

CIGFARO 2019 Annual Conference

Summaries of conference
presentations



S1: Welcoming Address by the Executive Mayor



Presenter: Deputy Mayor, eThekweni Municipality: Ms. Belinda Francois Scott

The past president of CIGFARO and current CFO of eThekweni Municipality, Mr. Krish Kumar welcomed all delegates to the 90th Annual 2019 CIGFARO conference.

He highlighted the following:

- The theme for the current conference is Transformational leadership.
- The conference allows for good learning and networking.

In times of low economic growth in South Africa, Transformational leadership is required for some of the following reasons:

- To turnaround the economy.
- To focus on uplifting communities.

Cheryl Reddy, Programme Director, welcomed the Deputy Mayor, Belinda Francois Scott to the stage who thanked and welcomed all delegates. She went on to highlight the following:

S1: Welcoming Address by the Executive Mayor



Continued..

- Maintaining high standards within the public sector to collectively enhance public finances.
- Municipal servants have an obligation to the broader community.
- The political leadership of the City and the governing party has taken a strong stance against corruption and bad governance.
- There should be focus on consequence management.
- There should be an aim to reduce unemployment and poverty and uplift the community.
- The focus should be driven towards looking to public finance officers to drive change and deliver on services.
- Those in governance need to fully embrace MFMA circular 82 regarding cost containment measures.
- Key Spend is being monitored closely by the City.
- All officials need to buy into the principle of serving all.
- In terms of the smart cities initiative, there is a need to innovate and optimize technology.
- There should be a need to drive real and meaningful change and not merely balancing the budget.
- Organisations should look at benchmarking with a view to streamlining processes and adding value.
- Spending patterns must be closely monitored.
- Top 10 items of expenditure must be reviewed every month.
- Procurement spend must be monitored whilst still delivering services.
- The right people in the right positions is key to execute the strategic plan.
- There should be a focus to increase productivity and transfer of skills.
- Performance management contracts should be reviewed.
- The city has taken a zero tolerance to fraud and corruption.
- The approach should be to clean out existing systems first, before millions are forked out on new systems and only sustainable technology should be funded.

The Deputy Mayor concluded by indicating we need strong leaders to lead the way and thanked all once more.

S2: CIGFARO presidential address and opening of the conference



Presenter: CIGFARO President: Mr. Peet Du Plessis.

The CIGFARO President welcomed the delegates and set the tone for the conference.

Mr Du Plessis highlighted the following points:

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| <ul style="list-style-type: none">• “Our primary aim is to serve the people of the country. That’s why we are called public servants”.• The most prominent issue in government is the “People”.• This years theme “Transformational Leadership in the Public Sector”, is about the people in government• Leadership is needed to steer SA to be successful and to ensure that it becomes an economic force on the African Continent and in the World. | <ul style="list-style-type: none">• The controls, processes, policies and legislation are considered to be some of the best in the world, however in reviewing our audit reports we still sit with irregular expenditure as well as fraud and corruption, we can then conclude that “People” are considered to be the problem. |
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S2: CIGFARO presidential address and opening of the conference



Continued..

Mr Du Plessis stated that the key characteristics of Transformational Leadership are to:

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| <ul style="list-style-type: none">• Keep one's ego in check – placing the organization before oneself, to lead with humility to be humble and confident. <i>Reference to the teachings of Gandhi and Mother Theresa.</i>• Management yourself. Transformational leaders are internally motivated and their values are in line with that of the organization.• Inspire employees to go the extra mile, treat employees as valued individuals and know that the success of the organization is dependent on the entire team. | <ul style="list-style-type: none">• Make a deliberate effort to illicit new ideas from the team and shares collective perceptions of the entire organization.• Be resilient to change and seek creative ways to respond to the demands of the organization. They are also considered to be proactive in their approach. |
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Mr Du Plessis stated that research suggests that Transformational Leadership has a direct effect on performance and productivity at all levels of an organization and one of the best examples of transformational leadership is Mr. Nelson Mandela.

S2: CIGFARO presidential address and opening of the conference



Continued..

Mr Du Plessis pointed out that over the past decade, service delivery protests have been characterised by mass protest and violent confrontations – the main reasons being dissatisfaction in the delivery of municipal services, the unemployment rate, poverty, poor infrastructure, lack of formal housing, lack of responsiveness of municipalities and fraud and corruption in government.

He stated that to address these issues, we need to build an inclusive economy, we should engage our educational institutions about development of transformational leaders and that government officials themselves need to be transformational leaders and offer speedy solutions to the socio economic conditions that prevail in their communities.

Mr Du Plessis concluded his address by stating that the aim of the conference is to encourage all delegates to learn more and to implement what they have learnt to become Transformational Leaders and to work diligently to achieve a better quality of life for all.

S3: Word of support



Presenter: Alex Mabunda, Group Chief Advisor, Ntiyiso Consulting

Alex Mabunda stated that Ntiyiso Consulting is the platinum sponsor of CIGFARO for the years 2019 to 2021. Ntiyiso Consulting's involvement with CIGFARO dates back to the year 2012. Ntiyiso Consulting's first exhibition at CIGFARO was in 2016 and in 2018 Ntiyiso Consulting became a gold sponsor.

Ntiyiso Consulting is committed to supporting the local government and broader government as a whole. It believes that, a well functioning local government system is a necessary condition for any economic strategy to succeed. Ntiyiso Consulting's purpose is to empower institutions that enable Africa's development. Alex Mabunda also stated that, as Ntiyiso Consulting they are more than prepared to partner with government to provide content to the District Planning Model as presented by the Minister of COGTA Dr. Nkosazana Dlamini-Zuma.

Alex Mabunda encouraged every attendee to participate in all the CIGFARO plenaries and sessions.

S4: Keynote address: Transformational leadership...



Presenter: Minister, CoGTA: Dr Nkosazana Dlamini-Zuma

The Minister stated that as a country we are celebrating 25 years of democracy and it's a good time to reflect what we have achieved and where we have come from.

Dr. Dlamini-Zuma highlighted the following:

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| <ul style="list-style-type: none">• The government in South Africa comprises of 3 spheres (Local, Provincial and National government) which are inter-related and those spheres should co-operate in good faith and trust.• The local sphere of government is experienced by every citizen in the country. The local sphere must encourage and be involved in economic activities such as creating jobs for businesses and citizens.• Not all is well in government because the 3 spheres needs to work together and support each other. National and Provincial government should support and strengthen the municipalities. | <ul style="list-style-type: none">• A priority for government over the following years is to drive a District management model for local government.• The District model in South Africa looks at the 44 Districts and 8 metros across the country.• We need to break the silo ways of working and deliver integrated services at a district and local level. We need to work in a coherent manor.• Every district must be profiled and all challenges and opportunities must be well understood.• Issues of resources and how they are utilised must be addressed to ensure funds are being put to good use |
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S4: Keynote address: Transformational leadership...



Continued..

Dr Zuma highlighted the following characteristics of good leadership:

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| <ul style="list-style-type: none">• Be a leader with vision that caters for the short medium and long term• Be Compassionate to people• Strive to be recognised for a job well done• Have a team of professionals who are capable• Embrace technology• Go the extra mile for your team and your organisation• Be prudent with resources and be results orientated and corruption free | <ul style="list-style-type: none">• Have integrity• Inspire your teammates and our people• Manage your ego• Create discipline in the organisation in everything that you do• Know when something doesn't work. Don't do the same thing and expect different results.• Work together and embrace good ideas |
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We must all have the strength and the passion to reach for the stars! Don't settle for less than what you are capable of. Work together to implement and improve how government works!

S5: Long term recovery plan to achieve financial sustainability



Presenter: Dr Krish Kumar

Dr. Kumar commenced his presentation by discussing the issue around what can be done to ensure the fiscal sustainability and resilience of government?

