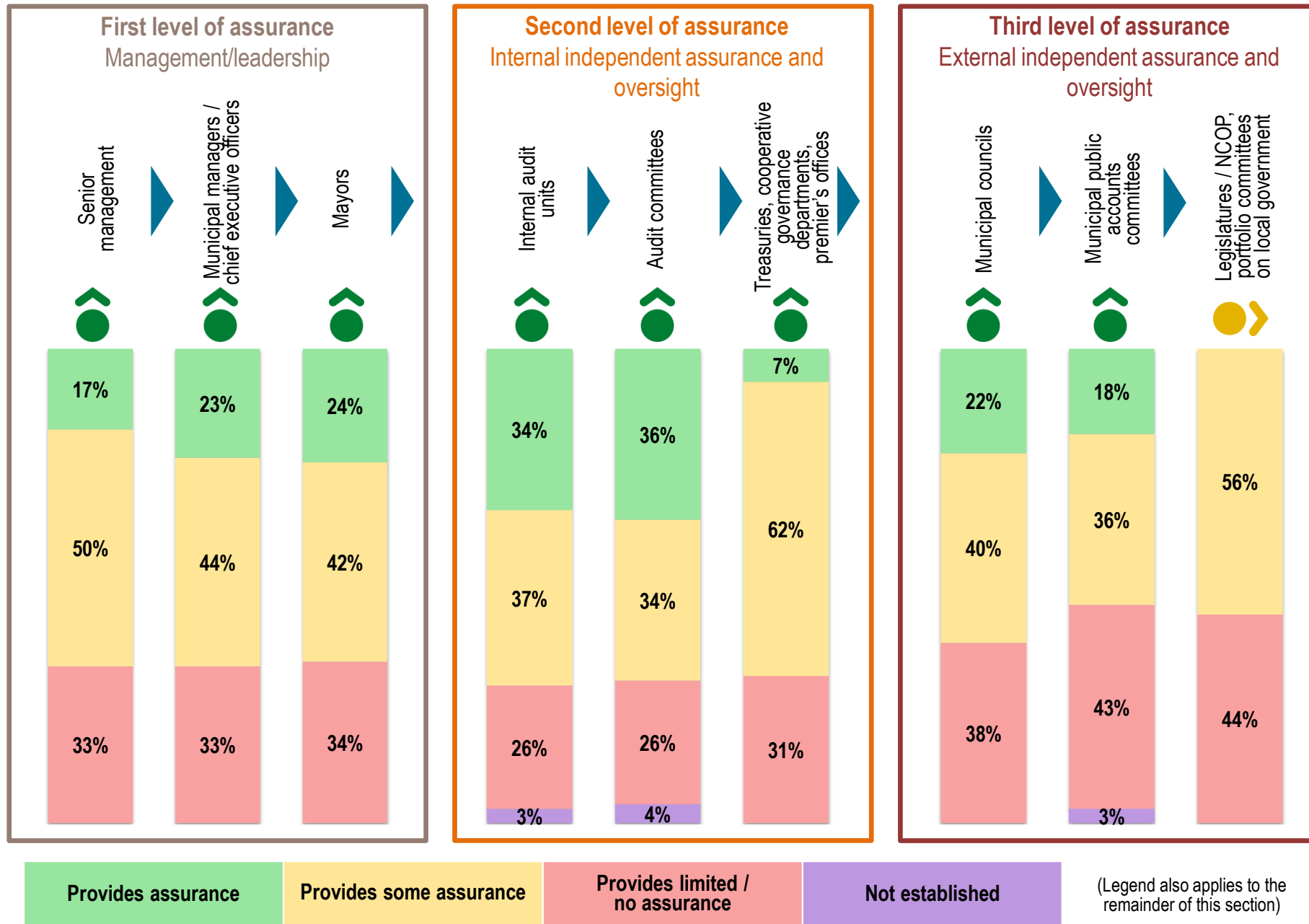


**7**

## **Initiatives and impact of key role players on audit outcomes**

Figure 1: Assurance provided by key role players



## 7. Initiatives and impact of key role players on audit outcomes

Mayors and their municipal managers use the annual report to report on the financial position of auditees, their performance against predetermined objectives and overall governance, while one of the important oversight functions of councils is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements, the APR and the auditee's compliance with legislation.

Our reporting and the oversight processes reflect on history, as they take place after the financial year. Many other role players in local government contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

The mandates of these role players differ from ours, and we have categorised them as follows:

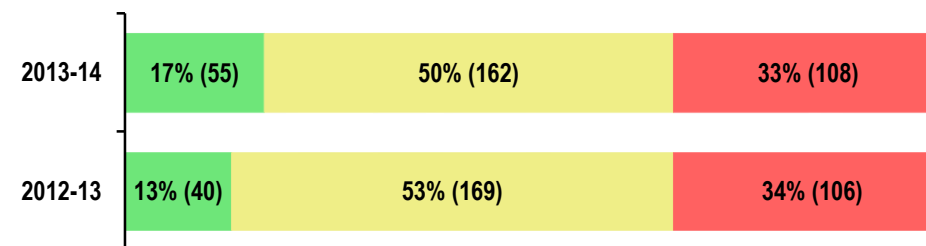
- Those directly involved in the management of the auditee (management/leadership assurance).
- Those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight).
- The independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players need to provide an extensive level of assurance.

Figure 1 shows that the assessed level of assurance provided by these key role players has increased since the previous year. The rest of this section gives an overview of the assurance provided by each of the three levels of assurance providers. The section also outlines the initiatives of national role players, together with recommendations on how they can further enhance their oversight of local government. Our provincial general reports provide information on the initiatives and commitments of provincial role players.

### First level of assurance: management/leadership

#### 7.1 Senior management



Senior management, which includes the CFO, chief information officer and head of the SCM unit, provides assurance by implementing the following basic financial and performance controls:

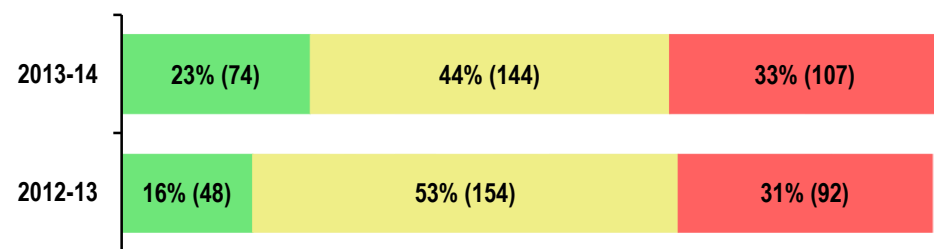
- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems.

The senior management at 83% of the auditees did not provide the required level of assurance – a slight improvement when compared to the previous year. Senior management continued to provide the lowest assurance at the first level.

