

MEDIUM-TERM STRATEGIC FRAMEWORK GOALS 2019-24



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



SAFE SOUTH AFRICA

**MTSF
2019-2024**
(The guiding document)

- Government's five-year implementation plan and an integrated monitoring framework
- Includes seven priorities and mechanisms to monitor outcomes, indicators and targets towards the achievement of the priorities
- Priority 1: To build a capable, ethical and developmental state**

Some key outcomes of priority 1:

- Improve governance and accountability
- Improve financial management capability in the public sector
- Eliminate wasteful, fruitless and irregular expenditure in the public sector
- Reduction of qualified audits
- Programme to prevent and fight corruption in government

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MUNICIPAL ELECTIONS - PROBLEM STATEMENT



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- Municipal elections may cause:
 - Potential significant changes in the political landscape
 - Potential instability in municipalities, resulting in governance and accountability failures
 - Increased risk of non-compliance with legislation, resulting in unauthorised and irregular expenditure and financial losses
 - Challenges affecting public participation in key municipal processes and service delivery

Have municipalities done enough to respond to these challenges through strengthening and maintaining good **governance** and **accountability**?

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RESULTS OF ACCOUNTABILITY FAILURES - CAN THESE BE CHANGED FOR THE GOOD?

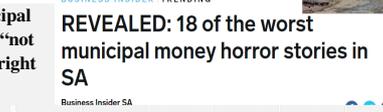





Auditor-general releases municipal audit results under the theme - "not much to go around, yet not the right hands at the till"
AGSA media release 1 July 2020



2021 LOCAL ELECTIONS: LEGISLATION TWEAKS
Municipal Structures Amendment Act reform touted as 'gamechanger' for accountability of public officials







Municipal leadership must avoid lapses in governance that lead to these accountability failures.

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GOVERNANCE AND ACCOUNTABILITY SEEN THROUGH THE LENS OF AUDIT OUTCOMES




AUDIT OUTCOMES: 2020-21 v 2016-17 (previous election year)

				
Unqualified with no findings	No material findings on compliance	No material findings on performance reports	Financial health	Irregular expenditure
11% (13%)	14% (14%)	48% (37%)	32% (31%) vulnerable position	R32 billion (R28 billion)

- ❖ Serious deficiencies in financial reporting, with continued use of consultants in this area not having the desired result
- ❖ Widespread non-compliance with legislation - SCM, quality of AFS, prevention of UIFWe and consequence management
- ❖ Unreliable performance reporting, adding to the service delivery challenges
- ❖ Growing irregular expenditure balances, with 77% or R61 billion of R79 billion from prior years not investigated by 2019-20
- ❖ State of internal controls municipalities with 35% (33%) requiring intervention

Root causes ↓

Slow response in improving internal controls and addressing risks

Vacancies and instability in key positions and skills and challenges

Inadequate consequences for poor performance and transgressions

Source: MFMA general report 2019-20

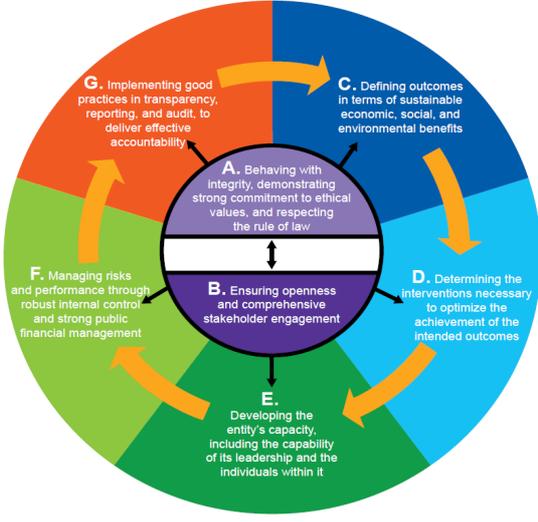
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PRINCIPLES OF GOOD GOVERNANCE IN THE PUBLIC SECTOR







Acting in the public interest requires through:

- A. Behaving with integrity and ethically
- B. Openness and public engagements

To achieving the intended outcomes through effective arrangements for:

- A. Defining outcomes (in IDP, SDBIP and budget)
- B. Determine interventions to achieve outcomes
- C. Develop capacity and capability
- D. Risk and performance management
- E. Good practices in transparency and reporting

Source: IFAC-CIPFA International Framework for Good Governance)

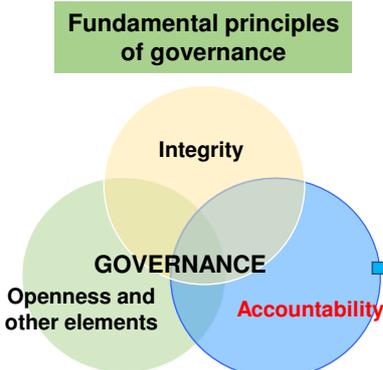
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CONCEPT OF GOVERNANCE AND ACCOUNTABILITY