<p>Getting Back to Basics</p> <ul style="list-style-type: none">● Obtain an unqualified/clean audit report● Achieve an investment grade credit rating● Budget should be sustainable, relevant and strategically aligned● Achieve a collection rate of 95%● Ensure daily cash flow management with strong liquidity and cash on hand of 60 to 90 days● Low gearing – well below the National Treasury Benchmark of 45%● Eliminate irregular, unauthorized, fruitless and wasteful expenditure● Zero tolerance to fraud, corruption and non-compliance	<p>Expenditure</p> <ul style="list-style-type: none">● Reduce expenditure● Take cost containment seriously● Improve productivity● ROI or cost benefit analysis must be demonstrated before a project is approved <p>Tariffs and Charges</p> <ul style="list-style-type: none">● Must be cost reflective● Must be inflation linked● Cross subsidization is not sustainable
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S5: Long term recovery plan to achieve financial sustainability



Continued..

Economic Development

- Increase employment and the tax base
- Improve education outcomes and skills development
- Implementing growth enhancing economic reform
- Investing in municipal social infrastructure improvement

State Owned Enterprises

- Eskom poses the biggest risk due to financial problems
- Load shedding and the bailout of SOE's are having a huge impact on the economy
- Boards must be increasingly accountable for the financial and operational performance as well as repositioning of SOE's

SARS

- According to Minister Gordhan – the main issue is a “massive failure of governance and integrity”
- To address this, amendments to the SARS Act have been proposed
- Maximize tax collections

Debt and Fiscal Resilience and Sustainability

- Debt service costs have increased and consistent poor economic growth exposes us to the risk of re-pricing our debt and the cost of debt becoming unaffordable
- SA government is borrowing more than R5 billion a day. This means that the government is over indebted (Stanlib Economic Outlook)
- Efficiency of spending and procurement are key areas that need to be looked at

S5: Long term recovery plan to achieve financial sustainability



Continued..

Fraud and Corruption

- State capture amounted to R1.5 trillion over the past 4 years and has wiped out a third of South Africa's GDP
- There needs to be a zero tolerance approach

Climate Change

- Resulting in more regular natural disasters
- Insurance costs are also rising due to increased risk
- We need to commit to the Paris Agreement targets and to zero carbon emissions

Conclusion

- We need to take decisive steps to ensure higher economic growth and stabilize our fiscal affairs
- Debt needs to be stabilized
- The effectiveness and efficiency of spend on education and health needs to be reviewed
- We need to get the basics right
- Fraud corruption and state capture need to be eliminated
- Bulk tariff increases must be below inflation

It's about being resilient – “tough times don't last but tough people do”

S6: Financial Sustainability and fiscal resilience across government



Presenter: Jacob Twala - Economic Advisor for KZN Provincial Treasury

Mr Twala highlighted that SA is currently in a dire economic situation, resulting in a threat by Moody's to downgrade SA. There's hope that the upcoming budget statement will help the situation. A number of investors in SA bonds are leaving SA which implies our revenue is shrinking. Data from StatsSA indicates that a significant number of companies are closing down contributing to the high unemployment rate and less revenue collected by government. The current budget being prepared is not going to be 'good' therefore we have to do our best to maximise what we have.

Sweden was in a financial crisis:

- debt 70% of GDP
- Government took action to address the crisis – by not going ahead with housing subsidy project
- debt decreased to 30%

Inflation is one of the biggest problems which SA deals with. In 2008, our debt was 28% of national GDP. Our current debt is 56% of GDP, meaning it has doubled in approximately 10 years and that has had an impact on service delivery.

SA must learn from other countries, sometimes we have to make harsh and serious decisions, as it can help us get back on track.

Government is not like the private sector, they can't just close down but need to reduce expenditure.

There is a need to do more with the little that we have.

S6: Financial Sustainability and fiscal resilience across government



Presenter: Musa Makhunga - Founding Director of HR Matters

2 Global level issues – **climate change and inequality**

Climate Change – Issued policy Paper by IMF (June 2019)- Building resilience in developing countries vulnerable to large scale disasters.

Durban has experienced this therefore something needs to be done about climate change.

The Paper looks at a 3 pillar strategy:

1. Enhance structural resilience which requires investment in infrastructure to limit the impact of disasters that may happen. There is a need to leverage partnership between public and private sector when investing in infrastructure development.
2. Building financial resistance/resilience – involves creating fiscal buffers and using prearranged financial instruments to protect fiscal sustainability and managing of cost recovery. If SMEs are affected by any form of disaster, about 70% are unable to recover which will affect revenue collection.
3. Post disaster resilience –including the social aspect, deals with how to help people after the disaster has occurred, which requires contingency planning and related investments.

These are some of the things that are required to be in place to ensure financial sustainability and fiscal resilience.

S6: Financial Sustainability and fiscal resilience across government



Continued..

PFMA is central to fiscal management in SA and they refer to a set of standards, systems and processes that are used by government to mobilise revenue, allocate public funds, spend allocated funds, control over-expenditure and account for these funds. Questions regarding PFMA – How can we still lose R1.5 trillion over 4 years? Is the PFMA delivering if corruption is still occurring?

Policies needed are in place but we are still suffering from corruption – why is this happening?

With everything in place, financial sustainability and fiscal resilience still depends on the general behavior of government, which is related work ethics – everyone associated with government needs to be available and reliable – if people are conscientious to their duty to the state and by doing work in a way that more people/citizens want to do business with the government, this will ensure financial sustainability and fiscal resilience.

All government workers need to transform their behaviour.

S7: An integrative and multidisciplinary planning and...



This session was cancelled

N/A

S8: What does AG expect National, Provincial and Local...



Panel members: Jan Hendrik Van Schalkwyk - AGSA; Allister Winsley - DWS; Tondy Nkuna - Ntiyiso Consulting

Presenter: Jan Hendrik Van Schalkwyk

Mr Van Schalkwyk noted that local government is in a prime position to address the fiscal needs of the South African economy and achievement of the audit outcomes are one of the leading indicators.

The key challenges currently being experienced around governance center around a lack of accountability.

We need to reinforce the critical role of the accounting officers - i.e. re-aligning and empowering the accounting officers to do the best possible job.

Basic disciplines of financial and performance reporting that needs to be adhered to.

Ethics - Am I doing the right thing? Think before you act. Are you using this resource for the benefit of the citizen?

Accountability - trusting that the use of funds will match our expectation of the use thereof.

S8: What does AG expect National, Provincial and Local...



Continued..

Reinforcing Accountability – PAA enhancements

- Refer material irregularities to relevant public bodies for further investigation.
- Take binding remedial action – Action or failure to implement the AG’s recommendation for material irregularities.
- Issue a certificate of debt – for failure to implement the remedial action if financial loss was involved.

The aim is to fix accountability!

S8: What does AG expect National, Provincial and Local...



Continued..

Presenter: Allister Winsley

- The department has been extremely concerned about the state of water service authorities in South Africa.
- There are 44 water service authorities in comparison to 257 local municipalities.
- The department has been monitoring business health of municipalities for almost a decade, using the following tool: *“the municipal strategic self assessment process”* - self help tool for municipalities. The responses to the questionnaire assist in identifying how vulnerable the municipality is when it comes to water and sanitation service delivery aspect.

Every water service authority is classified in terms of their vulnerability. The classifications are presented below:

- Extremely Vulnerable - 50% of water service authorities
- Highly Vulnerable - 38% of water service authorities
- Moderately Vulnerable - 16% of water service authorities
- Low Vulnerability - 1 % of water service authorities

The above scenario has not changed over the last 10 years - In fact: it has gotten worse.

S8: What does AG expect National, Provincial and Local...



Continued..

Key Issues

- 64% of water service authorities do not have a council approved water services development plan/ plans are not approved.
- 58% to 60% of water service authorities do not have a water conservation water demand management strategy which includes a monthly water balance.
- 42% of water authorities indicate that their non-revenue water component is around 40%.
- 58% of water authorities indicate that the infrastructure repairs and maintenance costs are less than benchmark of operating costs - ie. failure to maintain the infrastructure.
- More than 54% of water authorities are totally reliant on grant funding for more than 90% of their capital expenditure.