This assessment is supported by the poor status of financial and performance management controls (as reported in section 6.1) and the lack of improvement in these controls. It is also of concern that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements submitted for auditing, continued to be unreliable. It highlights the risk that decisions taken by municipal managers, mayors and councils throughout the year could be based on incomplete or incorrect information provided by senior management.

Auditees' HR management challenges, which are outlined in section 5.1, should be addressed to improve the level of assurance provided by senior management. Vacancies need to be filled, competencies improved and senior management held accountable for the execution of their responsibilities through an effective system of performance management.

## 7.2 Municipal managers and municipal entities' chief executive officers

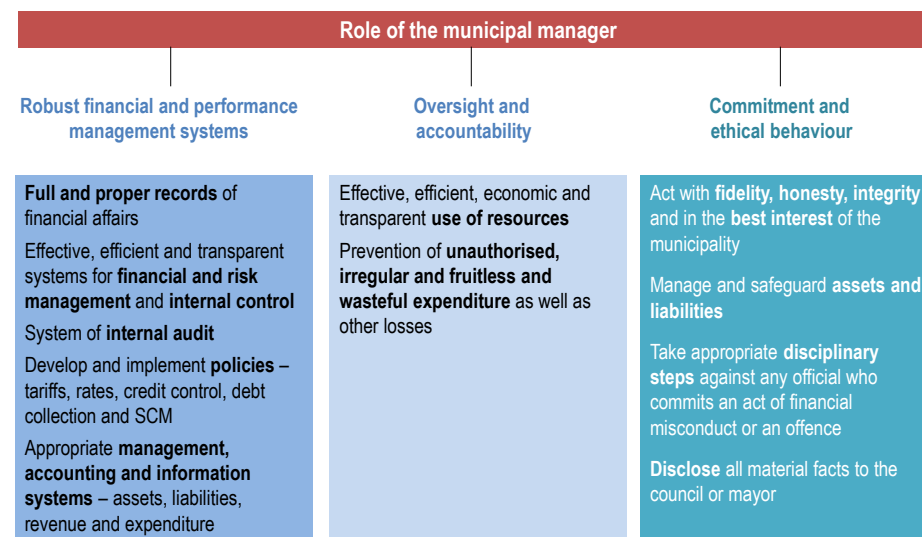


While we recognise that municipal managers and the CEOs of municipal entities depend on senior management for designing and implementing the required financial and performance management controls, they are responsible for creating an environment that helps to improve such controls in the following ways:

- Provide effective and ethical leadership and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and their performance is monitored, and that there are proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices and monitor the implementation of action plans to address internal control deficiencies and audit findings.
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

The MFMA also defines the role of the municipal manager as follows:

Figure 2: Role of the municipal manager

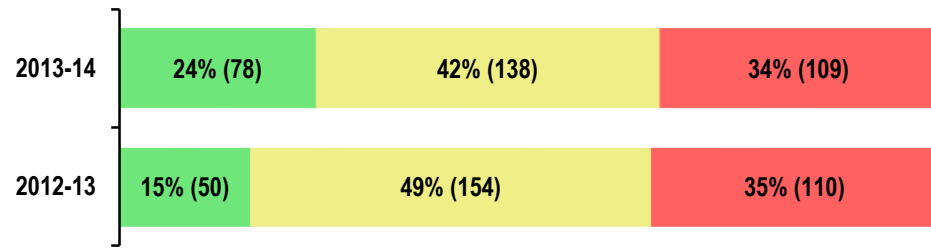


The **role of the municipal manager** is critical to ensure: timely, credible information + accountability + transparency + service delivery

The municipal managers or CEOs at 77% of the auditees did not provide the required level of assurance – an improvement when compared to the previous year.

This assessment is supported by the status of the leadership and governance controls (as reported in section 6.1), the status of HR management (section 5.1) and IT controls (section 6.2), and a lack of consequences for non-compliance with legislation (section 3.2).

### 7.3 Mayors



Mayors have a monitoring and oversight role at both municipalities and municipal entities. They have specific oversight responsibilities in terms of the MFMA and the MSA, which include reviewing the IDP and budget management and ensuring that auditees address the issues raised in audit reports.

Mayors can bring about improvement in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of municipal managers.

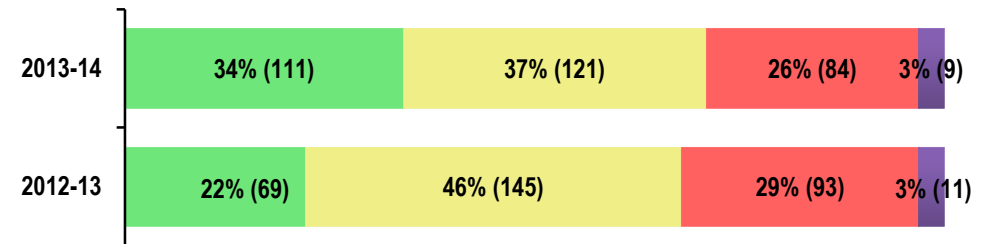
Mayors did not yet provide the required level of assurance at 76% of the auditees, as evidenced by the poor status of leadership controls (as detailed in section 6.1). This is further supported by our assessment of the impact they had on audit outcomes as observed through our regular interactions with them and the commitments they had made and honoured to improve audit outcomes.

At these interactions, we discuss the status of the key controls and commitments and share the identified risks. The meetings are aimed at improving mayors' understanding of the audit outcomes and our messages and also at assessing the progress made with interventions to ensure a positive impact on these audit outcomes.

We are convinced that the oversight and monitoring role of mayors strengthens the assurance processes significantly and we have seen a positive impact on audit outcomes when mayors get involved. We therefore undertake to continue with our engagements with them but with more emphasis on quality conversations with an increased impact.

### Second level of assurance: internal independent assurance and oversight

#### 7.4 Internal audit units



The internal audit units assist municipal managers and the CEOs of municipal entities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The establishment of internal audit units is a requirement of legislation. These units were in place at all but nine auditees (2012-13: 11).

Encouragingly, the number of established units that do provide assurance has increased from 21% in the previous year to 34% this year.

The operations of 66 (21%) of the internal audit units did not fully comply with all the requirements of legislation (2012-13: 92 [29%]). The material non-compliance we reported in the audit reports of these auditees included the following:

- Internal audit units did not evaluate, advise or report adequately, or at all, regarding internal controls, accounting, risk and loss control.
- Internal audit units did not evaluate or make recommendations regarding compliance with legislation.
- Internal audit units did not report quarterly on performance against the audit plan.

Although the work of most of the units covered all the required aspects, further improvements are needed from the internal audit units of 33% of the auditees that did not evaluate IT controls (2012-13: 49%). Such evaluations, together with internal audit recommendations, will contribute towards addressing the IT control issues and reducing the associated risks we highlight in section 6.2. The 23% of internal audit units that did not evaluate the reliability of performance information should furthermore be asked by management and audit committees to do so (2012-13: 36%).

