



CIGFARO

Chartered Institute of
Government Finance, Audit & Risk Officers

8 - 10 October 2018 | Annual Conference

#CIGFARO2018_CoE

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Reclaiming Governance and Accountability in the Public Sector - A New Dawn for Public Service

IT'S TIME TO FOCUS ON AUSTERITY MEASURES

Restoring the equilibrium.

“In the current economic climate of increasing inflation, rising food and fuel prices, high unemployment, increasing poverty, and utility increases over CPI, consumers are really feeling the economic crunch.”

The affordability of municipal bills is a key concern and we are already seeing the impact on collection rates. In the circumstances, the only viable option is to reduce our expenditure.

Austerity measures are key to this. Basically austerity management is simply about restoring the equilibrium between income and expenditure. Due to the current economic recession, we need to get the balance right again. However, sadly, we do not seem to be taking austerity measures seriously. Let's be honest, we can be more stringent and do more. We have turned "doing more with less" into just another cliché. We need to get serious about austerity measures again and build on fiscal discipline.

We need to seriously cut back on expenditure and tighten the belt. We need to review our Top 20 items of expenditure on a monthly basis. We need to ensure compliance with MFMA Circular No. 82 with regard to reducing costs relative to travel, conferences, accommodation, vehicle hire, catering, hosting events. Office furniture, sponsorships, credit cards, consultants, filling of vacancies, etc. The legislative framework and policy are in place. Once again, it is a people issue.

Whilst we are looking at the short-term

due to the current economic climate, we also need to look at austerity and cost saving in the medium and long-terms. It should not just be discussed during the budget process. It should become part of the culture and fabric of the organization on a day-to-day basis. We need to look at sustainable austerity measures. Sustainable austerity management requires more than the straightforward restoration of budget deficits. Policies and strategies must include innovation-oriented measures aimed at both the realignment of the budget and the improvement of efficiency and effectiveness.

Innovation-oriented austerity measures are often proposed as solutions to run organisations differently, and therefore better and cheaper. However, investing in innovation and organizational change when there is a constrained budget, is extremely difficult. Accordingly, the key issue is the return on investment. If there is a clear return on investment and the turnover period is relatively short, then innovative austerity measures are still justifiable in the current economic climate.

Fiscal strategies to manage austerity include, inter alia, maximizing fiscal effort both in terms of revenue and expenditure, as well as ensuring value for money and best value in all that we do.

We are currently in a time of financial stress, and accordingly, more change is very difficult in such turbulent times. However, some of these changes could actually help the long-term financial



sustainability of the organisation. Accordingly, we should consider innovative austerity measures to curb wastage, inefficiencies, corruption and eliminating non-priority spending. This could include, inter alia, the following:

- Fleet operations being ringfenced for better operational efficiency.
- Utilisation of vehicles being closely monitored via a vehicle tracking system.
- Vehicle rationalization and rightsizing of the fleet.
- Fuel, overtime, security, catering and consultants' costs being closely monitored.
- Productivity assessment and benchmarking of costs being undertaken.
- Events expenditure be reduced.

All reports to Council must include a cost benefit analysis, economic impact assessment, expenditure and income projections, and the number of economic and job opportunities that will be created for designated Black Economic Empowerment (BEE) groups.

- Budget checks must be systematically implemented on the core financial system and sub-systems.
- Stringent budget cuts.

- The revenue policies must be amended to ensure tighter control.
- The filling of vacant posts that has been vacant for more than two years be frozen.
- Catering costs be reduced (target 40%).
- Zero tolerance with regard to the theft of electricity and water through illegal connections.
- Ensuring value for money in SCM through benchmarking of prices, using SABS standards, using transversal contracts, etc.
- Reduce revenue leakage through fraud and corruption.
- Strive for revenue completeness
- Consolidation of debt
- Other cost saving initiatives and value-for-money initiatives that will ensure that we get better bang for our buck.

Tough times, call for tough people and even tougher measures. We need to lead by example. We need to walk the talk. There has been a lot of austerity talk, even austerity decisions, but now it is time for austerity action! You must cut your cloth to fit your size. As ex-Minister of Finance, Pravin Gordhan, once said, "We must live with the money we have, not the money we think we might have."