Most extreme vulnerabilities are centered around:

- Financial Asset Management
- Revenue Collection
- Infrastructure Asset Management
- Operation and Maintenance of Assets
- Financial Management
- Water Conservation and Demand Management.

S8: What does AG expect National, Provincial and Local...



Continued..

Presenter: Tondy Nkuna

Ms Nkuna highlighted the following Issues/Challenges related to municipal finance management:

- Despite good governance structures being in place – the AFS preparation only starts at the end of the financial year and not throughout the year.
- Management don't get it right because – they do not take responsibility and assumes that consultants will assist at an operational level.
- Consultants are unable to transfer skills as positions are vacant for the entire duration of the consultants contract.
- Predominant paragraphs within the audit report are around: revenue, assets and SCM as well as performance management.
- Municipalities should not wait for the AGSA – but should utilize Internal Audit.
- Lack of commitment by municipal officials during the audit – Lack of key resources.
- Performance Management should not be left as a compliance issue alone.
- Municipalities fail to utilize tools provided by the consultants.

S9: Panel discussion: Assistance available to improving audit...



Facilitator: Buhle Ngqabayi

Presenter: Buhle Ngqabayi - SALGA

Mr Ngqabayi commenced the session by highlighting that the role of SALGA is to support municipalities with access to knowledge resources and to improve their audit Outcomes. The Municipal Audit Support Programme (MASP) is built on 4 pillars i.e. Leadership, Governance, Financial Management and information. The bottom four provinces in relation to audit outcomes in the 2017/ 2018 financial year were North West, Free State, Northern Cape and Limpopo.

The MASP delivery model focuses on:

- Hands on support;
- Capacity building; and
- Advocacy and lobbying.

Support programmes are similar in relation to the key activities and how they are rolled out at the municipalities.

S9: Panel discussion: Assistance available to improving audit...



Continued..

Presenter: Xolani Ndlovana - Gauteng Provincial Treasury

Gauteng as a province managed to maintain an unqualified audit opinion across the respective municipalities within its boundaries.

Part of the support provided by the Provincial Treasury is to help the regional municipalities to comply with accounting and regulatory requirements. Areas for improvement include Internal Audit and Risk Management, specifically in their role to enhance municipal audit outcomes.

Presenter: Nelisiwe Ntlhola - Gauteng department of local government

Municipalities are putting effort into maintaining the unqualified audit. Growing UIFW is of great concern and the province strategizing to find ways to assist municipalities in this area. The department does quarterly financials and interim audits whereby all supporting documentation is required. Rigorous training is another area whereby the department puts a lot of emphasis on in relation to maintaining the unqualified audit.

S9: Panel discussion: Assistance available to improving audit...



Continued..

Presenter: Bongzi Kunene - Standard Bank

Ms. Kunene stated that as an end user of the annual financial statements, bankers note that:

- Adverse audit findings speak to the people and process issues. It is paramount that the people working in financial management must have the right capability to perform their tasks.
- Investors make decisions about local government credit quality based on the governance assessment by the Auditor General as well as input from Ratings Agencies.
- African Development Bank has lots of expertise and you can engage them through National Treasury for assistance.
- Issues raised speak to the systemic issues of fraud and mal-use of resources. Issues lie with all of us and not just government.

S10: Transformational leadership role at all levels



This session was cancelled

N/A

Presenter: Kimi Makwetu - Auditor General

Mr. Makwetu opened his presentation by highlighting that in 2014, when the South African AG office developed its strategic plan, the following aspirations/commitments were noted:

- As independent auditors in government we could influence the situation that will trigger robust financial performance and management systems.
- Sound financial systems should be the order of the day - not an impossible expectation.
- When raising recommendations, that institutions realise the real need for them to implement these recommendations.
- To be part of a system that reduces, if not eliminates, irregular and fruitless & wasteful expenditure.
- Oversight and accountability - important instrument in government, that those that are charged with governance, should put themselves in a position where they are able to receive accurate and empowering financial and performance information in order to make decisions.
- Commitment to ethical behaviours.

Scrutiny over the use of the National Revenue Funds allocated to various spheres of government. Handling of public finance has many related risks to it - “other people’s money.”

- The agency (users of other people’s money) related relationship is troublesome - lack of transparency with respect to the use of the funds.
- Agents are entrusted in carrying out certain obligations on behalf of the principal.
- Financial Statements, are an instrument that is used to communicate the activities related to and the application of principal funds.

Continued..

What is going on in the fiscal environment?

- We are confronted by sentiments of limited generation of growth in the economy.
- The consequent impact on government revenues - raising of money through taxes and other income generating opportunities that presents itself as a result of the assets that government controls.

Limited opportunities going into the next 3 to 5 years for further transfers in the system

- Purse has dried up.
- Assets not used as required.
- SAA, ESKOM – we paid the bill but received no economic benefit.
- Financing past expenditure with current resources.
- Assets not generating what was expected.
- We don't have the right people with requisite experience and competencies to sweat these assets to the benefit of value generation.

Continued..

Where should leadership look?

- Change orientation from investigation to investing efforts in preventative controls - increased level of scrutiny through preventative controls.
- Implementing agents i.e. use of third party service providers - be controlled from a preventative point of view.
- To be mindful of Sections 38, 62 and 65 of the PFMA, etc.

Reinforcing Accountability – Public Audit Amendment Act (PAA) enhancements

Effective: 01 April 2020 - Auditors should be mindful of issues that meet the material irregularities definition:

- Any non-compliance with, or contravention of legislation, fraud, theft or a breach of a fiduciary duty.
- Auditors have the powers to assess the findings after 3 months. Auditors have the power to report the material irregularities.
- A material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.
- Refer material irregularities - to relevant public bodies for further investigation.
- Take binding remedial action – Action or failure to implement the AG’s recommendation for material irregularities.
- Issue a certificate of debt – for failure to implement the remedial action action if financial loss was involved.

S12: 4th Industrial Revolution



Presenter: Andisa Ramavhunga from Ntiyiso consulting - Group Chief advisor

Mr Ramavhunga joked about the 4th Industrial revolution (4IR or 4th IR) being a fluffy subject but continued to say that the 4th IR needs to be well understood and can be linked to Transformational leadership. The 4th IR is nothing new and people are innovating all the time. The journey started in the 1700's with the 1st steam engine (1st IR) and has evolved to the formation of electricity in the 1800's (2nd IR). In the 1900's computers were introduced and allowed us to produce information to start making better decisions (3rd IR). Today, with the internet and connected systems we can connect the entire digital ecosystem. Tools are used to analyse the future technologies and is fostering conversations to start engaging and brings together the human and the digital worlds. Robotics are now being used in various technologies and is even able to build houses. Blockchain creates closed trusted communities. AI is driven by big data to be able to predict the future. An Internet of Things (IoT) example is the use of smart meters where we can now fulfill services without deploying massive forces of people.

One needs to take advantage of the technologies to improve the way we work. Business Models are evolving and innovating. Examples like Airbnb and Uber are “asset-less” and are able to provide services to humans through digital means and by connecting all stakeholders digitally in the value chain. In Rwandan healthcare sector, “Babyl” uses the latest technology to connect people to qualified doctors using a mobile phone application. Driven by an AI engine, people can now be diagnosed based on the information provided through the app.

Tech adoption is evolving rapidly. Changing business models is an imperative to ensure relevance in today's world. There are good and bad aspects to 4IR. Good such as connecting people and providing connected services. Bad such as protecting personal privacy info. and being affected by cybercrime. Transformational leadership means that it's time to be empowering and bring about diversity amongst our people. Scenario based planning is key and can be used to plan for a variety of outcomes to determine likely scenarios. Communication and collaboration are key in today's changing world and has to be a two-way street. One needs to be creative in the way they think and empathise with your clients and communities.

S13: Ethics for all - The power of NO!