A total of 88% of the units evaluated internal controls (2012-13: 84%), 84% evaluated financial information (2012-13: 74%), 81% evaluated compliance with legislation (2012-13: 76%), and 85% evaluated SCM (2012-13: 75%).

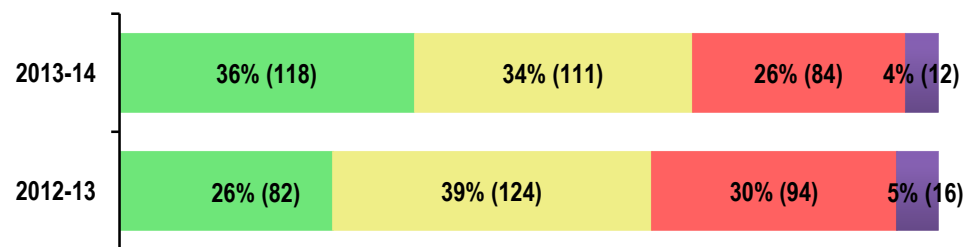
Internal audit units can only be effective if they are adequately resourced and collectively possess the required competencies, if audit committees oversee and support their operations, and if accounting officers or authorities and senior management cooperate and timeously respond to their advice and recommendations. At some auditees, 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 49% of the internal audit units (2012-13: 44%) had a positive impact on audit outcomes. The lack of a positive impact at 24% (2012-13: 23%) was due to management not addressing internal audit findings.

We encourage auditee management to ensure that internal audit units have the capacity and skills to perform their functions, to view internal audit as adding value to the auditee (and not just viewing it as a legislative requirement), and to be supportive of their work.

Vacancy rates in internal audit units also require attention, as only 70% were fully staffed (2012-13: 75%).

After the discussion on audit committees below, we outline specific areas where internal audit units and audit committees can jointly contribute to improved audit outcomes.

## 7.5 Audit committees



An audit committee is an independent body, created in terms of legislation, which advises the municipal manager or CEO, senior management and the council on matters such as internal controls, risk management, performance management as well as the evaluation of compliance with legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial and performance information.

Audit committees were in place at 96% of the auditees (2012-13: 95%). However, 100 (33%) of these committees did not fully comply with all the requirements of

legislation (2012-13: 98 [32%]). The material non-compliance we reported in the audit reports of these auditees included the following:

- The audit committee did not submit an auditor's report to the council regarding the performance management system at least twice during the financial year.
- The audit committee did not review the adequacy, reliability and accuracy of financial reporting and information.
- The audit committee did not review compliance with legal and regulatory provisions.
- The audit committee did not review the issues raised in audit reports.

At 36% of the auditees, audit committees provided full assurance (2012-13: 25%). However, 31% of the committees did not evaluate information systems (2012-13: 41%) and 29% did not evaluate performance information (2012-13: 34%). A total of 84% of the audit committees evaluated the internal controls of their auditees (2012-13: 83%), 82% evaluated the reliability of financial information (2012-13: 77%), 82% evaluated compliance with legislation (2012-13: 77%), and 81% evaluated SCM (2012-13: 74%).

The audit committees of 61% of the auditees had a positive impact on the audit outcomes (2012-13: 52%) and the assurance of 87% was further enhanced by interactions with their mayors and councils to share information and risks (2012-13: 80%).

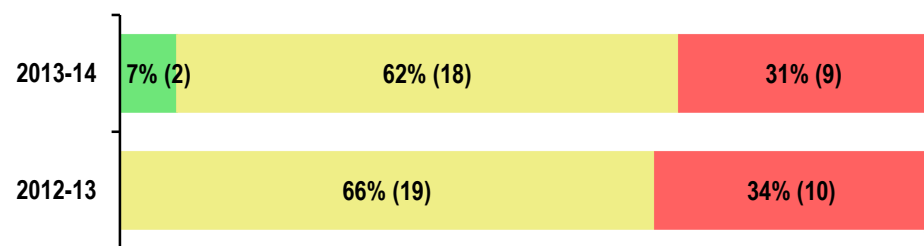
We recognise that for audit committees to provide the required level of assurance as second-level assurance providers, they depend heavily on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are effectively managed. Audit committees are therefore advised to consider our observations made earlier in this section in connection with senior management, municipal managers, CEOs and internal audit units, and to support and contribute to any initiatives or action plans to address the assurance gaps.

Specific areas where internal audit units and audit committees can jointly make significant contributions to the audit outcomes include the following:

- Encourage their auditees to submit regular financial and performance reports for audit committee review.
- Monitor the implementation of auditees' audit action plans in respect of prior year audit findings.
- Thoroughly review financial statements before their submission for auditing to detect material misstatements.

- Monitor the appropriateness and timeliness of actions taken by management in instances of known transgressions by officials.

## 7.6 Coordinating/monitoring departments

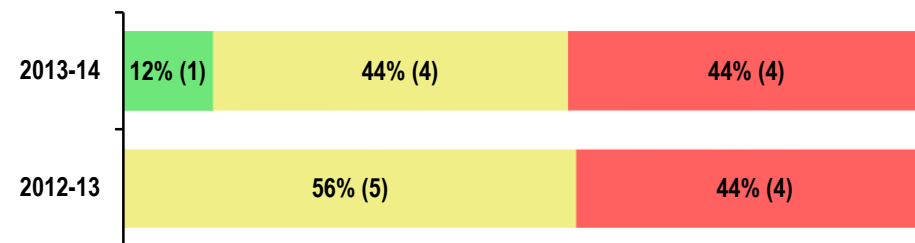


The Constitution stipulates that national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their duties. The MFMA further requires national and provincial government to assist municipalities in building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

The departments with specific coordinating and monitoring responsibilities are the provincial treasuries, the 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 auditees based on interactions with them, commitments given and honoured by them, and the impact of their actions and initiatives.

Most of the departments provided some assurance through their coordinating and monitoring functions, with their levels of assurance improving since the previous year. We summarise the assessments further on in this section, while the provincial general reports provide a detailed view on the provincial role players. We also look at the role of the Department of Performance Monitoring and Evaluation (DPME) and SALGA, although we did not assess them as assurance providers.

