

MEDIA STATEMENT

For immediate release

Friday, 17 June 2022

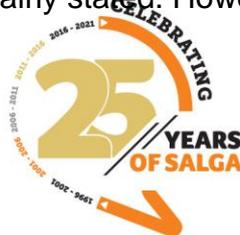
SALGA calls for decisive action to extract accountability and consequence management

The 2020/2021 Auditor General's Report on Local Government paints a gloomy picture about lack of accountability in municipal finance management. This calls for a new approach to enforce accountability and consequence management. A carrot and a stick approach – where excellence is rewarded whilst mediocrity and maladministration is punished – is what is needed to turn local government around.

On Wednesday, 15 June 2022, the Auditor-General of South Africa (AGSA) released the Municipal Financial Management Act (MFMA) General Report for 2020/21 which carries insights on the state of municipal financial health and accountability ecosystem over the five-year term of the previous local government administration in the country.

Whilst the South African Local Government Association (SALGA) is disappointed with the findings of the AG's report, SALGA welcomes the report as it provides some key lessons on what works, identifies areas of improvement, and those municipalities that require serious and urgent intervention. The deteriorating quality of governance and accountability that is fuelled by lack consequence management in municipalities is indeed a serious concern for SALGA.

Meanwhile, the excellent work of the 141 municipalities that provided credible financial statements and received unqualified audits in the 2020/2021 financial year should be applauded. It must be noted that these 141 municipalities account for **76% (that is R387 billion)** of the overall local government expenditure budget of **R508 billion**. Put simply, this means that for every R100-00 in local government hands, R76-00 is fairly stated. However, a rand not fairly stated is a rand too much.



The pockets of excellence who have consistently –without fail – achieved clean audits since 2016/17 financial year to date must be acknowledged for their exemplary work. These are the municipalities whose control systems must be studied and used to draw lessons for others to emulate.

These pockets of excellence are:

- Senqu Local Municipality (EC)
- Midvaal Local Municipality (GP)
- Okhahlamba Local Municipality (KZN)
- Cape Winelands District Municipality (WC)
- Overstrand Local Municipality (WC)
- Witzenberg Local Municipality (WC)
- Cape Agulhas Local Municipality (WC)

The slight increase in the number of clean audits – from 27 to 41 municipalities – also inspires hope for greater improvement in the future. The 14 municipalities which improved to a clean audit in this audit cycle sends a clear message of progress and greater accountability. SALGA calls for the entire local government system to emulate these pockets of excellence and improve their audit outcomes and service delivery.

Lack of consequences management

Lack of consequence management and tolerance of mediocrity fuels a sense of impunity in local government. It accounts for the deteriorating levels of accountability. There can never be improvement in accountability and good governance if the transgressors are allowed to go unpunished. There should be zero tolerance to mediocrity for excellence and good governance to become a culture in local government. SALGA calls for decisive action by municipal leadership to hire competent finance staff in municipalities. The use of consultants who yield no results must come to an end.



The revelation by the AG's reports that municipalities spent R1.2 billion on consultants in the 2021/2021 financial year whilst paying finance department staff R10.4 billion is concerning. It points to the skills deficit in municipal finance departments, hence municipal leaders must ask themselves critical questions in an event that a CFO is unable to produce credible financial statement. The tolerance by Councils of ineptitude coupled with lack of consequence management cannot continue unabated. Hence we call for the appointment of skilled and professional staff who are competent. Mediocrity must never be tolerated.

Corruption and collusion in municipal tenders is a growing concern. Municipal officials are moonlighting doing business with the state, let alone with the municipalities in which they are employed. This must come to an end, it cannot be tolerated any further. SALGA has as recent as 14th June 2022, requested the AG to provide a list of the officials involved in this corrupt activities so that decisive and appropriate action is taken against those officials. It is only through consequence management that we can foster a culture of accountability, good governance and improved service delivery.

Disclaimer of audit opinion

SALGA is very concerned about the 25 municipalities that received a disclaimer of audit opinion for the 2020/2021 financial year and lack of consequence management. The transferring department must seriously rethink how they can extract accountability within the framework of the Division of Revenue, MFMA and the PFMA. Transferring departments should consider utilising the Division of Revenue to incentivise good governance and ensure that the recipient (receiving organ of state) demonstrates capacity to manage and account for the transferred funds.

The transferring departments should rethink the conditions of disbursement of funds to municipalities that have persistently demonstrated the inability to manage and account.



Drivers of excellence

SALGA echoes the sentiments expressed by the AG in highlighting the positive correlation between the tone of leadership and audit outcomes. Stable leadership in key positions like that of the Municipal Manager, the Chief Financial Officer is key in attaining positive audit outcomes. Among the actions required is for Councils to employ ethical people who are technically skilled in the duties they are required to perform. Mayors and Speakers must always act in the public interest and hold the administration accountable and enforce consequence management without fear or favour.