Presenter: Roger Latchman - Maruti Global

Transformational leadership is a leadership style which leaders are encouraged to innovate and resolve challenges that will grow the organisation and it's ethics . Roger emphasised on the sources of POWER, which are:

1. Legitimate,
2. Reward,
3. Expert,
4. Referent,
5. Coercive.

Roger highlighted the importance of values within organisations. He stated that values define how one lives their lives. Each individual is responsible to develop their own values. Ethics mainly involves the decisions that the individuals make: Right decision versus wrong decisions. Roger advised that the delegates needs to listen to their conscious and ensure that their conscious guides their day-to-day actions. Organisations face challenges of creating organisational climate. Past research has established that there is a strong relationship between ethical climate and organisational climate. The government entities has to promote and adhere to their Code of ethics. Roger provided an example of IBM policies which state that no employee of IBM is allowed to receive any money from customers and it's supplier's. Should the IBM employee be found in contravention of this policy, then the punishment is tantamount to immediate expulsion. Roger also encouraged active supervision by board members and executives in the government sector and municipalities. The Supervisors and managers have a responsibility to pass on the message of ethics to the subordinates. Constant training of values to staff members is always encouraged. Business ethics bulletin is recommended. The policies on non-retaliation is encouraged. Roger concluded by stating that as South Africans, we have the power to enhance our organisations and families by instilling proper ethics.

S14: A risk-based audit plan ...



Presenter: Bongani Mbewu (Director Ngubane and Co.)

Introduction

<p>Both provincial and local government are faced with challenges which amongst others include:</p> <ul style="list-style-type: none">• Inadequate skills on planning, budgeting, public financial management, including expenditure management• Poor interface between financial and non-financial information• Inability to manage cash flow significantly• Inadequate skills on credit and debt management, including basic financial accounting and record keeping in most instances• Lack of systems to manage audit queries and recommendations, both internal and external auditing.	<p>Best and Worst:</p> <p>18 out of 257 municipalities in SA received a clean audit - this compares poorly to the 33 clean audits received last year.</p> <p>Root Causes:</p> <p>AGSA identified 5 main causes for the poor performance of many municipalities in this years audits. These include:</p> <ul style="list-style-type: none">• Blatant disregard for controls, compliance and AGSA recommendations• A capacity gap in administration• Vacancies and instability.• Unethical behaviour in administration and by political leaders• A culture of no consequences created by leadership inaction	<p>Key Performance Areas:</p> <ul style="list-style-type: none">• Spatial Rationale• Basic service delivery and infrastructure development• Local economic development• Financial viability and management• Good governance and public participation.• Municipal transformation and organisational development
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S14: A risk-based audit plan ...



Continued..

International Professional Practices Framework

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

1110 - Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit function.

Interpretation

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Improving the internal audit charter
- Approving the risk- based internal audit plan.

S14: A risk-based audit plan...



Continued..

Legislative Governance Requirements (MFMA and PFMA)

<p>Section 165 of the MFMA requires that “ Internal audit unit of a municipality or municipal entity must -</p> <ul style="list-style-type: none">• Prepare a risk based audit plan and internal audit program for each financial year.• Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to risk and risk management.	<p>Section 38/51 of the PFMA requires the following, inter alia, in relation to general responsibilities of accounting officers/authorities.</p> <p>An accounting officer/authority must ensure that public organisations have and maintain:</p> <ul style="list-style-type: none">• An effective, efficient and transparent systems of financial and risk management and internal control.• A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of section 76 and 77	<p>Treasury regulations 3 and 27 requires that an an internal audit function must prepare, in consultation with and for approval by the audit committee.</p> <ul style="list-style-type: none">• A rolling 3 year strategic internal audit plan based on its assessment of key areas of risk for the institution, having regard to its current operations, those proposed in the strategic plan and its risk management strategy.• An annual internal audit plan for the first year of the rolling three year strategic internal audit plan.• Plans indicating the proposed scope of each audit in the annual internal audit plan
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S14: A risk-based audit plan...



Continued..

South Africa's Economic Outlook

- The odds that the South African Economy could experience a technical recession in 2019 are high, according to Moodys.
- The ratings agency released its Global Macro Outlook. The quarterly Global Macro Outlook presents its latest growth forecasts and assess the impact of the main trends driving the world economy.
- South Africa faces complex economic problems. The task of reviving the economy will be challenging and reforms will take time to show effects.

Internal Audit Plans

- To be prepared and aligned to the risk register
- To be prepared in line with requirements of the legislative and IPPF requirements.
- To be robustly reviewed before approval
- To be prepared, reviewed and approved before the beginning of the financial year e.g. April/May
- To be resourced as appropriate.

S14: A risk-based audit plan...



Continued..

MFMA and PFMA General Responsibilities	Combined Assurance Model	Risk Management Maturity
<ul style="list-style-type: none">• Effective, efficient and transparent systems of financial and risk management and internal control.• A system of internal audit under the control and direction of an audit committee.• Fair, equitable, transparent, competitive and cost effective procurement system• Effective, efficient, transparent systems of financial and risk management and internal control.• Effective, efficient, economical and transparent use of resources• Establish internal audit and audit committees• Develop risk based internal audit plans.	<ul style="list-style-type: none">• Coordinate efforts to ensure an effective control environment• Management - [Risk Management - Internal Audit] - External Audit.• Effectiveness of model highly depends on its strength• Mostly suffers from silo syndrome• Existing assurance elements but most often not entirely integrated.• Risk-based auditing success depends also on strong effective combined assurance model.	<p>Enterprise risk management framework:</p> <ul style="list-style-type: none">• Policy Framework• Implement Strategy• Well defined risk assessment methodology and risk appetite• Risk management structures• Delegated responsibilities and strategic allocation of resources

S14: A risk-based audit plan...



Continued..

Risk Based Auditing - The Ideal

- Quality risk assessment reports - Important component of risk based auditing.
- Inclusive risk - based audit plans - broad range of key risks potentially impacting the organisation.
- Audit - Effective Strategic Business Partner
- Value Added - Financial Stability - Improved Service Delivery Performance - Sustainability.

Consequences

- Financial health decline - 23% of state institutions in very poor position - August figure 2017-2018
- Non-achievements of performance targets
- Slow service delivery targets
- Financial dependency
- Threatened Sustainability
- Unsatisfied Customer

S15: Delivering on a constitutional right by keeping water affordable.



Presenter: Molebe Methebe - Nedbank - Water and Energy Portfolio

R900 billion invested in water infrastructure, for the next 10 years. Nedbank has invested R40 Billion in this programme so far. Struggling with water scarcity as well as quality, flooding and increasing tariffs. In addition, currently have an aging infrastructure and struggling to keep up with rapidly increasing urban populations. Up to 40% is lost due to infrastructure failures. Sanitation is one of the biggest problems in the country, as there are high levels of domestic and industrial waste. Water needs to be kept affordable which means balancing supply and demand, this also affects tariffs. Need to look at other sources as supply is threatened due to climate change. Some alternatives include reuse and desalination. Need to attend to non-revenue water use. Unlike electricity, there's no alternative for water. Water crisis is an industry, public and private sector problem.

Presenter: Santie Naude - CFO from Overstrand Municipality

Emphasised that even though water is a basic right, it still need to be kept affordable especially in times of scarcity and economic hardship. All municipalities should have a risk register for the provision of water services. Municipalities are not adhering to cost effective tariffs. Demand management needs to monitor the growth of an area. Accurate tariffs will only be possible with the availability of accurate data. Accurate meter readings are needed to render accurate bills for citizens. Can't allow people to pay the same rate if consumption is in excess compared to those below the threshold. Need to track leakages, as municipalities can't collect revenue for this and income will have to be raised for this consumption. Consumption patterns are declining which are impacting income levels, as people are becoming more 'water wise'. Forward planning needs to be done. It is imperative to communicate important notices to communities as they are the ones being directly affected.

S15: Delivering on a constitutional right by keeping water affordable.



Presenter: Simon Scruton - Deputy Head of Water and Sanitation from Ethekwini

Ethekwini is the 3rd largest metro and biggest business harbour.