Conference Program: Monday, 9 October 2017		
Time	Activity	Speaker & Venue
Program Directors: Mbulelo Memani & Paledi Marota		
07:30 – 09:00	Late Registration	Conference Centre Foyer
09:00 – 09:10	National Anthem	
09:10 – 09:30 S1	Welcoming Address	Cllr. Johannes van der Merwe, MAYCO Member for Finance
09:30 – 10:00 S2	Opening of the Conference	Dr. Krish Kumar, CIGFARO President
10:00 – 10:45 S3	Keynote Address: Back to Basis (B2B) and the Intergraded Urban Development Framework Plan (IUDF)	Deputy Minister Andries Nel, Ministry of COGTA
10:45 – 11:45	Refreshments and Viewing of Exhibition Stands	Exhibition Hall
Program Director: Leanne Manas		
11:45 – 12:30 S4	Panel Discussion: Financial sustainability in a flailing economy through maximizing the revenue generation potential of the revenue base	Deputy Minister Andries Nel, Ministry of COGTA Dr Ramos Mabugu, FFC Dr. Krish Kumar, CIGFARO President Patrick Kgoale, Thaba Chweu Local Municipality Sidwell Mofokeng, CIGFARO
12:30 – 13:30 S5	Good fiscal governance as an enabler for service delivery excellence	Kimi Makwetu, Auditor General of South Africa
13:30 – 14:45	Lunch and Viewing of Exhibition Stands	Exhibition Hall 2
Program Director: Leanne Manas		
14:45 – 15:50 S6	Panel Discussion: Spatial planning for effective integration and land use management: <i>Redesigning urban areas</i>	Kevin Jacoby, City of Cape Town Geoffrey Bickford, Cities Network Malijeng Ngqaleni, National Treasury
15:50 – 16:00	Closure	
16:00 – 17:00	CIGFARO AGM	All CIGFARO members
16:00 – 18:00	Viewing of the Exhibitors stands	Exhibition Hall
18:00 - Late	Welcome Reception & Business Networking Session Awards Ceremony Special Guest Performance	Exhibition Hall

IMPORTANT: VENUE THIS EVENING IS CAPE TOWN ICC

PROGRAMME DIRECTORS



Leanne Manas



M Memani



PN Marota

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Coffee with the Executive Mayor of the City of Ekurhuleni, Mr Mzwandile Masina

By Editor Esther Gumata from CIGFARO

Editor: Welcome sir and thank you for taking the time to chat with us. Executive Mayor, please can you share with us more about the journey of the City of Ekurhuleni being regarded as the transportation hub of the country.

Executive Mayor: The City of Ekurhuleni is home to the biggest port in the country, and actually the continent, in the form of the OR Tambo International Airport. This means that a lot of travelers, as well as goods, come in and out of the country through Ekurhuleni. Transportation of goods and people by rail, road and air therefore converges here in Ekurhuleni before it exits South Africa and passes through this City when coming from outside before going to any other part of South Africa. This has created the busiest and most productive logistics system by comparison to any other city in the country.

Editor: How does it feel to be in a leadership role that carries such a hefty status? I mean you are positioned right at the hub, where the municipality will dramatically transform the current industrial structure of the economy of City of Ekurhuleni.

Executive Mayor: It is demanding and difficult yet an exciting role to play. The City of Ekurhuleni is a relatively new city but possesses immense economic potential because it houses South Africa's largest industrial base. This potential therefore poses the urgent need to produce a workable industrial strategy that can get the City going. As I mentioned, this is also exciting because it carries the opportunity of being at the forefront of cutting-edge interventions that will build a modern post-apartheid South African City. Although I am at the head of this exciting process, we work as a collective of highly skilled and politically capable executives. That collective capability makes it bearable to preside over the City.

Editor: Let's talk about the Annual CIGFARO Conference being hosted in the City. Our theme is "Reclaiming governance and accountability in the Public Sector – A new Dawn". What does this mean to you and the City of Ekurhuleni?

Executive Mayor: In fact, this conference is an exciting partnership for us as the City. Its very theme speaks directly to the core ethos of our work. Institutionally, we have been emphasising the building of a social compact based on the principles of transparency, clean governance, accountability and

effective service delivery. Therefore, the very theme of this conference speaks to directly to our strategic vision of a people-centred local government and public service.