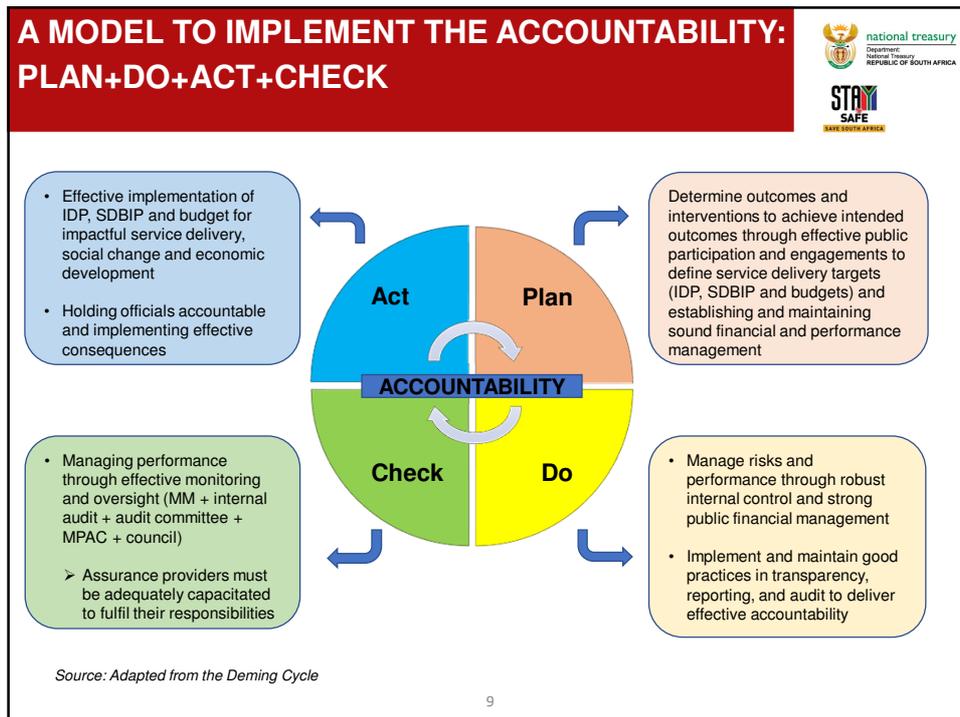
Fundamental principles of governance





Source: Adapted from IFAC Study 13

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RISKS AND OBSERVATIONS FROM PREVIOUS LOCAL GOVERNMENT ELECTIONS

- Post 2016 elections, the audit results of some municipalities regressed due to:
 - Instability at council level and in key senior positions (municipal manager, chief financial officer, SCM heads, and so on)
 - Slow response on messages on risks and recommendations to address deficiencies in internal controls and root causes
 - Acting officials, which created an environment that did not support effective performance management and the enforcement of consequences
 - Loss of institutional knowledge and good practices due to key controls being more closely linked to individuals than to established municipal processes.
- Lack of commitment by some municipal leadership to address key matters of concern and to follow through on undertakings made by former accounting officers and councils

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RISKS AND OBSERVATIONS FROM PREVIOUS LOCAL GOVERNMENT ELECTIONS (CONT'D)



- Political leadership and officials at some municipalities were more focused on elections and not on maintaining financial management and service delivery and addressing related risks
- Other considerations:
 - Demarcation of municipal boundaries contributed to instability
 - Preparing 'election-friendly' budgets and with unrealistically low tariff increases and an over-ambitious capital expenditure programme
 - Timing of election campaigns coinciding with the municipal public budget consultations
 - Suspension of credit control and debt collection efforts
 - Not considering financial implications before entering new long-term contracts
 - Filling non-critical positions, purchasing cars, procuring new financial systems and incurring other expenditure that financially burden the incoming council
 - Impact of COVID-19 on planning, revenue, expenditure, capital spending, service delivery and so on



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CONSIDERATIONS TO STRENGTHEN AND MAINTAIN GOVERNANCE AND ACCOUNTABILITY



BUDGET AND PLANNING

- Have the outgoing municipal councils heeded the advice and guidance in MFMA Circulars 107 and 108 - Municipal Budget Circular for the 2021/22 MTREF on the upcoming local government elections and related risks?
 - Did the council approve the relevant tariffs for the 2021/22 MTREF budget before the commencement of the financial year on 1 July, as per the MFMA and Municipal Property Rates Act? *(The incoming council must implement the tariff, as section 28(6) of the MFMA does not allow the increase of tariffs in-year.)*
 - Did the council approve the annual budget for the municipality before the start of the financial year in terms of section 16 of the MFMA?
 - Did municipalities avoid 'election friendly budget' with unrealistically low tariff increases and an over-ambitious capital expenditure programme including financial commitments that could burden the incoming council?
 - Did municipalities plan for municipal public budget consultations to ensure transparency and public participation?