Ethekwini has a budget of R50bn for Capital Projects and R1.4bn per annum is spend on water and sanitation projects. Water is an economic enabler.

Simon was part of the initiation of the water demand programme in Ethekwini about 10 years ago. He also emphasised how important it is for keeping water (and other basic needs) affordable, therefore planning needs to be done ahead as it is difficult to operate in crisis mode. As alternatives, need to look at water reuse and desalination, but want to explore the use of surface water first. Currently seeing increasing tariffs above inflation. A point that has come up in many sessions throughout this conference and was also mentioned by Simon is that more needs to be done with less and be more efficient, with regards to water - need to deal with as many leakages as possible. Another point that was repeated by many others is that consequence management needs to be improved. Municipalities want to make people pay for their bills so they need to market themselves and ensure high quality service delivery so citizens realise the value delivered to them. Municipalities also need to make it easy for people to be compliant.

S16: Data cleansing and protection as a measure to enhance...



Presenter: Empril Mathew

Empril provided context around the need for data cleansing to improve the accuracy and reliability of billing information for municipalities

Empril took the audience through his presentation which highlighted the following key points:

- | | |
|--|--|
| <ul style="list-style-type: none">● Revenue model developed by Ntiyiso● The steps associated with data cleansing● Importance of clean data<ul style="list-style-type: none">○ Better data for decision making● The impact of right data on municipal revenue<ul style="list-style-type: none">○ Better management of municipal inventories and assets○ Enhanced billing○ Enhanced collections● The process commences with a data quality baseline then understand the challenges that gave rise to the identified issues and leakages;● Continuous monitoring of data quality is very important | <ul style="list-style-type: none">● A project/ data champion is important● Field work audits are trained on Ntiyiso methodology and make use of their tools including meter reading devices● Case study on smart meters highlighted that the failure of the new system is due to poor data migration and integration● Data analytics is relevant to prepare municipalities into the future, particularly relating to:<ul style="list-style-type: none">○ Smart Cities○ 4IR○ The need for a common data model○ Economic outlook |
|--|--|

Empril concluded that data cleansing supports improved customer confidence, enhanced billing and collections and reduces wasteful expenditure

S17: Government Auditing Principles that promote financial...



Presenter: Nozipho Nkomo

Key points to note: Government has to find a way to ensure that the money that is being spent is being properly spent and how can Internal Audit promote financial sustainability.

The following key points were raised:

- Primary objective of an audit is the detection and prevention of errors
- Other objectives include:
 - To examine the system of internal controls
 - To check the mathematical accuracy of accounts
 - To verify the authenticity and validity of transactions

- **Types of Audits include:**

- External
- Internal
- Forensic
- Tax
- Special
- Financial
- Statutory

S17: Government Auditing Principles that promote financial...



Continued..

- **Auditing principles include:**

- Integrity: Auditors are to maintain integrity at all times.
- Evidence based approach: All audits must be supported by valid and appropriate evidence.
- Confidentiality: Auditors to maintain confidentiality at all times
- Due professional care: Auditors to maintain due professional care.
- Independence: Auditors need to be independent from the audit they are involved in (in fact and perception).
- General Standards: Key standards should be complied with including all ethical and reporting standards.

- **Internal audit benefits include:**

- Ability to coach your team
- Personalise audit procedures
- Training meets exact needs

- **External audit benefits include:**

- Review and improve management
- Procedures reviewed against industry norm
- Independent Assessment

S17: Government Auditing Principles that promote financial...



Continued..

Key points to note: The panel discussion covered some of the following areas

- From a legislative perspective Internal audit follows the IIA and MFMA
- Internal audit **adds to financial viability** which includes the audit of the revenue cycle and expenditure management in addition to the review of quarterly financial statements
- Internal audits **add value** to organisations as internal audit executes on plans and identifies issues prior to the external audits.
- The issues that Internal audit identifies also leads to the application of consequence management
- The suggestion was posed that the AG should consider seconding trainees into the public sector for a period of time to enable them to understand the public sector prior to coming into organisations and implementing the auditing principles.
- GRAP is technical in nature and often does not provide hard and fast guidance. There is a fair level of subjectivity.

S18: Sound strategies for effective internal controls that improve..



Presenter: Ulde Shumba, Director Shumba Inc.

Providing effective leadership:

In order to improve and sustain outcomes, auditees require effective leadership setting the tone at the top that is based on a culture of honesty, ethical business practices, good governance protecting and enhancing the interests of the auditee.

The following actions must be taken to improve in terms of leadership:

- Show commitment to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery.
- Review and monitor the action plan to address all significant internal control deficiencies on a continuous basis.
- Fill all critical vacancies in finance, internal audit and other significant components within a reasonable time (3 months)

Adequate controls over financial reporting:

Management teams need to ensure that:

- Accurate financial statements and performance information are produced monthly or quarterly and supported by relevant and reliable documentation.
- Fixed asset register reflect the assets owned by the institution and agree to the financial records and financial statements.
- All reconciliations and suspense accounts are cleared and monitored on a monthly basis.
- Budget, expenditure and cash flow trends are analysed on a monthly basis.
- Performance information has a verifiable portfolio of evidence.

Audit action plans to address internal control deficiencies.

Developing, monitoring and implementing of action plans to address identified internal control deficiencies are key elements of internal controls which are the responsibility of:

- Accounting Officers
- Chief Financial Officers
- Senior Management Teams

Review and monitor compliance with legislation

- Identify applicable legislation
- Identify changes to the legislation
- Assess the requirements of legislation, and
- Implement processes to ensure and monitor compliance with legislation.

S18: Sound strategies for effective internal controls that improve..



Continued..

<p>Technology (IT)</p> <p>Security Management: It refers to the controls preventing unauthorised access to the:</p> <ul style="list-style-type: none"> • Computer software, • Computer operating system, and • Application systems that generate and prepare financial information. <p>User Access Management:</p> <p>These are measures designed by business management to:</p> <ul style="list-style-type: none"> • prevent and detect the risk of unauthorised access to, and • the creation or amendment of financial and performance information stored in the application system 	<p>IT Service Continuity:</p> <p>It enables the auditees to recover within a reasonable time:</p> <ul style="list-style-type: none"> • the critical business operations, and • application systems, <p>That would be affected by disaster or major system disruption.</p> <p>Recommendations on how to improve outcomes:</p> <p>The following focus categories/ area need to be addressed:</p> <ul style="list-style-type: none"> • Leadership • Financial and performance management • Governance 	<p>Leadership:</p> <ul style="list-style-type: none"> • Implement the required formal codes and regularly communicate their existence and continued applicability to officials. • Establish clear lines of leadership. • Take corrective disciplinary action against key officials for misconduct. • Policies and procedures should be applied fully to enable auditees to implement consequence management for officials who fail to comply with the applicable legislation, while appropriate and timely action must be taken against transgressors. • Executive authorities and accounting officers or authorities should ensure stability in key senior management positions, specifically those of accounting officers, chief financial officers and heads of SCM units.
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It should be noted the below points were reiterated from the respective speakers presentations and serves as a high level overview of the key points noted.

S18: Sound strategies for effective internal controls that improve..



Presenter: Vikash (City of eThekweni)

Internal controls revolves around managements principal objectives which is centred around effectiveness, efficiency and compliance with laws and regulations and proper financial reporting.

One should look at the risk portfolio, in an organisation if we are able to define our risk portfolio this will assist us to drive our main objectives.

Once the risks have been identified, you would then need to manage these risks.

Setting of goals and objectives is a precondition to internal controls

These goals and objectives assist in driving the strategic plan to broadly define strategic objectives.

Goals and Objectives

- Operational objectives
- Financial Reporting objectives
- Compliance objectives

City of eThekweni

- Introduced an internal control unit - currently in place for 10 years
- Supporting management
- Proactively looking at controls
- Areas covered as noted above.

Management must take an active role to ensure that internal controls are properly implemented.

S19: Minimising fraud and corruption in billing and collection..