## 7.7 Offices of the premier



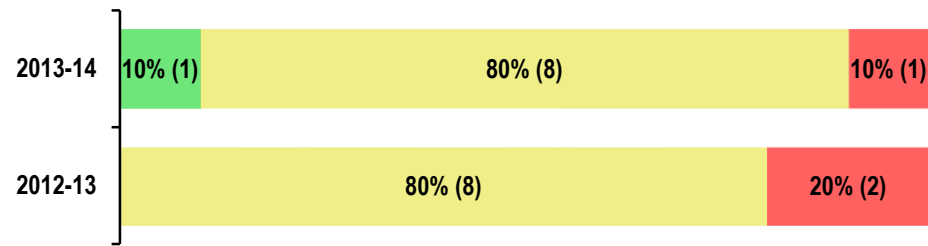
The office of the premier has an important role to play within the administration of provinces, including coordinating and supporting local government. This is in line with the Constitution, which requires these offices to administer, develop and implement national and provincial policies and legislation; and to coordinate and support the functions of the provincial administration and its departments. Another critical part of their mandate is to promote and enable intergovernmental relations and a cooperative government.

In terms of the MTSF and the back-to-basics approach, cooperative governance must be strengthened to enable better service delivery that can improve the lives of citizens. The MTSF further requires the offices of the premier, in collaboration with CoGTA, to strengthen and support the planning and delivery of services by municipalities. Offices of the premier therefore have a critical role to play in taking accountability and enabling both the political and the administrative leadership to meet the goals as set out in these documents. It is thus also crucial that they support and assist in building capacity within provinces to ensure that the principles of the back-to-basics approach can be effectively implemented and monitored, and that corrective action is taken where necessary.

Against this background, our assessment of the assurance provided by these offices is based on their initiatives to support and monitor local government and the impact thereof. Most of these offices provided only some or limited assurance, with the exception of the Western Cape where assurance was provided. The provincial general reports discuss these assessments in more detail.

These offices must strengthen intergovernmental relations in future to ensure that all public institutions that play a role in providing services to citizens within local government are adequately coordinated. This would also include oversight of the department of cooperative governance and the provincial treasury in their coordinating role of supporting the functioning of municipalities. Offices of the premier should further consider standardising those practices that have worked in improving service delivery and ultimately the lives of citizens.

## 7.8 Provincial treasuries and the National Treasury



### Provincial treasuries

The provincial treasury in the Western Cape improved to provide the level of assurance required to have a positive impact on the credibility of the province's financial statements and performance reports and its compliance with legislation. Seven provincial treasuries were assessed as providing some assurance, while the provincial treasury in the Northern Cape provided limited assurance. The provincial general reports detail these assessments and include the commitments and initiatives of the MECs for Finance and the treasuries to improve audit outcomes.

### National Treasury

The National Treasury was again assessed as providing only some assurance, as the full impact of its supervisory functions over financial management in local government has yet to be felt.

#### Initiatives and their impact on financial management

To facilitate the implementation of the MFMA, the National Treasury established various forums to assist in its mandate with regard to financial management. These forums coordinate initiatives between national and provincial departments as well as include specific engagements with municipalities to promote compliance with the MFMA, improving budgeting, accounting, reporting, auditing 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, including the following:

- Integrated city development grant (ICDG): Provided to metros to integrate and focus their infrastructure investments.
- FMG: Provided to municipalities in support of financial management reforms underpinning the implementation of the MFMA.

- Neighbourhood development partnership grant (NDPG): Provided to targeted, underserved neighbourhoods to fund, support and facilitate the planning and development of neighbourhood development programmes and projects that provide catalytic infrastructure.
- Infrastructure skills development grant (ISDG): Provided to expand and deepen the built environment skills pipeline of municipalities.

Refer to section 3.4 for details regarding the monitoring of conditional grants.

The following analysis of the audit outcomes of municipalities for the 2013-14 financial year may provide useful indicators in respect of the impact of the National Treasury on financial management in local government:

- There was an overall improvement in audit outcomes.
- The assessment of the assurance provided by oversight/monitoring departments also improved.
- The effectiveness of key controls in respect of leadership and governance improved, with a stagnation in respect of financial and performance management.
- The assessment of key risk areas showed mixed results. In this regard, improvements were achieved in respect of the quality of financial and performance information as well as HR management. However, the financial health of municipalities regressed, while there was also a regression in the area of SCM. All of these risk areas have been assessed as requiring either some intervention or significant intervention.
- In respect of the root causes of the deficiencies identified, the National Treasury may want to focus interventions on addressing the lack of consequences for poor performance. They could also facilitate the filling of positions with officials who have appropriate competencies, keeping in mind that the accountability for appointments at municipalities rests with the municipal councils and administrations.

### Recommendations

In executing its mandate, the National Treasury should implement the following recommendations, thereby furthering the objectives of government's back-to-basics programme:

- **Basic services: Linking the basic services to the predetermined objectives**
  - Assess the impact of the conditional grant programmes on local government; the results of which could be used to review the structure of conditional grants, and which could translate into sustainable and reliable access to basic services.

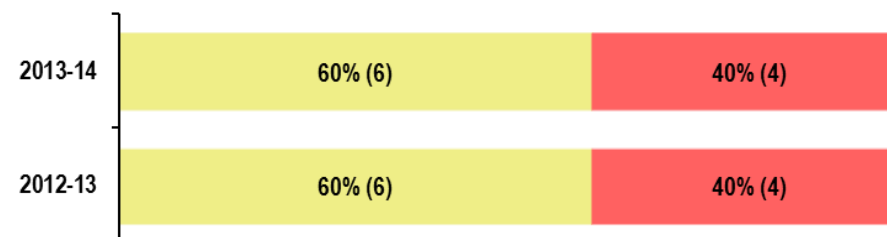
- Assess the sufficiency of existing intergovernmental platforms such as minister and MEC meetings, the ministerial technical committee, the MFMA joint meeting and the inter-ministerial committee on service delivery; and be creative in exploring new strategies for collaboration among the three spheres of government.
- Continue to facilitate and monitor performance in infrastructure planning and delivery for cities through the assessment of built environment plans.
- **Sound financial management**
  - Continue with performance assessments of conditional grant programmes as well as the verification of grant expenditure.
- **Building capable institutions and administrations**
  - Continue with initiatives that enable municipalities to acquire relevant skills for infrastructure management, such as the ISDG whereby technical graduates are trained in engineering, town planning, geographic information systems and project management.
  - Continue with initiatives such as the FMG in support of financial management reforms.
  - Continue with initiatives such as the NDPG in targeted underserved neighbourhoods, generally townships.
  - Continue with initiatives such as the ICDG provided to metros.
  - Continue to enforce the implementation of the MFMA, ensuring that there are consequences for underperformance. In this regard, the financial management capability maturity model and national ratio assessment tools should be rolled out nationwide.
  - Assess whether provincial treasuries have sufficient capacity to support municipalities to secure long-term sustainability.
  - Continue to participate in the revision of the powers and functions framework with the intention of clarifying the roles and responsibilities of the different spheres of government.
  - Assess whether the municipal financial management improvement programme is having the desired outcome of providing support to municipalities to execute financial management functions effectively, efficiently, economically and transparently.

### Commitments by the National Treasury

The National Treasury will embark on an initiative to empower district municipalities to perform an oversight role. The initiative could take the form of a shared service model, with certain services being provided at district level to local municipalities.

