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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



**cooperative governance
& traditional affairs**

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Joint Media Statement by the Ministers of Finance and Cooperative Governance and Traditional Affairs (CoGTA) on the Consolidated General Report on Local Government Audit Outcome for 2012/13

INTRODUCTION

We welcome the audit outcomes report for Local Government. In aggregate, a slight improvement is observed in the audit outcomes. *Both Ministers will take firm actions in proactively addressing shortcomings financial management in local government.*

THE HISTORICAL BACKGROUND TO THE AUDIT OUTCOMES:

Before we comment on the specifics of the findings of the Auditor General, we believe that an appreciation of the background to the reform program for financial management in local government is important. These reforms are designed to modernise the systems and operations of municipalities, including accounting standards against which auditor's audit.

Changes in reporting standards

Central to this agenda was one of the biggest financial management reforms in local government - the conversion of the reporting framework to the standards of Generally Recognised Accounting Practice (GRAP). The conversion was implemented incrementally from 2005/06 to 2009/10. This change in the standards required significant changes in processes, systems and capabilities.

Implications of the change to the GRAP standards

These reforms were substantial. They set much higher standards for local government financial accounting and required higher training and personnel competencies to what municipalities generally had at their disposal.

For example, the GRAP standard requires municipalities to know not only the existence of infrastructure assets but also the value and condition of each asset, including underground assets such as water pipes.

Many municipalities did not have historical information on these infrastructure assets. This was as a result of the transition from the previous dispensation (1100 municipalities) which included changes in boundaries, amalgamation of a number of municipalities, transfers of functions, etc.

The increased complexity of these standards in reporting for property, infrastructure and equipment resulted in 36 per cent or 116 municipalities received qualifications in this regard.

The fruits of the financial management reform agenda for local government are evident as there are higher levels of transparency and accountability in the municipal accountability cycle.

Clearly, the transition to GRAP needs more time and work to achieve excellence.

Exploring a differentiated approach

We need to ask whether a uniform system of accounting is appropriate for municipalities and entities of differing complexities and sizes. We will consider ways of simplifying the compilation of annual financial statements taking into account the size and complexity of municipalities as well as the requirements of the users of these statements.

2012/13 AUDIT OUTCOME AND BEYOND 2014

We recognize the importance of the constitutional mandate of the Auditor General in ensuring compliance with the law and prudent financial management. We value our partnership with the Auditor General and will continue working closely to ensure that public monies are use responsibly and effectively to build a better life for all.

In his report, the Audit General highlights areas that are contributing to weak audit outcomes. The following is a summary of key areas that require a focussed and immediate response in facilitating improved audit outcomes and service delivery.

Management and accounting for property, plant and equipment

The contributing factors to the include challenges with the physical verification of assets owing to incomplete asset registers, inconsistencies with the application of asset valuation, and a lack of supporting documentation.

Response:

Asset management, including asset renewal and operational repairs and maintenance must be considered a priority for all municipalities and consequently Government's response will include targeted support in dealing with among others: asset management practices; updating asset registers; and asset renewal strategies.

Irregular expenditure owing to supply chain management deficiencies

The Audit General found that the completeness of irregular expenditure as disclosed could not be determined owing to inadequate processes to account for irregular expenditure.

Response:

Municipalities will be further capacitated in implementing adequate supply chain management processes and procedures in proactively dealing and reporting on irregular expenditure. Governance arrangements around these types of expenditure will be strengthened and the office of the Chief Procurement Officer will play a significant role in reducing the Supply Chain Management deficiencies

Receivables (Debtors)

25 per cent or 80 municipalities were found to have deficient revenue management practices. Although varying, municipalities are largely own funded through the rendering of trading services and property rates.

Response:

In strengthening the ability of municipalities to maximize their fiscal capacity; we will focus on addressing inadequacies within the systems and processes across the revenue value chain, including the billing systems and cost reflective tariffs.

Compilation of weak annual financial statements and use of consultants

The overall weak practices in the compilation of annual financial statements have consistently been raised as a concern by the Auditor General. There is a prevalent use of consultants by municipalities in the preparation of annual financial statements.

Response:

We will improve the competency of personnel through training and skills transfer as well as enforcing regulations on minimum standards for municipal managers and senior officials.

The inclusion of skills transfer and empowerment clauses in all consultant contracts will be imperative. We will also explore a centralised procurement of financial management consultants.

IMPROVED TRANSPARENCY IN FINANCIAL REPORTING

Nonetheless, there has been a significant improvement in transparency in reporting. An example which illustrates the improved transparency is that the reporting of aggregate year-on-year irregular expenditure has increased. It could easily be concluded that performance has regressed. In the past limited emphasis was placed on the disclosure of these types of expenditure and only through the implementation of the various reforms have higher levels of transparency and accountability been achieved.

Confusion in definitions

The terminology used in financial reporting e.g **unauthorised, irregular and fruitless and wasteful expenditure** are often misunderstood by the public. The attached **annexure** provides the definitions and explanations of each of these terms. When mention is made of irregular expenditure, commentators automatically conclude that the expenditure is associated with fraud and corruption. In certain instances this might have merit. The fact of the matter is that considerable amounts of irregular expenditure has nothing to do with fraud and corruption but are more related to procedural deficiencies.

Fraud and corruption

We concede that fraud and corruption takes place in municipalities although not in all municipalities. We require a strong partnership by all the role players public and private to bring these fraudulent activities to the open. We will start introducing a new set of values that

say: don't steal public money and control your greed. We will do this by instilling new forms of enforcement to discourage fraud and corruption in government.

ENSURING THAT ALL MUNICIPALITIES PERFORM THEIR BASIC RESPONSIBILITIES: BACK TO BASICS

The previous administration introduced and implemented a programme called "Operation Clean Audit 2014". The term "clean audit" was viewed by many as technically undefined. Confusion still exists in many municipalities on how to achieve "clean audits" and what it actually represents. In addition, among many commentators the perception has been created that the achievement of a "clean audit" directly implies service delivery optimisation on the part of the municipality. In some instances municipalities that have indeed received clean audits are still facing service delivery and financial health challenges.

The audit outcomes need to be considered within a holistic context of municipal performance which incorporates service delivery, good governance and financial health.

Our strategy for the new administration is to set clear benchmarks of performance to ensure that all municipalities perform their basic responsibilities, every day, without fail. The following are what we regard as basic:

- ***Basket of basic services:***

Basic services and maintenance such as cutting grass, patching potholes, working traffic and street lights, consistent refuse removal, must be provided by municipalities.

- ***Governance***

All municipal governance structures must meet regularly and perform their responsibilities with transparency, accountability and no interference.

- ***Administration***

Enforce the competency standards for senior managers and appoint persons with the requisite skills, expertise and qualifications; all senior managers sign performance agreements; and performance management systems are effectively applied.

· *Sound Financial Management*

A financial management accountability cycle which incorporates the day to day disciplines of reconciliations and record keeping; budgeting; in-year performance management and accountability; audit action plans and prevention of fraud and corruption.

· *Substantive Community engagements and participation*

New infrastructure to be developed at a faster pace whilst adhering to the relevant standards, improve operations and maintenance of existing infrastructure to ensure continuity of service provision.

CONCLUSION

The journey towards excellence will be difficult. We will use both incentives and disincentives to enforce accountability both administratively and in political leadership. We will work with all partners to respond decisively to non- performance.

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