Presenter: Sizwe Moosa with Carlo Barnaard

Sizwe started by defining fraud and corruption and looking at the relevant acts. Examples were also given, such as payments being made towards projects but no evidence of progression and this is usually due to someone abusing their power and is able to influence someone else to make these payments. The word “intentional” is something that constantly appears in these definitions therefore, careful attention needs to be paid to this when investigating such cases. After defining revenue protection, it was highlighted that minimising fraud and corruption in the billing and collection process may be considered an aspect of revenue protection.

The definition of billing and collection was outlined followed by examples that are currently occurring in municipalities:

Unauthorised/unlawful changes to the following:

Billing:

- Tariffs
- Valuation roll – someone hindering this process to be done in time or changes of property categories
- Indigent – consumers receiving improper benefits
- Write off – people being bribed to do this – resulting in loss of revenue
- Motor vehicle licenses – losing out on penalties and interest

Collection:

- Grave sites
- Traffic fines (people not paying)
- Cartel (structured companies – illegal electricity connections – but work with someone in the municipality),
- Illegal connections and reconnections,
- Licenses and permits

S19: Minimising fraud and corruption in billing and collection..



Presenter: Sizwe Moosa with Carlo Barnaard (from Munsoft)

The following sections were looked at highlighting the points stated below each section

Impact of fraud:

- Loss of revenue for municipalities
- Poor service delivery
- Service delivery protests
- Distressed

Consequence Management:

- Fines
- Imprisonment
- Officials - should be dismissed or face disciplinary actions

Controls and Standard Operating Procedures:

- Zero Tolerance Policy
- Create ethical culture
- Delegations and sub-delegations - should be aligned with system access
- Hotline
- Create awareness
- Access controls
- Cashless environments
- Drop safes
- Effective Risk Management and Internal Control Units
- Outsourcing of Internal Audit function

Carlo concluded the presentation by highlighting some of the services Munsoft can provide to municipalities such as automating processes and controls, implementing workflow driven systems based on user profiles and access, the conversion from manual to a paperless, cashless electronic environment, implementing business intelligence dashboards which will allow municipalities to act effectively and providing revenue management solutions

S19: Minimising fraud and corruption in billing and collection..



Presenter: Khanye Ngama

Bribery is starting to become a 'norm' and part of the culture where people are expecting bribes.

<p>Areas to be aware of for corruption and inconsistencies in the billing process:</p> <ul style="list-style-type: none">• Meters captured with incorrect constant - all readings are the same• Rates exemptions doesn't match the property category• Disconnected properties still have the service available• Are all charges relating to the property raised correctly and completely- rebates applied correctly?• Staff accounts in credit• Rates clearances issued without collecting revenues due• Changes in property category or market value resulting in adjustments	<p>What can municipalities do?</p> <ul style="list-style-type: none">• Constantly review internal controls• Training - Standard Operating Procedures• Adherence to policies and delegations• Change system reporting from transactional to exceptional reports for senior management• Segregation of duties• Rotation of staff in critical positions• Completeness of revenue processes• Enforce consequence management - need to make people accountable• Criminal charges	<p>Other points that officials need to pay attention to:</p> <ul style="list-style-type: none">• Should also pay attention to staff accounts with big payments for money laundering• Monitor unauthorized write-offs• Incorrect revenue clearance figures• Refunds being processed to incorrect recipients• Changing bank details - and try to minimise this occurrence• Rebates - those may not meet the qualifying criteria are still receiving rebates
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Officials need to be proactive, constantly trained and update policies regularly.

S19: Minimising fraud and corruption in billing and collection..



Presenter: Thekane Lekhera - Senior Advisor from SALGA

Ms. Lekhera reiterated the importance of consequence management. The impact of what is perceived as a 'small/insignificant' act of corruption can be significant of various aspects. She also stated that municipalities are owed R166 billion and R119 billion of this amount is attributed to household debt, which raises questions, Is billing being done correctly? And how much of this amount is due to fraud and corruption?

S20: Effective Leadership mitigates the the risk of fraud and ...



Presenter: Jodi Joseph - Divisional Executive from CaseWare Africa

Fitting in with the theme of the conference, Jodi highlighted that SA needs strong leadership when dealing with issues such as fraud and corruption. There was a strong emphasis on financial leadership mitigating fraud and corruption.

People contemplate the wrongness to commit fraud and corruption as there's often no consequences. When offenders are questioned, they attempt to justify their actions by saying it's a common occurrence and norm however this shouldn't be the case. Another comment that is commonly used is that the money goes back into the economy therefore they disregard their actions as fraudulent. When corruption happens, it's not the "rich stealing from the rich" but often impacts the lives of already disadvantaged citizens.

All the necessary systems, processes and controls may be in place (also true for corporate environment), but if there's no cultural leadership around ethical behavior and zero tolerance for fraud and corruption, the processes and controls won't substitute for that. Culture and leadership is the ultimate control. Officials can make a big impact from the bottom-up by taking responsibility at a local level, by holding each other accountable, creating a space for discussions and using every opportunity to influence ethical behavior, which will all be critical in changing the culture surrounding fraud and corruption. Will also help gain public trust.

A quote that summarises the role of oversight committees and processes: "True test of democracy is the extent to which parliament can ensure that government remains answerable to the people. This is done by maintaining constant oversight (monitoring) of government's actions."

S20: Effective Leadership mitigates the the risk of fraud and ...



Continued..

The following oversight responsibilities were highlighted:

- Detect and prevent abuse
- To hold the government answerable for how taxpayers' money is spent
- To make government operations more transparent and increase public trust in the government

4th quarter: local government section 71 report from National Treasury reports:

- Revenue collection – R13.5 billion under performance against budgeted forecasts
- Operational expenditure – R31.7 billion under performance against budgeted forecasts
- Capital expenditure – R17.8 billion under performance against budgeted forecasts

Have to ensure there is investment in right tools and process.

As a leader never underestimate the impact you can have as an individual, just take the first step to see the change you want to see.

S20: Effective Leadership mitigates the the risk of fraud and ...



Presenter: Xolani Ndlovana - Gauteng Provincial Treasury

Mr. Ndlovana reiterated that decisions need to be insights-driven by using data. Manual processing needs to be reduced. There needs to be an improvement on predicting of future outcomes, as this will help to plan better. Officials need to stay away from the attitude of “not my numbers” as transparency and collaboration needs to take place.

Presenter: Alistair Chibi - SALGA

Effective leadership can't be effective if leaders don't know what they're dealing with, in terms of competency and being ethical, once we have ethical leadership, many problems can be resolved, which will assist local government.

There needs to be a look into capacitating MPAC - Something that will be done on a continuous basis, so they can always know current necessary information to carry out their jobs. A toolkit could be developed to assist duties.

Insufficient interrogation of reports provided by oversight committees – submit reports to council but not sure if the necessary actions are being taken. Are there necessary skills and knowledge within the oversight committee? Do we have ethical leadership? – Questions that need to be addressed to enable functional municipalities and government as a whole.

S21: Effective SCM and expenditure procedures that eliminate...



Presenters: Melissa - Western Cape Government (WC) Provincial Treasury; Rodney - Western Cape Government Provincial Treasury; Lucas Raphela - School of Government

The assurance function in the WC needs to become more proactive. Risk and Audit from Provincial Treasuries play an important role in maintaining clean SCM audits.

Presenter: Melissa - Western Cape Government Provincial Treasury

WC Provincial Treasury's approach is to support all municipalities. The drive is the shift from compliance to clean audits. WC is focusing on increasing its collective effort.

The 3 critical focus areas are:

- Government must translate into achieving the overall objective,
- Act in the public interest, and
- Resources must be applied in a constructive manner.

Leadership is key in achieving the goals as set out by the WC government. WC Provincial Treasury follow an outcome based approach which requires effective and efficient use of resources. Local government has to enable resilience and agility. Financial governance maturity model guides municipalities from Level 1 to Level 6 allowing Provincial Treasury to fulfill their responsibilities. Data and systems enablement is also a key pillar which helps in decision making from gaining insight from data e.g. SCM audit outcomes from previous audit findings related to non compliance to policies and procedures.

