

# MEDIA STATEMENT

For immediate release

Wednesday, 30 June 2021

**SALGA expresses its deep concern about the state of municipal finances detailed in the audit outcomes for local government for the period 2019/20.**

The South African Local Government Association (SALGA) wishes to express its profound sense of disappointment at what it sees as deteriorating levels of accountability in the recent audit outcomes of local government for the period 2019/20. SALGA reiterates its calls made in the previous 2018/19 municipal audit outcomes for accountability and consequences for any malfeasance in the management of local government finances.

SALGA calls upon on Mayors and Speakers to extract accountability and implement consequence management as empowered by the legislation, as well as National Treasury and Cooperative Governance and Traditional Affairs (COGTA) to exercise powers vested in them in terms of the Municipal Finance Management Act (MFMA).

It is SALGA's position that where there are clear actions of fraud and criminality, it is the Mayor's and the Speaker's fiduciary duty to refer these matters to law enforcement agencies.

SALGA has in the past year succeeded in ensuring that the Municipal Structures Act as amended by Parliament gives powers to Municipal Public Accounts Committees (MPACs), similar to the Standing Committee on Public Accounts (SCOPA), to extract accountability and enforce consequence management. This should be done by instituting investigations on fraud and any other acts of criminality. SALGA welcomes the amendment and recommits itself in working closely with MPACs to extract accountability.

## **What must be done?**

Councils must employ competent people and take appropriate steps where officials fail to carry out their responsibilities. Mayors and Speakers must hold the administration accountable and act decisively to implement consequence management and National Treasury and

COGTA must implement measures as provided for in the Municipal Finance Management Act (MFMA) to extract accountability.

An analysis of the audit results paints a worrying picture about the state of municipal finances. The number of municipalities receiving unqualified audit outcomes has declined from 147 in 2016/17, 123 in 2017/18, 114 in 2018/19 to 116 in 2019/20. Although there is a slight improvement in the number of unqualified audits received by municipalities for the period 2019/20, the AG's report, however, indicates an overall regression in comparison with the previous years, mainly due to the 57 audits which were not finalised by the cut-off date.

For audits which were finalised by the General Report cut-off date, there is a net improvement in audit outcomes of 30 municipalities with better audit outcomes compared to the prior year, with Limpopo (8 municipalities) and the Eastern Cape (6 municipalities) being the two provinces with the greatest net improvements in municipal audit outcomes compared to the prior year.

The magnitude and severity of the problem identified by the AG calls for decisive action and means that we as SALGA must persistently insist on municipalities to implement consequence management and enforce accountability.

### **Pockets of Excellence**

However, beneath the surface of the gloomy picture there are pockets of excellence that should never be allowed to wither away under the weight of despair. It is these pockets of excellence that must be used to draw lessons that can help us turn the tide of decline into a tide of progress.

The AG report shows that of the 200 municipalities that had finalized audits, about half (116) received unqualified audits, of which 27 of them received clean audits. These 27 municipalities are pockets of excellence whose success stories must be celebrated. These 116 municipalities account for 77% of the overall local government expenditure budget. This is a clear reflection that even though there are challenges with financial management, Local Government is not completely dysfunctional in financial management if 77% of the Local

Government sphere expenditure budget is under the control of Municipalities who have at the very least attained financially unqualified audit opinions.

SALGA would like to applaud and commend municipalities who have been exemplary in managing their finances and who have consistently achieved clean audit outcomes in the four audit cycles that have been completed in the current term of local government as well as those who have attained financially unqualified audit opinions.

### **Consumer debt throttles municipalities**

One of the biggest challenges that has confronted local government over the past 20 years is that of municipal consumer debt. The AG's 2019/20 report continues to contextualize this problem and demonstrates how it affects municipal governments' budgets, ability to render services and accounting processes. To illustrate the prevalence and pervasiveness of this across the country, on average almost 63% of the revenue shown in the books will never find its way into the bank accounts of the municipality." Hence 49% of municipalities have outstanding creditors that are greater than available cash at year-end.

Further to this National Treasury highlights that the aggregate municipal consumer debt stood at R230 billion as at 30 December 2020. This is the precarious financial environment in which municipalities find themselves, which contributes to the low collection rate, and thereby affecting their budgets. This underscores the call that SALGA has been making towards a review of the financing model for local government.

### **Consultants must pay back the money**

Public money used must show return on investment and every cent must count. There is a worrying and growing trend of the use of consultants in municipalities for financial reporting purposes and yet some of the municipalities have nothing to show for it. The AG report has identified that "municipalities used consultants for financial reporting services at a cost of R1.02 billion" of public money. Yet, 59% (102) of financials submitted for auditing included material misstatements. This means that even when they hired consultants these municipalities could not finalise financial statements. This practice of using consultants for

financial reporting must be stopped as it yields no results and seems to be used by officials and consultants to syphon money out of the vault.