SALGA has undertaken an analysis of 81 municipalities that consistently achieved unqualified audit and found that these municipalities accounts for over 60% of municipal budgets. The analysis also looked into the grant performance by these municipalities ranging from equitable share, municipal infrastructure grants and Urban Settlement Development Grant it was found that on average these municipalities have demonstrated strong ability to perform on conditional grants at over 90%. There is therefore a positive correlation between good governance and the ability to spend on conditional grants and consequently service delivery.

Municipalities under S139 Administration

There is a need to fundamentally rethink the approach to section 139 interventions to yield desired results. In the current audit cycle 28 municipalities are under s139 administration. Only 3 municipalities attained unqualified audits, 2 municipalities have not submitted financial statements for audit and the 24 municipalities had qualified or worse audit outcomes.

There is a need to rethink and an urgent fundamental overhaul of the approach to s154 support and s139 interventions to yield the desired results. This underscores SALGA's call for urgency in processing of the Intervention Bill currently been considered in Parliament so that there is more streamlined and predictable approach to interventions.



Consumer debt throttles municipalities

Currently municipalities are owed R255 billion as 31 March 2022, for services consumed. This state of affairs affects the ability of municipalities to honour obligations towards creditors like Eskom and Water Boards. SALGA reiterates its call made at the its National Conference held on 2 to 4 March 202 for municipalities to be consistent in implementing their credit control policies to tackle the increasing debtors' book and a call to municipal consumers to honour their municipal bills.

The AG further states that 64% of the outstanding debt is irrecoverable and at 69 municipalities over 80% is irrecoverable. Municipal customers do not pay their bills timeously with average debt collection period of 213 days adversely impacting the financial health of municipalities. SALGA calls for the decisive action to restructure the municipal debtors and enactment of the National Write Off Bill to extinguish the irrecoverable portion of the debtors' book.

This state of affairs is amidst the challenges of unemployment, poverty and inequality as well as covid-19 economic meltdown are amongst factors that exacerbate the potential collapse of municipalities.

Local Government Fiscal Framework

The country's fiscal framework perpetuates the structural factors that continue to impede or weaken municipalities in realising their constitutional mandate. For instance, the chronic underfunding of municipalities where they are allocated a meagre 9.1% of nationally raised revenue meanwhile they are assigned responsibilities and mandates of approximately 46% of the functions outlined in the Constitution. In addition, municipalities are performing numerous unfunded mandates for which they are not receiving support from other spheres of government.



Organised Local government response to audit outcomes

SALGA through its 2021/22 Integrated Councillor Induction Program (ICIP) in collaboration with National Treasury and the National Department of Cooperative Governance and Traditional Affairs (CoGTA) embarked on a programme to capacitate the incoming councillors who serve in Municipal Public Accounts Committees (MPACs) with their roles and responsibilities. The organisation will continue to build capacity of councillors to enable the oversight committees to ensure that they can better execute their function of oversight.

In collaboration with stakeholders, the incoming councillors appointed to serve on Finance Portfolio Committees at municipalities were introduced to budgeting and financial management; tax compliance; municipal Standard Chart of Accounts (mSCOA); and Unauthorised, Irregular, Fruitless and Wasteful (UIF&W) expenditure reduction strategies. Through the ICIP, a total of 999 councillors were trained on both the MPAC and Finance Portfolio committee capacity building initiatives.

The organisation together with the AGSA developed a records management toolkit which was rolled-out to municipalities. Furthermore, a good practice guide on municipal financial management was developed and rolled-out to municipalities.

As part of SALGA's municipal audit support programme (MASP) the 25 municipalities that received a disclaimer of audit opinion and disclaimers for the 2020/21 financial year shall be prioritise for dedicated support. For example, in relation to direct support to municipalities as part of MASP support was provided to Emfuleni local municipality in the area of risk management, revenue and debt management and the municipality improved its audit outcome from a qualified audit opinion to a financially unqualified audit opinion. Thembisile Hani local municipality was provided support in the area of revenue collection, credit and debtors' management, reconciliations, asset management the municipality has improved its audit outcome from a qualified audit opinion to an unqualified audit opinion. Similarly, Dr Pixley ka Isaka Seme municipality was supported in the area of revenue collection, credit and debtors' management,



the municipality improved its audit outcome from a disclaimer of audit opinion to a qualified audit opinion.

In line with the theme of the AG's report which requires capable leaders to demonstrate change by strengthening transparency and accountability, the Council of Mayors to be convened in October 2022 shall focus on audit outcomes and deliberate on measures to address the shortcomings raised by the audit report.

SALGA NEC at its virtual sitting on 14 June 2022 considered the report by the AG and resolved amongst others, to urge 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 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 AGSA's continued efforts of highlighting the state of local government in managing the public purse as per MFMA prescripts and recommending improvements.

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Issued by: South African Local Government Association

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