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CONSIDERATIONS TO STRENGTHEN AND MAINTAIN GOVERNANCE AND ACCOUNTABILITY (CONT'D)



BUDGET AND PLANNING (cont'd)

- Did municipal managers, together with the CFOs and senior managers:
 - prepare a hand-over report, together with information packs on the state of finances, service delivery capital programmes and related key matters that can be tabled at the first meeting of the newly elected council? (*Refer to MFMA Circular 108 and "Joint Circular 1 issued by DCoG, NT and SALGA for details that may be included in the hand-over report"*)
 - include a revised IDP, the adopted 2021/22 MTREF budget, the mid-year budget and performance assessment report for 2020/21, the latest monthly financial statement and the annual report for 2019/20 (with the auditor's report), etc. in the hand-over report?
 - submit the municipality's hand-over report to the provincial department responsible for local government, to the DCoG, NT and provincial treasuries?

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CONSIDERATIONS TO STRENGTHEN AND MAINTAIN GOVERNANCE AND ACCOUNTABILITY (CONT'D)



OTHER KEY GOVERNANCE ARRANGEMENTS

- Establishing a municipal public accounts committee (implement measures to ensure that the committee is adequately capacitated and supported to fulfil its responsibilities)
- Manage contracts of MMs and managers accountable to MMs in accordance with the MSA and "Appointment Regulations"
- Review and align staff establishment with IDP, SDBIP and budget
- Review and approve system of delegations
- Address unfunded budgets in the main adjustments budget
- Councils must prioritise actions to address adverse and disclaimer of audit opinions
- Ensure that all creditors are paid in a timely manner and the debt collection policy is implemented

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CONSIDERATIONS TO STRENGTHEN AND MAINTAIN GOVERNANCE AND ACCOUNTABILITY (CONT'D)




MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT

- Each municipal manager, together with the CFO and senior managers
 - must maintain their fiduciary duties and general financial management functions, as enjoined by the MFMA
 - address key risks that may negatively impact on the preparation of financial and performance reports and compliance with applicable laws to prevent a regression in audit outcomes
 - identify matters that add value in putting measures and action plans in place well in advance to mitigate risks
 - implement and maintain effective and efficient systems of internal control, which are preventative and critical to ensure timely, credible information, accountability, transparency and service delivery *(adapted from the AGSA internal control model – see next slide.)*

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CONSIDERATIONS TO STRENGTHEN AND MAINTAIN GOVERNANCE AND ACCOUNTABILITY (CONT'D)




Municipal manager (supported by senior managers)

<div style="background-color: #f4a460; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 5px;"> Commitment and ethical behaviour </div> <ul style="list-style-type: none"> • Maintain a culture of honesty, integrity, ethical business practices and good governance and protect the municipality's interest • Implement and maintain effective HR management and establish policies and procedures to ensure a skilled and competent staff complement • Maintain effective, efficient and transparent systems for financial and risk management and internal control • Take appropriate steps against official who commit financial misconduct or a financial offence • Maintain good IT governance, effective IT management and a secure IT infrastructure • Develop and robust monitoring of the implementation of audit action plans 	<div style="background-color: #f4a460; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 5px;"> Robust financial and performance management systems </div> <ul style="list-style-type: none"> • Implement controls over daily and monthly processing and reconciling of transactions • Maintain complete, accurate and relevant records that is easily accessible and available • Implement compliance checklists to enable compliance with legislation • Develop and implement policies – tariffs, rates, credit control, debt collection and SCM, supported by standard operating procedures and approved delegations • Appropriate management, accounting and information systems for assets, liabilities, revenue and expenditure 	<div style="background-color: #f4a460; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 5px;"> Oversight and accountability </div> <ul style="list-style-type: none"> • Effective, efficient, economic and transparent use and protection of resources • Prevention of UIFW expenditure and other material losses • Implement a UIFW expenditure reduction strategy • Prepare regular and credible financial and performance, including compliance reports for review • Support audit committees and maintain an adequately resourced and functioning internal audit, as well as risk management unit • Support council and MPACs in their oversight responsibilities
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CONSIDERATIONS FOR MFMA COORDINATORS, INCLUDING SECTOR DEPARTMENTS



- Continue to proactively support municipalities to respond to, among others, identified control weaknesses and implement relevant reforms
- Intensify support to municipalities after the elections to ensure stability and continued service delivery, including support to councillors to assist them to execute their roles and responsibilities
- Continue to exercise oversight responsibilities over local government's financial management and monitor and assess compliance with the MFMA
- Monitor the preparation of the municipal budgets and submissions of reports.
- Take any appropriate steps if a municipality commits a breach of the MFMA
- Effective implementation of the Municipal Support and Intervention Plans



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CONCLUSION



"The focus on sustainability and the links between governance and public financial management are very welcome - governments more than anybody must recognize the need to focus on the long-term. They have responsibilities to more than their current electors; they must take account of the impact of current decisions and actions on future generations."

Mervyn King

Chairman, International Integrated Reporting Council

Chairman, King Report on Governance for South Africa

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CONTACT



All enquiries to be submitted to MFMA helpdesk

Email: mfma@treasury.gov.za

Mark subject email -

Name of municipality : XXX