Editor: Why was it important that the City of Ekurhuleni partner with CIGFARO in hosting a Conference of this magnitude?

Executive Mayor: Well, it was important for us to be in this partnership so as to showcase our governance philosophy and institutional systems of promoting accountability, good governance and servicing the needs of the people. In that regard, this conference offers us a platform to not only demonstrate our capabilities but to also benefit from diverse perspectives offered by different stakeholders and use them to strengthen our local efforts.

Editor: What can our delegates expect while visiting the City of Ekurhuleni?

Executive Mayor: The City of Ekurhuleni is a melting pot of heritage, lifestyle and industry. We have amazing wetlands, lakes, glitzy casinos, mega shopping malls, quiet nature reserves, lively townships and historical towns. It's also home to South Africa's biggest, busiest airport, OR Tambo International Airport, named after Nelson Mandela's colleague, friend and liberation hero, Oliver Tambo. The airport, jam-packed with great shopping, dining, accommodation and conferencing facilities, has direct non-stop flights to six continents.

Editor: Thank you, for taking time out of your busy schedule to meet with us. We wish you well in your future endeavors as a City and personally we wish you good health.

Executive Mayor: Thank you for the opportunity to share our thoughts with you!

Effective asset management improves service delivery

The recent Local Government Asset Management Indaba provided thought leadership on implementing sustainable Asset Management solutions, as part of the drive towards improved local government services.

One of the key roles municipalities play is that of being custodians to community assets, such as roads, waste disposal sites, water & sanitation systems and public facilities. Clearly, the service delivery potential of any municipal entity is incumbent on both the availability of these key assets and its ability to manage these assets effectively, to stretch their service potential to the community.

Asset management, therefore, can be defined as the strategic management of physical municipal assets during their total lifetime. All physical assets have such a lifetime – they are planned and created, used, managed and maintained, and when they are no longer required, they are prepared for disposal.

Considering the impact of asset management on both service delivery and financial management, explains Mseni Ntombela, SALGA KZN's Municipal Finance Program Manager, it is important that integrated asset management environments be created within municipalities.

In the life cycle of any asset, different business units or departments within the municipality are responsible for different aspects of the management of each of the assets. Thus, to stretch either the return on investment (ROI) or the service potential of each asset, it is imperative that all these municipal units work together in a coherent manner. It was to achieve a greater coherence of this nature that SALGA in partnership with Bonakude Consulting held the first annual Local Government Asset Management Indaba.

Bonakude Consulting, conceptualised the Local Government Asset Management Indaba and, for the purposes of delivery, approached SALGA KZN as a key strategic partner for collaboration. The parties agreed to work together to realise and arrange the first Local Government Asset Management Indaba and undertook to commit and arrange the conference.

Held on 3 and 4 May 2018 at the Southern Sun Elangeni in Durban, KwaZulu-Natal, the conference was a very successful event.

The goal of the conference was to discuss mechanisms and share success stories of how municipalities can enhance integration in asset management across departments, including finance, administration, technical and engineering services. Furthermore, it allowed for the airing of different perspectives from key stakeholders and the sharing of local and international best practices and experiences on the subject of integrated asset management.

The theme of the Indaba, 'towards integrated asset management for enhanced service delivery' serves as a starting point for providing thought leadership on implementing cost effective and sustainable asset management solutions for the public sector as a whole. Moreover, the Indaba was carefully timed to guide the development of municipal budgets. The idea is that every municipal budget in May 2018 will show a comprehension for the tighter financial and fiscal environment that currently exists.

Over 230 delegates attended and participated in the two-day conference, which brought together SALGA KZN PEC Members, KZN COGTA Representatives, KZN Treasury Representatives, CEO's of Public and Municipal

Entities, International Speaker, Mayors and Deputy Mayors, Speakers, Councillors, Municipal Managers, Chief Financial Officers, Asset Managers, Asset Practitioners, Facility Managers, Engineers, CIGFARO Representatives, and Private Sector Representatives involved in asset management.

A total of 15 speakers, including Mr Stephen Hove, an Asset Management Practitioner from Canada, shared their expertise and knowledge across 7 sessions addressing areas of interest, value and learning for each delegate. High quality keynote and plenary presentations were presented covering various topics on asset management. An exhibition took place throughout the conference, giving delegates the chance to network during meal breaks and learn about innovative solutions showcased by exhibiting companies. Ultimately, the key focus of the Asset Management Indaba was to design policy responses now that will help to determine the extent to which assets are protected and enhanced, or the extent to which they are undermined.