SALGA will again be writing to all municipalities implicated to conduct investigations and act against any wrong doing found. Where nefarious intentions are found people must be held to account. Municipalities must name and shame those companies that are found to have robbed municipalities, report them to the professional bodies like SAICA, black list them and demand refunds.

### **Demand accountability and enforce consequence management**

The National Executive Committee (NEC) of SALGA at its meeting on the 24<sup>th</sup> June 2021 received a report on the 2019/20 MFMA Audit Outcomes from the Auditor-General and deliberated around the report and resolved on the following in terms of responding to the report:

- To communicate directly with Mayors and Accounting Officers of Municipalities who have transgressed in terms of relevant legislation, in order to demand that Accountability and Consequence Management be extracted and actioned.
- To communicate directly with Mayors and Accounting Officers of Municipalities to advise them not to unnecessarily or extensively utilise consultants but to rather capacitate their own internal staff to be able to undertake the work. SALGA to intensify financial management capacity building efforts so as to assist in reducing reliance on consultants.
- To denounce and call out acts of blatant criminality such as was reported by the AGSA in their special audit on Covid19 funds. The AGSA to be formally requested to report back to NEC on cases involving criminality.
- To publicly welcome and support the call of the AGSA for municipalities to apply preventative controls. SALGA should also highly encourage the application and use of the AGSA Preventative Control Guides.
- A clear statement of intent be issued on the need for accountability and consequence management by Municipal Leadership and around extracting accountability from Municipal Leadership.
- The SALGA President to meet with Ministers for CoGTA and Finance on issues raised and possible solutions.

Some of these NEC resolutions above are a re-affirmation of the prior year NEC resolutions. SALGA did communicate in writing to Municipal Managers who attained disclaimer audit opinions, adverse audit opinions and whose audits were not finalised after the prior year audit outcomes were released. The response by affected municipalities to SALGA's communication directing them to exercise accountability and consequence management went largely unheeded and this was most disappointing. SALGA is therefore intensifying its resolve to extract accountability and consequence management from affected municipalities who do not exercise accountability and consequence management and will work with stakeholders who have the legislated powers to do so. In this regard, SALGA calls on National Treasury to invoke S216 of the Constitution against municipalities who do not exercise accountability and consequence management.

SALGA urges all municipalities which received negative audit outcomes to place emphasis on improving their control environment, to implement their audit action plans with AGSA recommendations and to do so with the requisite seriousness over the coming financial year. SALGA also reaffirms its commitment to the AGSA to continue working with them in an effort towards improving the state of financial management and governance in local government and also applauds the Office's continued efforts of highlighting the state of local government in managing the public purse as per MFMA prescripts and recommending improvements.

End

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## ADDENDUM

### ADDITIONAL INFORMATION

#### CLEAN AUDIT MUNICIPALITIES

MUNICIPALITY	PROVINCE
Elundini	EC
Senqu	EC
City of Ekurhuleni	GP
Midvaal	GP
Okhahlamba	KZN
Umhlathuze	KZN
Capricorn District	LP
Ehlanzeni District	MP
Nkangala District	MP
Steve Tshwete	MP
Frances Baard District	NC
John Taolo Gaetsewe District	NC
ZF Mgcawu District	NC
Saldanha Bay	WC
Swartland Municipality	WC
Swellendam Municipality	WC
Theewaterskloof Municipality	WC

Witzenberg Municipality	WC
Langeberg	WC
Breede Valley Municipality	WC
Cape Agulhas Municipality	WC
Cape Winelands District Municipality	WC
Central Karoo District Municipality	WC
Drakenstein Municipality	WC
Mossel Bay Municipality	WC
Overstrand Municipality	WC
Prince Albert Municipality	WC

In addition, SALGA would also like to applaud and commend the following municipalities who have consistently achieved clean audit outcomes in the four audit cycles that have been completed in the current term of Local Government:

<b>MUNICIPALITY</b>	<b>PROVINCE</b>
Senqu Local Municipality	Eastern Cape
Midvaal Local Municipality	Gauteng
Okhahlamba Local Municipality	Kwazulu-Natal
Witzenberg Local Municipality	Western Cape
Cape Agulhas Local Municipality	Western Cape
Cape Winelands District Municipality	Western Cape
Overstrand Municipality	Western Cape

It is evident that their success lies in the stability of the leadership and strong control measures. Almost all of the pockets of excellence have had a stable leadership at both political and administrative level for years. For example, the Municipal Manager and Chief Financial Officer

of Nkangala District Municipality have been there since 2014 and 2012 respectively. Capricorn District Municipality current Executive Mayor has been there since 2016 and its municipal manager has been there for three years. The Municipal Manager of Senqu has been with the municipality since 2001 until he ascended to the helm of leadership. In Okhahlamba the Mayor was an official of the municipality before he was elected. Both the Municipal Manager and CFO had been there for years until they were recently recruited to provincial government.

### **What is to be done?**

Link audit results with councillor and employee rewards

A system-wide overhaul is overdue and must start with a review of the governance model. The current model which places municipalities into six different categories on the basis of the population and the budget, is flawed. It favours the bigger municipalities at the expense of the smaller ones. The municipalities in the low categories are mainly rural and small, and have very limited budget to attract and retain critical skills.