In addition, the National Treasury will consider developing a tool to share best practices among municipalities.

## 7.9 Departments of cooperative governance and traditional affairs



CoGTA derives its mandate from chapters 3 and 7 of the Constitution. The national department defines its primary mandate as follows:

- Develop and monitor the implementation of national policy and legislation seeking to transform and strengthen key institutions and mechanisms of governance to fulfil its development role.
- Develop, promote and monitor mechanisms, systems and structures to enable integrated service delivery and implementation within government.
- Promote sustainable development by providing support to provincial and local government.

As strengthening accountability, governance and oversight in provincial and local government is one of the department's strategic goals as detailed in its 2013-14 budget, one of our focus areas was to analyse the role and effectiveness of coordinating ministries and legislatures in exercising oversight, from the audit perspective. Secondly, we evaluated the effectiveness of the monitoring of grant funding transferred to municipalities as well as CoGTA's capacity and ability to evaluate the impact thereof on capacity building.

In September 2014, the newly appointed minister of CoGTA launched the back-to-basics strategy. This strategy aims to build a responsive, caring and accountable local government by improving the functioning of municipalities to better serve communities by getting the basics right. A differentiated approach will be followed by setting proper standards for municipalities to follow.

## Measures implemented by the national department to exercise oversight

CoGTA implemented the following **initiatives** to ensure progress in improving service delivery and financial matters in local government:

- Refocus on the local government turnaround strategy (LGTAS) to ensure, among others, good governance and clean administration in local government by focusing on 108 identified municipalities with targeted support regarding the following priorities:
  - Promoting sound financial management
  - Enhancing good governance
  - Fighting corruption
  - Accelerating service delivery
  - Facilitating sustainable infrastructure development
- Develop a local government ICT framework.
- Focus on revenue enhancement for municipalities.
- Establish a competency assessment model for senior managers.
- Combat corruption and promote ethics and integrity through training ethics committees at municipalities and establishing a database of staff members dismissed for misconduct.
- Help municipalities to fill critical posts.
- Continue to implement the community work programme in targeted municipalities to create work opportunities.
- Produce a report on access to basic services.
- Establish and facilitate private sector collaborative partnerships to roll out support plans on economic development in district municipalities.
- Support provinces with the implementation of guidelines relating to sections 105 and 106 of the MSA.
- The framework for managing programme performance information states that CoGTA is responsible for developing and implementing an integrated monitoring, reporting and evaluation system for local government, and for supporting the successful implementation of the government-wide monitoring and evaluation system. The department is also responsible for the development and implementation of monitoring, reporting and evaluation systems for the performance of provincial departments of cooperative governance and municipalities.

## Impact of the measures on the audit outcomes

We assessed that **CoGTA did not provide the required level of assurance** in the 2013-14 financial year. Although CoGTA had a number of initiatives to support local government, these initiatives were not implemented to such a degree to realise advantages and a positive impact on the audit outcomes of municipalities.

These **initiatives** included the following:

- A draft document outlining current ICT challenges in local government was developed during the previous year, but this document did not articulate a plan for the actual implementation of an ICT framework in local government in the form of a project plan with predetermined milestones, resulting in the challenges remaining unaddressed in the current year.
- The LGTAS unit continued to lack adequate capacity, skills and funding in 2013-14, and there was thus no visible progression towards clean administration in local government through the implementation of audit action plans. As a result, the aspirations of operation clean audit were not met by the end of the 2013-14 financial year. Although the LGTAS identified 108 municipalities for targeted support, this was not linked to an indicator in the unit's 2013-14 APP, resulting in them not being able to track and report on the support provided and the impact thereof.
- Although 34 ethics committees were established and trained by CoGTA on anti-corruption in 2013-14, this is only a fraction of the composition of local government. The impact of these interventions is yet to be seen.
- The level of support to be provided by CoGTA was included in its strategic planning, but was limited to a number of 'workshops' or 'trainings', with a limited impact on progress towards clean administration.
- No initiatives to provide support to provincial government were identified in CoGTA's strategic plan. All initiatives focused directly on local government. The planned oversight in the previous year to *support* provinces in terms of the implementation of the MSA guidelines was reduced in the current year's strategic plan to *monitoring* the provinces' production of quarterly reports and the consolidation of these provincial reports.
- CoGTA successfully launched the back-to-basics strategy. Numerous awareness sessions were held with relevant stakeholders, and the key pillars of the strategy were finalised.

Although coordination between the branches in the national department dealing with local government support has improved, efforts were still fragmented. Coordination between the national department and the nine provincial departments of cooperative governance should be continuously enhanced to improve the effectiveness of initiatives.

The national department also still did not have an integrated monitoring, reporting and evaluation system for local government as required by the framework for managing programme performance information. This requirement was, however, subsequently included in the national department's APP for the 2013-14 financial year as a performance indicator with a deadline for implementation of 31 March 2015.

CoGTA continues to state in its strategic plan that it provides oversight, intervention, monitoring and support to provincial and local government; however, most of its functions are supportive in nature, thus providing minimal assurance in terms of oversight.

The minister of CoGTA visited a number of municipalities where service delivery protests occurred, to obtain better insight into the issues plaguing these municipalities. These visits were also used as an opportunity to further reinforce the back-to-basics strategy.

### Cooperative governance sector

The cooperative governance sector is made up of the national department with its nine provincial counterparts. We report on the sector to highlight the progress made and the challenges faced by the national and provincial departments in providing oversight, support and monitoring regarding the performance of municipalities. We performed the following procedures for this sector:

- Identified key legislative requirements of the national and provincial departments in the monitoring and oversight of local government, and assessed whether these were performed.
- Identified whether the sector had established customised performance indicators and whether these were included in the strategic plans of all.
- Determined the spending trends and possible challenges of the MIG and the MSIG.

### Impact of the sector on the audit outcomes

Based on our assessment, **the sector provided minimal assurance** in terms of oversight, support and monitoring in the 2013-14 financial year. This assessment was informed by the following findings:

### Sector monitoring and oversight

The overall objective of the monitoring and oversight of each of the two spheres is as follows:

- National: Improve cooperative governance across the three spheres of government in partnership with institutions of traditional leadership to ensure that provinces and municipalities carry out their service delivery and development functions effectively.

- Provincial: Lead the enabling of developmental municipalities and traditional institutions through hands-on support, integrated planning, governance arrangements as well as refined and strengthened fiscal and regulatory frameworks.

There are also specific legislative requirements in terms of the monitoring and oversight role of the national and provincial departments. Instances of non-compliance were reported for each provincial department of cooperative governance where they did not perform their minimum monitoring and oversight responsibilities as required by legislation. Refer to annexure 5(a) for the non-compliance findings reported per province, where the implementation of applicable laws and regulations was not adequately monitored in the sector.