S21: Effective SCM and expenditure procedures that eliminate...



Continued..

Specific project: SCM partnered with Assurance units to provide co-ordinated and holistic support to municipalities. Internal controls and gaps must be addressed. Objective to have good governance practices.

Presenter: Rodney - Western Cape Government Provincial Treasury

Deviations in relation to regulation 36 is a key challenge. Infrastructure projects are very complex and pitfalls must be managed appropriately such as demand management and planning. The core processes must be improved to ensure that compliance is met. Legislation is open for interpretation and is a major problem. Bid committee system is not effective due to challenges such as: Inexperience, Bias specifications, Inappropriate functional criteria. Need competent chairpersons of these committees to make the process effective.

SCM challenges include: expansion of contracts and variation orders beyond prescribed amounts.

How can we address these challenges:

- Regular SCM training
- Sign code of conduct
- Open and transparent bid system

We need to be proactive and work together to change behaviour. Good governance is an imperative.

The way to go is to become paperless and introduce systems to ensure that processes and governance is adhered to across all SCM aspects.

S21: Effective SCM and expenditure procedures that eliminate...



Continued..

Presenter: Lucas Raphela - School of Government

Demand Management - Eliminating wasteful expenditure

Objectives:

- Managing the institution
- Benefits all citizens
- Enhance accountability

Pillars of SCM focus on:

- Demand Management
- Acquisition
- Logistics Management
- Disposal Management
- Risk management

It's important to ensure that all key role players are involved in the demand management processes.

We need to ensure value for money in all that we do. Total cost of ownership must be considered when procurement transactions are initiated.



S22: Funding options for financing public infrastructure



Facilitator: Emanuel Ngobo

Standard Bank presenter, Sherrill Byrne, highlighted that infrastructure is key to driving GDP growth in South Africa. She highlighted the various funding options available but spent more time on alternate financing arrangements including Debt Capital markets (its cheaper but more complex than traditional balance sheet lending), Bank to Bond funding, Bank and Bond funding Project Finance and Quasi - project finance funding

- | | |
|---|---|
| <ul style="list-style-type: none">● Bond/ Debt Capital market funding not ideal for infrastructure projects as the cash flow does not match the municipal infrastructure requirements● Bank to Bond and Bank and Bond options are better as cash flow is better matched● Project finance is good because this is funding specifically for the project but project must have its own revenues. This funding is off balance sheet so risk for the lender is higher and timelines for application for the funding is longer due to the more rigorous due diligence reviews performed by the funder | <ul style="list-style-type: none">● Project finance also good because it transfers the risk from the municipality to the third party contractors and the funder will review the contracts in detail.● Quasi- project finance funding is a blended approach to funding.● Credit enhancement<ul style="list-style-type: none">○ Export credit funding is relatively cheap but applies where the supplier is foreign based so funder will look at foreign government○ MIGA applies where credit rating higher than B+ |
|---|---|

Standard Bank presenter, Nonopa Tenza highlighted that the Bankers are available for advice on funding options and their advice does not come at a fee in the same way as other Advisors do.

S22: Funding options for financing public infrastructure



Continued..

KZN Treasury presenter, Sbusiso Zakwe highlighted that National Treasury have released circulars that provide guidance relating to funding options given the South African fiscal context. Treasury recognises three main sources:

1. Cash backed internally generated funding by the municipality
2. Grant funding
3. Borrowing against the municipal balance sheet

The MFMA provides guidelines on the procedural frameworks that need to be complied with.

S23: Exhibitors prizes for delegates



Presented by representatives of the companies

- JBRE prize – Leather laptop bag – Vani Govender
- Bonakude Consulting - Hamper - Bucky Mbali
- Ntiyiso Consulting - iPad - Patricia Ndzimande
- Ntiyiso Consulting - iPad - Ayanda Vilakazi

S24: The role of Government in effecting the Expropriation of land...



This session was cancelled

N/A

S25: Implementing densification planning that will minimise service...



Speaker: Sue Bannister

Increasing densification is key to reducing Poverty, reducing inequality and growing the economy. Ethekwini is growing and as a result people are living further away from the central areas, densification allows us to put people closer to jobs, reduce travel times and distance. It allows for a better balance between social, economic and environmental sustainability. Densification becomes a mechanism that allows municipalities to increase the provision of basic services and ensure efficiency in the distribution of resources.

Mechanisms that can be used to **address poverty**:

- Improved coverage and quality of basic service provision (and infrastructure)
- Improve the supply and choice of housing and accommodation options including access to well-located land
- Reduce transport costs to improve access of the poor to opportunities – lots of people are spending large amounts on transport costs – due to dispersed development patterns - therefore density allows us to address that

Mechanisms for **Reducing inequality**:

- Ensuring the equal provision of service between and within municipalities
- Improving the quality of the physical environment within which people live and work
- Better access to social infrastructure and economic opportunities
- Safer, more livable and integrated living environments
- Open up and integrate neighbourhoods

Mechanisms for **reducing unemployment**:

- Increasing access to opportunity through ensuring that people live in well-located areas, and are able to access business opportunities.

S25: Implementing densification planning that will minimise service...



Continued..

Mechanisms that can be used to assist with densification:

Zoning:

- Up-zoning:
- Mixed-use zoning
- Form-based zoning
- Minimum- density zoning
- Incentive zoning
- Down-zoning and minimum-size zoning

Urban containment:

- Municipalities can impose boundaries that delineate the outer edges of urban development
- Urban edges may also take the form of an urban growth boundaries or urban service boundaries, which delimit areas that will be provided with services and those that will not
- Can use growth phasing regulation
- Note that this mechanism has limited success in SA

S25: Implementing densification planning that will minimise service...



Continued..

Mechanisms that can be used to assist with densification:

Incentive Instruments:

- Incentives can be used to stimulate development and to shape the type of activity happening in different areas.
- Generally aimed at reducing costs for developers to encourage specific types of development projects
- Use-value taxes
- Split-rate property taxes
- Tax increment financing is used as a public financing method to raise funding for redevelopment in a particular area
- Transfer of development rights is used to reduce development in certain areas by granting alternative rights to developer in another area where development is wanted.
- Area based incentives

Fiscal instruments:

- Financial incentives - used to encourage actions by private land owners to shape urban areas
- Special assessment taxes – imposed on properties that derive a unique benefit from a public investment
- Windfall or land value capture instruments can be levied where land zoning is changed and adds value to a piece of property
- Benefits for impacted communities where local communities or property owners are compensated through ring-fenced taxes for the inconvenience of a nearby development
- Value taxes can be used to levy specific charges on open land in order to encourage development on it.

S25: Implementing densification planning that will minimise service...



Continued..

The following can be carried out to assist with the management of densification:

- Higher density areas – require high level of service
- Good urban management is critical
- Ensure bulk capacity exists or can be developed
- Prioritise public transport infrastructure and systems
- Social amenities – sporting facilities, recreational space, schools, health facilities. Lower income areas must get higher level of service
- Address crime and safety
- Provision of rental accommodation across all income bands
- Norms and standards for public spaces must be adhered to by other spheres of government and developers
- Within inner cities affordable housing opportunities must be maximized
- Urban management must be prioritised in inner city areas to ensure safety and public amenity, which includes cleaning, policing and maintenance

S26: Introducing Policy and Tariff Strategies that will encourage...



Speaker: Fathima Khan

Property rates is a tool that is widely used in South Africa to discourage speculation and encourage development of vacant land. Many governments around the world have used this tool to motivate the private sector to develop land in order to promote densification. The tool should not be used to address budget issues but should be used to change the behaviour of the private sector and to prevent speculation.

In developed countries the main motivation is addressing disinvestment and in developing countries the focus of taxation is fighting speculation.

International experience –some developing countries have experimented with vacant land taxation. Fathima provided examples of vacant land taxation in Harrisburg, Pennsylvania, in the United States and Seoul, in the Republic of Korea.