While provincial and national government employees and public office bearers working in the same rural areas are compensated in the same way as their counterparts in urban areas, local government councillors and employees' compensation is linked to the size of the budget of the individual municipality.

For an example, a Chief Director in a Provincial Department of COGTA in Northern Cape earns the same as his counterpart in Gauteng; while a Chief Financial Officer of a category 1 municipality, earns three or four times less than his counterpart in a metro. An MEC in North West earns the same as his counterpart in the Western Cape. Meanwhile a councillor in Vhembe municipality earns less than his counterpart in Joburg Municipality.

A new and different way to incentivise municipal employees and councillors could be to link the performance of municipality and audit outcomes. This should be designed in such a way that the performance and audit results of the previous year determines the remuneration level of the following year. Thus, a municipality that gets a clean audit becomes the best paying and vice versa.

Not only would this offer an incentive for good governance, but will also ensure that councillors and employees take collective responsibility for the performance and standing of their municipality.

### **Municipal Audit Support Programme (MASP)**

SALGA's Municipal Audit Support Programme (MASP) is also well placed to respond to the resolutions taken by the SALGA NEC from a support and guidance perspective. The MASP's primary objective is assisting and supporting municipalities with adverse and disclaimer audit opinions as well as those with audits not finalized by the legislated deadline which are termed red zone municipalities, to improve in the 4 pillars or areas of financial management, governance, leadership and institutional capacity which will lead to an incremental and sustainable improvement in audit outcomes.

As such, the programme has and continues to provide hands-on support in the form of assistance with the preparation of Annual Financial Statements (AFS), providing technical AFS reviews prior to submission for auditing and resolving of audit queries during the audit process.

In the 2019 financial year, SALGA in collaboration with National Treasury, participated in the GiZ funded Municipal SCM Review and Implementation Analysis Project to address Unauthorised, Irregular and Fruitless & Wasteful Expenditure (UIFW) findings through assessments of the technical capacity of SCM practitioners and organisational structures with improvement recommendations – in the format of a Best Practice Local Government Implementation Model. The project was completed and implemented with eight selected municipalities in the Eastern Cape and Mpumalanga, some of which formed part of our red zone list.

Transversal support has been provided to all red zone municipalities and also usually cover other municipalities, through capacity building training of Officials and Councillors in exercising oversight over UIFW and related SCM findings in partnership with the COGTAs and Treasuries. Other initiatives include:

- Training on **financial management** which included: AFS analysis and understanding, technical asset management, training on the determination of cost-reflective tariffs,

Revenue Enhancement workshops, Debt Management training and workshops and Alternative Municipal Infrastructure financing.

- Training on **Governance and Oversight** which include: Audit Committee, Risk & Internal Audit Committees training funded by the European Union and workshops for Municipal Public Accounts Committees (MPACs).
- SALGA also recently completed a Financial Management Good Practice Guide with practical best practices including, but not limited to, the areas of Budgeting, AFS, Revenue, SCM, Municipal Standard Chart of Accounts (mSCOA) and Cash Management. This Guide will be rolled out to Municipalities during the current financial year.
- A Records Management Toolkit, a product and project of SALGA and AG's Knowledge Management Unit, has been shared with municipalities with further roll-out plans for the current year specifically to address the AG's concerns over inadequate document and record keeping amongst municipalities which lead to qualifications and disclaimers.
- The MASP e-Portal, a GIZ funded project, currently in its development phase, will serve as an online municipal peer-to-peer learning platform and comes at an opportune time given pandemic and the new norm of operating and working through digital platforms. Municipalities will be able to share knowledge, queries and practices on the platform amongst other benefits.
- We are fully committed to run a successful Integrated Councillor Induction Programme (ICIP) for the incoming cohort of councillors post the Local Government Elections. This attests to SALGA's unwavering commitment to having a skilled, trained council cohort conversant in their governance, financial management and general oversight responsibilities for a developmental and progressive sphere.

The multiple support programmes and initiatives aim to reverse the increasing trend of key common recurring findings relating to the quality of financial statements, quality of performance reporting, the financial health of municipalities and increases in unauthorized, irregular and fruitless or wasteful expenditure. SALGA also continues to build rapport and work

with key stakeholders, which include COGTA, National and Provincial Treasuries, CIGFARO, SAICA, IIASA and IRMSA in an effort to intensify audit support interventions for municipalities.

As the custodian of local government, SALGA has been leading from the front, having received clean audits in the past eight consecutive years and unqualified audits for 12 years before then. Our outstanding financial record has been recognised by such reputable institutions as the South African Institute for Chartered Accountants (SAICA) for the past three years in succession. We have as an institution, an obligation to serve our municipality with integrity, demonstrate best practice and sound financial management practice. We cannot afford to fall short or do anything less if we are to be exemplary to our municipalities.