In addition, the following weaknesses existed:

- The support provided by most of the provincial departments to municipalities in fulfilling their constitutional and legal obligations was not clearly defined or understood. Consequently, the impact and success of the support provided could not be tracked and measured.
- The measurement of the national department's assistance at municipalities was ineffective, as the indicators were input and not output driven.
- Municipal support provided by the provincial departments was ad hoc in nature and did not provide long-term solutions to municipalities in the key areas of leadership, financial and performance management as well as governance. The national department should provide stronger leadership and guidance on the nature and extent of the interventions required, and define timelines and resources in this regard.
- The support provided by the national department to provinces and local government in fulfilling their constitutional and legal obligations was not clearly predetermined, defined or understood.
- Monitoring by the sector and its interventions at municipalities were not yielding the desired outcomes.
- The impact of the sector's interventions at municipalities with serious financial problems was also not reflected in the audit outcomes.
- There were no agreements between the provincial departments and the municipalities to assist municipalities in building capacity for efficient, effective and transparent financial management.

### Customised indicators

Customised indicators were not determined for the sector and provided to provincial departments for 2013-14. As the main objective of customised indicators is to ensure consistent service delivery by all provincial departments

within the sector, the absence of these indicators had a negative impact on the delivery of key services in the provinces as well as in the sector in general.

As the 2013-14 customised indicators had not been approved, the sector still used the 2012-13 customised indicators to determine whether there was alignment between the APP of the national department and the provincial departments. These indicators were still relevant, as they contained targets that related to the core mandate and objectives of the sector.

However, customised indicators were not always included in the APPs of the provincial departments. Although the need per province might have differed, not having the minimum customised indicators resulted in the provincial departments not focusing on the core issues identified for the sector. Refer to annexure 5(b) to see which customised indicators were not included in the APPs of the provincial departments in the sector.

### **Monitoring of conditional grants by the national department**

Refer to section 3.4 for details regarding the monitoring of conditional grants.

### **Municipal Infrastructure Support Agent**

The Municipal Infrastructure Support Agent (MISA) was established in terms of the Public Service Act to render technical advice and support. The purpose was to enable municipalities to deliver and maintain infrastructure for service provision; and 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 directly linked to two of the five pillars of the back-to-basics strategy, namely *accelerating service delivery and facilitating sustainable infrastructure development and building capacity*. In the 2013-14 financial year, the focus was on 108 municipalities selected for priority support as part of the accelerated implementation of the LGTAS.

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

After its establishment in 2012-13, MISA implemented systems and processes to allow for its daily operations and activities during 2013-14, but it continued to face leadership and capacity challenges.

MISA identified municipalities that required technical support to plan, deliver, operate or maintain their infrastructure; deployed technical consultants to assist municipalities; supported municipalities through the deployment of professional service providers (vendor, legal and contract management); and developed and implemented a PSP performance monitoring system and contract management framework.

It also attempted to create capacity through the deployment of section 13 and 28 apprentices and water process controllers to municipalities; assisted municipal officials through training for trade testing as artisans; and ensured in-service training for ultimate absorption in local government.

Municipalities were further supported to reduce infrastructure and service delivery backlogs in water, sanitation and electricity provision; identify roads classification and ownership gaps; establish a functioning project management unit; and improve the financial performance of infrastructure grants.

MISA achieved very few of its intended support targets, as its support interventions were not clearly defined in its strategic planning documents and technical indicator descriptions. The initiatives could consequently not be measured to enable the reporting of achievements. Leadership instability as well as capacity constraints further contributed to the entity not achieving on its mandate.

### **Recommendations to enhance oversight**

In order for the national department to enhance the level of assurance it provides as an oversight and coordinating institution, it must focus on the following areas:

- Utilise the legislation allowing for intervention measures at local government, as was demonstrated in North West. Where administrators are appointed, the legislation must be used to support them where they encounter challenges in executing their duties.
- Continue to improve coordination between the different branches within the national department dealing with the performance of local government and the nine provincial departments. Coordination between the national department and other stakeholders, such as the National Treasury and SALGA, should also be improved. Initiatives by these stakeholders must be clearly articulated in their strategic plans and must have measurable targets and goals, while adequate funding must be made available to ensure effective implementation.
- Continue to adequately capacitate the LGTAS unit, which is earmarked to also drive the back-to-basics programme, with proper skills and resources to enable the following:
  - The unit should timeously collect, collate, consolidate and analyse audit and performance outcomes of local government to enable the department to develop appropriate responses.
  - Systems should be implemented for the collection, collation and analyses of information to generate meaningful reports that will allow the department to focus its attention appropriately.
- Improve capacity through consultation and a bilateral agreement with the Department of Public Service and Administration to increase the

establishment of the department, especially in the monitoring and evaluation unit, which the department is planning to re-establish.

- After the approval of the expanded structure, obtain the required funding from the National Treasury to ensure that the planned initiatives are effectively implemented, tracked, monitored and reported on.
- Track its project milestones to ensure the timely and effective implementation of the local government monitoring and reporting system by March 2015.
- Expedite its planned efforts of developing an integrated local government ICT framework.
- Prioritise the implementation of a training plan for all ethics committees at municipalities to equip these committees to execute their oversight responsibilities (especially in the areas of finance and good governance), as this could have a direct impact on improved audit outcomes in local government.
- Include the back-to-basics strategy in its strategic plan to ensure the timely and effective implementation of the strategy. Furthermore, lead the coordination and enforcement of good practices of different role players across municipalities.
- Enhance its oversight of MISA by ensuring that the entity fulfils its mandate in providing the required level of support to infrastructure development in local government. Furthermore:
  - MISA must clearly articulate the intended level of performance in providing support in its strategic plan.
  - MISA must be capacitated and a permanent head appointed to ensure stability so that it can achieve on its mandate of providing support to municipalities.

In addition, we met with the minister of CoGTA at a joint session arranged by the minister between national CoGTA and the National Treasury, all the provincial CoGTAs and treasuries as well as SALGA. These parties agreed that a national and provincial long-term strategy must be developed to address the key issues affecting local government.

## 7.10 Department of Performance Monitoring and Evaluation

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

The DPME executes its mandate by forming partnerships with other departments and institutions that play a monitoring role (such as the National Treasury, the Department of Public Service and Administration, the Auditor-General of South

Africa, the Office of the Public Service Commission, and the offices of the premier).