In South Africa the Municipal Property Rates Act allows us to create a vacant land category and to apply an appropriate rate-charge. There must be proper motivation to create this property category, in most cities the motivation seems to be to discourage land banking and encourage development. We can't have one size fit all approach especially cities being extremely diverse, which needs to be taken into consideration.

Vacant land tax applies equally across the boundaries of Ethekwini from fully serviced city centers to townships. If rates are driving up holding costs of vacant land, is it really promoting investment in the city, or has punitive tax become a barrier to development? The Economic development policies in the city offer rebates but very limited and often rebates only apply to big developers.

The CoJ have introduced rebates where development can not take place. These include:

- Property falling outside the urban development boundary
- The unavailability of bulk infrastructure
- Where development is prohibited by environmental factors

S26: Introducing Policy and Tariff Strategies that will encourage...



Continued..

What cities need to look out for?

Factors that are a hindrance:

Transformation:	Finance: (another hindrance)	State owned vacant land:
<ul style="list-style-type: none">● Punitive rates can't attract smaller developers● Can't afford holding costs● Can't address the "missing middle" – affordable housing● Costs passed on to the end user● Distorted settlement patterns – people can't settle where they want, have to settle where they can afford to	<ul style="list-style-type: none">● Banks reluctant to finance vacant land● Capped to a 60% bond● Risky asset:<ul style="list-style-type: none">○ No rental income○ No growth potential○ Holding costs too high	<ul style="list-style-type: none">● Land invasions● Need to identify vacant land for disposal● Hope for movement in development of state-owned land● Largely reactive instead of being proactive

S26: Introducing Policy and Tariff Strategies that will encourage...



Continued..

Vacant land policy - **BE SPECIFIC!**

- Know where you want to encourage development
- Use targeted programmes and targeted budgets for target geographical areas
- Have to know the city

Incentivise!

- Use rebates and incentives to influence investor behavior
- Must be for a reasonable period – need to be realistic
- Approval process may take away from development time
- Apply rates on Permitted use, rather than actual use so smaller developers can participate

Penalty on Land banking

- Taxation at an incrementally higher rate every year it is left vacant

Transformation

- Create a category of owner in rates policy
- Apply rebates to emerging developers

Ease of doing business in our city

- Affordability
- Is your vacant land rates a source of disinvestment
- Review your policy

S27: Closing of Conference



Speaker: Peet Du Plessis, CIGFARO President

Mr Du Plessis summarised the sessions that took place during the conference and highlighted some of the important points such as:

- A reminder that delegates are public servants who must serve the public
- Government should take a strong stance against fraud and corruption and focus on consequence management
- Service delivery is important to attract investments in order to create jobs
- Spending of funds should be monitored at all times and CFO's must ensure value for money was received
- Productivity must be increased while performance plans must be reviewed to ensure objectives and KPIs are achieved
- All spheres of government are interrelated and local government is the closest to the people, also the sphere with the highest impact on service delivery
- Manage with high integrity and motivate teams to greater heights
- Work together to achieve common goals
- Get back to basics and ensure municipalities obtain a clean audit and work towards improving collection rates
- A new vision looking at district models will be launched next which will optimise service delivery at a district level
- Compile credible and bankable budgets and ensure sufficient cash is generated to fund the budget and if this is not possible inform municipal council of the shortfall so the necessary actions can be taken to adjust the budget
- Our economy is shrinking and have lost significant revenue due to many companies leaving SA, which has highlighted the risk of a possible downgrading of our foreign credit rating
- Need to consider PPPs in the creation of infrastructure
- Also required to take clear accountability reporting lines and accounting officers should be empowered and allowed to fulfill their roles and manage appropriately
- Municipalities need to implement conservation methodologies for water - Use Cape Town as a case study for next year's conference
- Municipalities should do a risk assessment and implement preventative controls like segregation of duties, proper delegation, SOPs and physical control over assets

S27: Closing of Conference



Continued..

- Need to remember that public servant are custodianship of public funds - It is not your money, it is public funds that you just manage, so you should be able to spend it with a clear conscience.
- Create organisations with strong leadership and value. These values should be implemented and observed from top management to the lowest level of employment and top management need to lead by example.
- Have to look at effective internal controls which highlighted certain areas of which security management, access to computers, data securing is of high importance. Need to be extra careful since there's a high demand for government data
- Need to set SOPs which will assist in detecting fraud and corruption
- Some preventative measures - rotation of staff where possible
- Need to be aware of pointers such as lifestyle of employees where you can clearly see it is not affordable. Implementation of lifestyle audits is becoming more essential as a precautionary process
- When compiling the capital budget, consider the funding. Should not put a wishlist together but rather a realistic plan.
- When borrowing money - ensure you know that you will be able to pay back
- Also looked at SCM - if there's no service delivery, a lot of people blame it on SCM processes but this is actually due to poor planning
- Need to develop procurement plans and can align with project plans
- Need to get rid of irregular expenditure

Mr Du Plessis concluded by thanking delegates and sponsors, followed by rewarding and recognising the people who assisted with organising the conference.

Exhibitors Awards:

Best designed stand - Ntiyiso Consulting

Best Shell Structure - CCG Systems

Most Original stand - Nedbank



S28: Motivational Talk - Transformational Leadership



Speaker: Umbusi Ziqalo

Mr. Ziqalo focused his talk on the individual leader. What will it take for transformational leadership to have impact in the public sector? He highlighted the following point:

- “You don’t know what you don’t know” – you need to have an open mindset
- “You are not how you feel” – avoid taking a decision when you’re emotional
- To transform the public sector, we need leaders with audacity of courage and a daring attitude despite the odds
- Need to step up and take responsibility to transform the space you work in

Need people who will not just transact, need people who will transform their space. Need to ensure that you will leave impact if you leave that space and need to do the right thing even when no one is ‘watching’ you. He also quoted, Prof. Warren G. Bernice, “Managers do things right but leaders do the right thing”. Leadership is an art, an internal construct that you live by. One can be voted or promoted into a leadership space, but it doesn’t make you a leader.

Most leaders are believed to be professional manipulators, who hold the lever of power and authority but are not a leader. One makes a personal choice to become a leader. There are many who may be called leaders but not many who are called to lead.

Mr. Ziqalo defined transformational leadership as the point where the personal internal construct converge with your natural talents (the way you’re naturally wired). We need leaders who are pure at the core. Leaders need to have a radical and progressive mindset. Natural talent refers to what you’re passionate about.

When you discover yourself, you inspire other people. Leadership is a transformational process where leaders and followers raise one another to higher levels of morality and motivation. We often see leaders being “worshipped” even when they haven’t contributed anything of value. Don’t manage people, lead them. There’s a need for public leaders to move away from transacting to being transformational.

S28: Motivational Talk - Transformational Leadership



Speaker: Umbusi Ziqalo

No one else is responsible for your advancement and growth, but you. Leadership in the public sector is limited by mindset. We need leaders who will stand for what they believe in. We need a collaborative leader who is a relational person and uses the 'We' approach instead of 'I'. This type of leader sets clear goals and has high expectations of themselves and the team. Good leaders need to humble themselves and inspire humility.

Leadership is courage. Not required to just manage in chaos but on the edge of chaos, therefore need courage to face fear.

Looked at the subtle difference between leadership and management. Management is a component of leadership. The difference is determined by the approach towards the people. Leadership has to do with people, whereas management has to do with resources. Transformational leaders hire people who are more intelligent than them. Leaders inspire people and managers intimidate people. Leaders lead people and managers have people working for them. Leaders know people and managers believe goals and objectives are more important. Leaders are inspired by people whereas managers are repulsed by people. Leadership and management are opposing mindsets. Leadership wants people to grow and management wants work to grow. Need to lead yourself before you lead others. Can't measure leadership based on how many people follow you.

Transformational Leadership is when 3 things converge – a radically progressive mindset, fused with natural talents and protected by unshakable values.



2019 Annual Conference concluded