level of oversight and support provided, it must focus on the following areas:

- The National Treasury must remain committed to sustaining and refining its supervisory functions over financial management in local government.
- The centralisation of procurement by government is a current initiative flowing from the Office of the Chief Procurement Officer (OCPO) at the National Treasury. The development of the e-tendering platform by the OCPO must be adequately tracked and monitored to ensure timely

roll-out to local government and a positive impact in strengthening SCM controls, seeking to achieve better value for money in the government procurement system and mitigating financial mismanagement and errors.

In order for the **offices of the premier** to enhance their level of oversight and support provided, they must focus on the following areas:

- Strengthen intergovernmental relations to ensure that all public institutions that play a role in providing services to citizens within local government are adequately coordinated.
- Capacitate their intergovernmental forums to ensure adequate oversight of the coordination of assistance provided to the local government sphere by the provincial coordinating departments (DCoG, OTPs and treasuries). In addition, the OTPs should ensure that actions arising from the intergovernmental forum meetings are implemented timeously.
- OTPs should further consider standardising those practices that have worked in improving service delivery and ultimately the lives of citizens.
- The coordinating departments must continue implementing the MTSF-linked initiatives and actions plans. Planned initiatives that could not be implemented in the year under review must be implemented timeously to ensure that adequate focus can be placed on the next action. The focus should be on ensuring that these initiatives are implemented in a meaningful manner, which will result in a positive impact on service delivery and the audit outcomes.

Department of Planning, Monitoring and Evaluation

One of the DPME's primary mandates is to monitor the performance of individual national and provincial government departments and municipalities.

In 2014-15, the DPME started to monitor and evaluate municipalities in the following ways:

- The local government management improvement model (LGMIM) and assessment was approved by the director-general by the end of September 2014. The LGMIM is a model that is used to measure and benchmark the institutional performance of municipalities across six key performance areas which are critical for improving service delivery and productivity in municipalities.

The six key performance areas are as follows:

- Integrated planning and implementation
- Management of service delivery
- Human resource management

- Financial management
- Community engagement
- Governance.

- LGMIM scorecards were produced by 31 March 2015 for 29 municipal assessment tool (MAT) assessments performed by municipalities on a voluntary basis.
- One LGMIM progress report was produced and submitted to the implementation forum by 31 March 2015 for outcome 9.

The initiatives for 2015-16 included the following:

- To refine the LGMIM based on the lessons learned during the 2014-15 assessment year
- To produce 20 LGMIM scorecards based on MAT assessments performed by municipalities on a voluntary basis
- To submit one LGMIM progress report to the implementation forum for outcome 9 by July 2016.

The MAT assessment was intended to empower municipalities by providing senior managers with a coherent, integrated and holistic picture of the quality of management and operational practices in selected key performance areas. This is to enable the management team to become aware of where weaknesses exist and take appropriate steps to address the performance gaps. An action plan must be developed, with the office of the municipal manager being expected to monitor implementation of such improvement plans and report such to the provincial DCoGs. Currently the MAT assessment is only performed on a voluntary basis and is limited to the DPME's budget and capacity at a select few municipalities, thus having no impact on the improvement of audit outcomes.

It is recommended that the DPME:

- undertake the selection of municipalities jointly with the provinces and ensure that municipalities fully understand what is required of them when they agree to participate
- play a more hands-on role in providing technical support and guidance to municipalities during the self-assessment phase, and involve the province in this process to create a learning environment for municipalities and provincial departments alike
- ensure that in future provincial departments are knowledgeable about the time, effort and resources required to implement the initiative to allow for proper resource allocation in their APPs
- increase internal capacity to be able to conduct more MAT assessments.

South African Local Government Association

Salga's mandate does not include monitoring and overseeing local government with regard to audit-related matters and therefore they do not provide assurance. Salga has, however, launched initiatives aimed at supporting local government to improve audit outcomes.

Salga is working on this together with National Treasury and CoGTA as part of the budget forum technical working group. This multi-year process is aimed at developing processes that municipalities should follow when they encounter underfunding and unfunded mandates and assist with alternative funding proposals.

Salga launched its MASP on 31 July 2014. The programme aims to support all municipalities with poor audit outcomes so that they can improve, but with a specific focus on those municipalities that received disclaimed and adverse opinions and whose audits had not been finalised by the legislated deadline. These are classified as 'red zone' municipalities.

In terms of the MASP, Salga aims to influence the improvement of the audit outcomes of municipalities while maintaining a strategic balance between a focus on audit outcomes and service delivery/institutional viability by concentrating on the root causes and main risks of poor audit outcomes identified by us. They base their support on a multi-disciplinary approach, focusing on the following four pillars which are aligned to CoGTA's back-to-basics initiative:

1. Institutional capacity
2. Financial management
3. Leadership
4. Governance.

Salga identified 60 'red zone' municipalities based on the AGSA's 2013-14 audit outcomes. Some of the MASP's reported highlights during Salga's 2015-16 financial year are as follows:

- Salga held workshops in seven provinces with provincial treasuries, provincial CoGTAs and OTPs with the aim of strengthening collaboration in the support of municipalities. These have led to a stronger working relationship between Salga and these other departments, which has also translated into more effective and efficient provision of support to identified municipalities in these provinces. The aim is to host similar workshops in all nine provinces during the 2016-17 financial year.
- Support plans were developed for all 60 municipalities in the 'red zone'. These were also shared with provincial treasuries and provincial CoGTAs to ensure collaboration in the support effort.