In 2013-14, the DPME started to monitor and evaluate municipalities in the following ways:

- Developed the local government management improvement model (LGMIM) specifically for municipalities to generate scorecards and report back through implementation forums. The LGMIM is a model that is used to measure and benchmark the institutional performance of municipalities across the following six KPAs, which are critical to improve the service delivery and productivity of municipalities:
  - Integrated planning and implementation
  - Management of service delivery
  - HR management
  - Financial management
  - Community engagement
  - Governance
- Developed, refined and tested the municipal assessment tool (MAT).
- Conducted nine out of the 10 planned MAT assessments. Due to the testing and piloting of the MAT taking longer than expected, the feedback to those municipalities was only finalised during 2014-15.
- The feedback to Cabinet did not realise as planned by 31 March 2014. It was too premature to report to Cabinet, as the MAT was still in its piloting stage. Instead, a comprehensive progress report was produced as part of the outcome 9 quarterly progress report to Cabinet in March 2015.

The **initiatives** for 2014-15 included the following:

- The LGMIM was approved by the director-general on 26 September 2014.
- LGMIM scorecards were produced by 31 March 2015 for the 29 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.

### Impact of the measures on the audit outcomes

The MAT assessment is 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 KPAs. This is to enable the management team to become aware of where weaknesses exist and to take appropriate steps to rectify the performance gaps. An action plan must be

developed, and the office of the municipal manager must monitor the implementation of such improvement plans and report thereon to the provincial department of cooperative governance. As the MAT assessment is currently only done voluntarily at a select few municipalities limited to the DPME's budget and capacity, it had no impact on improving the audit outcomes.

## Recommendations

The DPME must focus on the following:

- Select 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.

## 7.11 South African Local Government Association

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

SALGA launched its municipal audit support programme (MASP) on 31 July 2014, which replaced its prior year initiative of adopting 25 struggling municipalities. The programme aims to support struggling municipalities in improving audit outcomes.

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 multidisciplinary approach focusing on the following four pillars:

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

As these pillars are aligned to the back-to-basics initiative of CoGTA, the minister of CoGTA had a meeting with all the relevant stakeholders, including SALGA, to

ensure that efforts were not duplicated. Each role player must still closely monitor its progress to ensure the overall achievement of its own initiatives and the overall success of the strategy.

Support was provided to 69 identified municipalities and SALGA has started to measure the impact of the support to possibly increase the number of municipalities to receive such support in future. SALGA reported progress on the programme in its strategic plan of 2013-14 as follows:

- Identified red zone municipalities (utilising audit outcomes).
- Developed a diagnostic assessment template, of which the completion has commenced.
- Agreed to research by the Public Affairs Research Institute on clean audits and red zone municipalities, which is in progress.
- Completed the MASP strategy document.

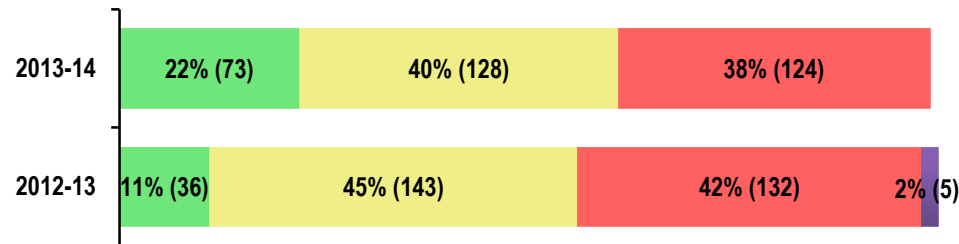
Interventions of the strategy aim to address the three main root causes as identified in the general reports, and will consist of both passive (workshops, training and issuing guidance) and active hands-on (physical deployment of staff to municipalities) support (although the active hands-on support has not been clearly defined). The research by the Public Affairs Research Institute will determine support focus per municipality, which will be followed by the implementation of support plans in SALGA's 2015-16 financial year.

SALGA's other **continuing and new initiatives** include the following:

- Establish a dedicated local government ICT unit to support municipalities comprehensively in IT governance, as committed to in the previous year.
- Hold workshops on revenue management and councillor oversight capacity development in the provinces.
- Provide records management training to municipalities to address disclaimed audit outcomes.
- Develop and implement a consultant management framework.
- Have an oversight conference for oversight bodies at local government regarding matters relating to governance and financial management.
- Assess the implications of new reforms at local government, such as new accounting standards or legislation, and contribute to a comprehensive outcome study.
- Develop processes that municipalities should follow when they encounter underfunding and unfunded mandates, and assist with alternative funding proposals. Coordinate this with treasuries to eliminate a duplication of efforts.

## Third level of assurance: external independent assurance and oversight

### 7.12 Municipal councils



The council is the executive and legislative authority of the municipality. In order for the council to perform its oversight and monitoring role, the municipal manager and senior managers must provide the council with regular reports on the financial and service delivery performance of the municipality. The MFMA and MSA also require the council to approve or oversee certain transactions and events, and to investigate and act on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.

The council can provide extensive assurance through this 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 22% of the municipal councils providing the required level of assurance. There was instability in the council of 42 municipalities, resulting in decisions and resolutions not being made or being delayed.

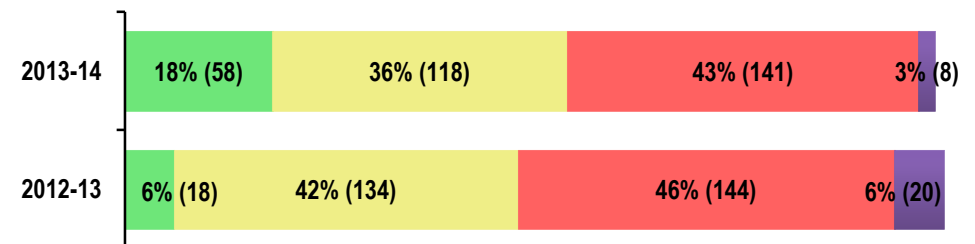
Technical knowledge of financial management and reporting, performance management and legislation is not a prerequisite for elected office-bearers. They therefore rely on information and guidance from the municipal manager and senior management. The low assurance provided by these providers on the first and second level of assurance had an impact on the credibility and quality of the information and guidance provided to councillors.

To improve the level of assurance provided by the councils, they should focus on the following:

- Strengthen the MPACs and audit committees, and support the important role these committees play.
- Insist, through their speakers, on receiving regular and credible information on the status of the finances and activities of their municipalities.

- Monitor the implementation of recommendations by the audit committee and internal audit units with a view to remedial action.
- Deal with transgressions, financial misconduct, fraud and other misconduct or poor performance in a consistent and decisive manner.
- Take timeous action in instances of identified weaknesses or failure by management and officials to perform statutory duties.
- Seek out opportunities to continuously develop and improve the knowledge and skills they need to perform their duties and insist on support from national and provincial government in this regard.
- Ensure that services are provided in a financially sustainable manner.
- Review the effectiveness of the performance management system to ensure that appropriate KPIs and measurable targets are set to achieve objectives in the IDP, and allow for monitoring, measurement and regular review.
- Ensure that applicable national and provincial legislation is implemented, and set an example.
- Appoint, manage the performance of, and support municipal managers and senior managers.

