

# AUDIT PERSPECTIVES

## INCOMING ADMINISTRATION MUST DEMONSTRATE LEADERSHIP



In this year of local government elections, we must take advantage of the opportunity to advocate for the incoming administration to improve management at municipalities. The cohort of leaders have a huge responsibility to turn around the current undesirable state of affairs for the benefit of all citizens, who depend on municipalities for reliable service delivery.

Recently, Auditor-General Tsakani Maluleke simultaneously tabled the 2019-20 consolidated general report for local government audit outcomes and the results of a real-time audit on municipalities' spending on covid-19-related initiatives. The latter is the third special audit report on government's financial management of the relief funding made available as a response to the pandemic.

Both these reports reveal serious mismanagement and a lack of good governance at our municipalities. The progressive and sustainable improvements required to prevent accountability failures, or to deal with them appropriately when they do occur, do not exist. The impact of compromised control environments

because preventative controls were not embedded, as well as poor financial and performance management, was even more pronounced in the midst of a pandemic when vulnerable citizens rely more extensively on local government support.

Equally, the two reports reflect a need for ethical and accountable leadership that will drive the change required to strengthen governance fundamentals and enable strong financial and performance management disciplines at our municipalities. This would place the local government sphere in a better position to meet its obligation to provide quality services to its citizens.

There are pockets of municipalities that have continued to drive good governance and positive audit outcomes – 27 of 257 in 2019-20. Their efforts are exemplary and commendable. Sharing their good practices in the local government environment where most municipalities have largely failed to maintain their systems, would be helpful.

We have always been of the firm view that the responsibility for turning local government around is purely in the hands of its leadership. Our latest general report was themed *Ethical and accountable leadership should drive the required change* because we need the incoming leadership to focus on building a strong administration that is fit for purpose, with qualified and professional personnel to run municipalities. This same leadership should provide the space for the administration to do their work, and effectively

oversee and hold them accountable for the decisions they make.

The amendments to the Public Audit Act were initiated from a gap in leadership accountability. It is a complementary process to the existing consequence management processes that ensure administrative leadership perform their role as expected and as stated in legislation. In our second year of implementing the amended Public Audit Act, 96 material irregularity (MI) notifications were issued by 11 June 2021.

Twenty-one of the MI notifications issued by the auditor-general relate to municipalities that received disclaimers of opinion, which in auditing is the worst opinion to be obtained. Among those are municipalities that have received disclaimers for over 12 years. This means that for 12 financial years those municipalities did not maintain full and proper records of their financial affairs, i.e. evidence of where the funds received were spent as required by section 62 of the MFMA. Leadership at these municipalities could not indicate whether funds went towards the service delivery mandate that they are responsible for. The MI notifications were therefore issued on the basis that there is the potential for substantial harm to their institutions. Incoming leadership should prioritise implementing solutions to address these disclaimers, and we will monitor and report on their implementation.

The success of our amended powers will become evident when a culture of responsiveness, consequences, good governance and accountability become the norm rather than the ideal at all municipalities. When implementing the Public Audit Act, we

have experienced instances where leadership has taken appropriate action to correct the state of affairs; however, where those leading our municipalities take no action, we shall enforce our amended powers.

Many instances remain where we observe leadership instability (both at the political and administrative level), poor oversight by councils (that often lead to significant financial health problems, protests and strikes), a lack of consequences, and short-term interventions that had a high cost but were not effective.

It is our belief that a critical component in turning around the state of local government lies in responsive administrative municipal leaders and effective oversight at a political level. Supported by their provincial leadership, these local government leaders must be fully committed to turning around local government and moving it towards the capable, efficient, ethical and development-oriented institution envisaged by the Constitution.

With the incoming administration, there is an opportunity to address the leadership's willingness to improve.

Let us take this opportunity and play our roles in ensuring that ethical and accountable leadership drives the desired change.

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AGSA 2019-20 MFMA consolidated General Report and Third Special Report on Covid-19 spending is available on [www.agsa.co.za](http://www.agsa.co.za)



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