- Salga provided active, hands-on support to 43 'red zone' municipalities, eight of which progressed to better audit outcomes.
- Salga initiated an online support portal and finalised the proof of concept. The aim is to get the portal operational during the 2016-17 financial year.
- Workshops on records management were held in seven provinces in conjunction with the records management forum which is administered by the AGSA.

Salga's **new and ongoing initiatives** include the following:

- Establish a dedicated local government ICT unit to support municipalities comprehensively in IT governance.
- Workshops on revenue and debt management and councillor oversight capacity development were held in the provinces. Joint training is planned for councillors and senior management on financial management and compliance with regulations for Salga's 2016-17 financial year.
- The assessment of the implications of new reforms at local government, such as new accounting standards or legislation, with the intention of contributing to a comprehensive outcome study, is ongoing and will continue in the new financial year.
- An oversight conference for oversight bodies at local government on matters relating to governance and financial management as committed to in the previous year was rescheduled subsequent to the local government elections.
- In 2016-17 the focus will be on those municipalities that perennially receive disclaimed audit opinions, with special reference to asset management.
- Working closely with the OCPO to assist in communication and education around the procurement reforms.
- Communicate in a timely fashion to municipalities the impacts of the proposed new regulations or standards and also how to ensure readiness.

5.6 Conclusion

The main root causes of municipalities' continuing challenges with regard to financial management and service delivery management, as described in the preceding sections, are as follows:

Slow response in improving internal controls and addressing risk areas

Management (accounting officers and senior management), the political leadership (mayors and councils) as well as oversight (MPACs and portfolio committees) do not respond with the required urgency to our messages about addressing risks and improving internal controls. Our message and its delivery have been consistent for a number of years, but the slow response to this message and to the initiatives taken by national and provincial government is standing in the way of improvements in audit outcomes.

Instability or vacancies in key positions or key officials lacking appropriate competencies

There has been a general improvement in the vacancy levels and stability in key municipal positions and a definite move towards obtaining the minimum competency requirements for these positions. The high demand for consultants and support from national and provincial government, however, serve as evidence of a remaining competency gap and we continue to see the negative impact of instability and prolonged vacancies in these key positions on the audit outcomes.

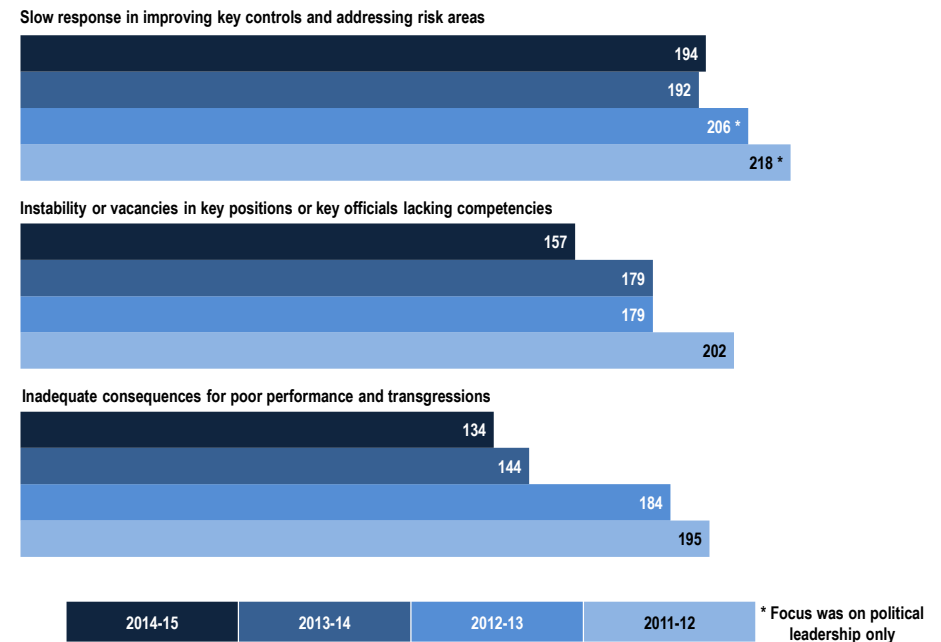
Inadequate consequences for poor performance and transgressions

The low level of action in response to the high levels of non-compliance, poor audit outcomes, SCM transgressions and unauthorised, irregular as well as fruitless and wasteful expenditure demonstrate a lack of consequences in local government for poor performance and transgressions.

In our view it is important that officials who deliberately or negligently ignore their duties and contravene legislation should be decisively dealt with through performance management and by enforcing the legislated consequences for transgressions. If they are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated.

Our message on these three root causes has remained constant since 2011-12. Figure 1 shows the progress made by municipalities in addressing these three root causes over this period.

Figure 1: Status of overall root causes



As illustrated in figure 1, there has been no improvement in the response to root causes over the past four years, while there has been a reduction in the municipalities where instability, vacancies, competency gaps and inadequate consequences were identified as the root causes of poor audit outcomes.