### 7.13 Municipal public accounts committees



The MPAC was introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes as well as to improve governance, transparency and accountability. The committee is an important provider of assurance, as it needs to give assurance to the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

The primary **functions of the MPAC** can be summarised as follows:

- Consider and evaluate the content of the annual report and make recommendations to the council when adopting an oversight report on the annual report.

- Review information relating to past recommendations in the annual report. This relates to current in-year reports, including the quarterly, mid-year and annual reports.
- Examine the financial statements and audit reports of the municipality and municipal entities and consider improvements, also taking into account previous statements and reports.
- Evaluate the extent to which our recommendations and those of the audit committee have been implemented.
- Promote good governance, transparency and accountability in the use of municipal resources.

By 30 June 2014, 15 municipalities did not have an MPAC. There was instability in the MPACs of 24 municipalities, resulting from instability at council level or changes in the MPAC chairpersons or committee members.

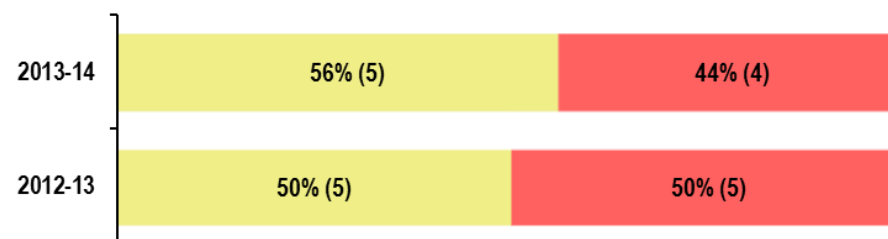
### Association of Public Accounts Committees' council of delegates

We met with the council of delegates of the Association of Public Accounts Committees (APAC) during the year to create a deeper understanding of the audit outcomes by the APAC leadership so that they can institute and influence measures to improve the audit outcomes. The meeting noted the following:

- The need to address legislative shortcomings in clarifying the mandate, role and functions:
  - The National Assembly's delegation, as legislators, undertook to investigate this matter and to provide feedback to APAC.
  - APAC will continue to engage with CoGTA on their promise to start a process of reviewing the legal status of MPACs.
- The need to ensure the proper coordination and capacity building of MPACs to discharge their oversight responsibilities:
  - APAC will continue with capacity-building programmes for MPACs.
  - APAC will monitor the proper establishment of district and provincial MPAC forums.
- The need to ensure that professionals such as CFOs build institutional systems and capacitate their teams to sustain successes:
  - Municipalities will ensure that systems are in place to embed best practices and transfer skills where consultants are used.

- The need for APAC jurisdictions to strengthen their oversight responsibilities with respect to local government:
  - Provincial public accounts committees will ensure that the provincial consolidated report on overall municipal performance by MECs is submitted in line with section 47 of the MFMA, while the Standing Committee on Public Accounts will ensure the submission of the national consolidated report on overall municipal performance by the minister of CoGTA.
- APAC jurisdictions should familiarise themselves with our booklet on MFMA measures for dealing with non-compliance with laws and regulations, and enforce such measures through their oversight practices.
- The perceived insubordination of MPACs by institutions that are part of the executive should be addressed and the relationship clarified.

### 7.14 Portfolio committees on local government and the National Council of Provinces



In terms of the Constitution, the National Assembly and provincial legislatures must maintain oversight of the executive authority responsible for local government. This executive authority includes the minister and MEC for local government and other executives involved in local government, such as the minister and MEC for finance. The mechanism used to conduct oversight is the portfolio committee on local government.

These portfolio committees provided some oversight through their review of reports submitted by the portfolio committees on the treasuries and CoGTA. The Gauteng portfolio committee was not assessed, as a meeting with them could not be secured. The portfolio committees need to intensify their oversight of these departments. However, the committees rely a lot on credible and timely information, and with limited assurance being provided by senior management and municipal managers, the committees as well as the coordinating departments can become ineffective in this regard.

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. The NCOP provides oversight on programmes and activities of national government in relation to provincial and local government, and is thus entrusted with the responsibility of facilitating cooperative governance through intergovernmental forums.

The NCOP hosted the MFMA roadshow for the AG to share MFMA audit outcomes. The session is one of the platforms used to complement the NCOP approach to supporting local government. The inclusiveness of this session was to demonstrate the ability of NCOP to organise all relevant stakeholders. The session was attended by the permanent delegates of NCOP, representatives from provinces, speakers from legislatures, representatives from SALGA, chairpersons of the portfolio committees from legislatures, and APAC members. The following key commitments were made during the session.

- Establish a need for NCOP select committees to ensure quarterly monitoring of budgets and service delivery challenges at local government level.
- Establish a need for provinces to be part of the engagements in assisting struggling municipalities.
- Advocate for municipalities to create internal capacity to minimise reliance on consultants.
- Intensify oversight on matters related to the adherence to GRAP.
- Collaboration of all oversight structures to deal with the lack of political will in dealing with transgressions while relying on us to provide technical support.
- Align all NCOP committee programmes to the audit outcomes.
- Develop a tracking system to monitor the implementation of parliamentary resolutions.
- Advocate for a house debate on the state of local government before the end of the MFMA cycle.

The provincial week is another key mechanism established by NCOP, in line with the provisions of the Constitution, to achieve its mandate of representing the interests of provinces in Parliament. We provided critical insight during this provincial week by focusing on the 2012-13 MFMA audit outcomes, specifically the performance information of municipalities identified by the NCOP delegation to be visited in the course of the week. The following issues emerged from the provincial week:

- Coordinating departments are required to monitor municipalities regarding the spending of conditional grants and to provide support where required.
- The provinces were requested to institute proper consequences for financial misconduct.

- SALGA is required to make firm commitments to assist underperforming municipalities and ensure that there are proper consequence management.

We commend the NCOP for taking these institution-wide initiatives, but the value and impact of these initiatives within local government remain a serious concern, as outlined below:

- Most of the proposed initiatives have not led to tangible positive changes in governance and financial management within local government.
- The NCOP has not been able to produce reports with actionable outcomes to enable tracking at national, provincial and local government level in the long term.
- The lack of centrally coordinating and tracking some of the NCOP initiatives weakens the NCOP's ability to have the desired impact and delays the progress of municipalities in taking corrective action.

The select committees of finance and appropriations remain a very important stakeholder to carry our message on local government oversight. The select committees focus on oversight at specific municipalities, thus providing sufficient time to elevate issues raised in our reports. Owing to 2014 being an election year, however, these committees did not sufficiently engage with municipalities to deal with matters related to the audit outcomes.

During the year under review, the portfolio committee on CoGTA held numerous interactions with the minister of CoGTA to get a better understanding of the back-to-basics document tabled by the minister towards the end of 2014.

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