Among the key resolutions taken at the event was that an Asset Management Forum be established that will sit regularly to discuss crucial issues relating to this subject and that municipalities start making savings that are in line with the depreciation of their assets, by prioritising the 8% Rule for Repairs and Maintenance.

A call was made to the leadership of the various municipalities to play a clearer oversight role, to ensure that all role-players in the asset management cycle play their part. This will contribute significantly towards stretching either the ROI or the service potential of each municipal asset. "Assets are the biggest item in the balance sheet of any municipality, but we have never had a focus on Asset Management in South Africa. The conference brought together all stakeholders to talk about the best practices of Asset Management," said Mr Vela Mtshali, Chief Executive Officer at Bonakude Consulting and Chief Conference Coordinator.

A final decision was also taken to ensure that the Indaba become an annual event in the calendar of Local Government, due to the strategic importance asset management has to the public sector. After all, assets are the biggest driver of service delivery and are an issue in most qualified audit reports.

The importance of effective asset management, especially of in terms of infrastructure, must not be underestimated. It is perhaps the most critical key to ultimately being able to effectively enhance the delivery of services to all communities.

For more details and updates on the conference, visit the conference social media platforms: FOLLOW US on Twitter: <https://twitter.com/assetindaba>, and LIKE our Facebook: <https://web.facebook.com/assetindaba>. For any enquiries, contact Ms Nora Sithole on 031 201 1241, 078 673 1897, nora@bonakude.co.za





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The Procurement Process – Investigating the Effectiveness of the Five Pillars of Procurement

By Yusuf Aboojee – Transaction Capital Recoveries (Pty) Ltd
Part 1 of 3

As South Africans, we often hear about instances where a municipality has appointed a company to perform a certain service or function that is intended to solve a challenge or issue that is being experienced; but which ultimately leaves that municipality with more problems than when they started. To top it all, appointed service providers are paid in most cases (including non-performing providers) leaving the municipality (and the community they serve) facing severe financial challenges and facing questions around wasteful and fruitless expenditure. In the last year wasteful and irregular expenditure swelled up to approximately R30 billion, an amount that has a significant opportunity cost and could have been used to reduce the unemployment rate, increase housing, and or develop small black owned businesses.

The purpose of this opinion piece is to ascertain whether the current procurement processes are working and whether there are any other alternative methods that may be employed to firstly ensure that the correct service providers are appointed, and secondly to hold non-performing service providers accountable for their shortcomings. The topic of interest feeds interestingly into the theme of the CIGFARO 2018 conference on *Reclaiming Governance and Accountability in the Public Sector* as it deals directly with appointments made by municipalities.

According to the Municipal Finance Management Act (Chapter 11 on Supply Chain Management), the supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive, and cost effective and comply with a prescribed regulatory framework. These can further be defined according to the *Five Pillars of Procurement* stated in the *General Procurement Guidelines* that municipalities need to consider when awarding any government contract as follows:

- Value for Money
- Open and Effective Competition
- Ethics and Fair Dealing
- Accountability and Reporting
- Equity

While the *General Procurement Guidelines* focuses on providing rules and regulations to assist procurement or supply chain management departments on the pre-appointment of companies; this trilogy of articles will use the same Pillars but will focus on the post-appointment of companies. The focus of today's opinion piece will be on the first pillar, namely *Value for Money*.

Value for Money

The wasteful and irregular expenditure amount of R30 billion mentioned above consists mainly of spend on non-performing service providers, or service providers appointed via an irregular or non-compliant procurement process. The whole purpose of this article was to ascertain whether municipalities are obtaining an effective return when appointing service providers.

Municipalities' procurement processes usually state that lowest prices quoted do not necessarily ensure that a tender will be awarded to certain companies. The guidelines state that the true value for money will be the most beneficial outcome to the municipality when all relevant costs and benefits over the procurement cycle are considered. Is this actually the case?

Too often we hear about tenders that have been awarded and the corruption allegations that follow. Whether it be that costs have been inflated or if inexperienced or unqualified service providers have been appointed. At the end of the day, the municipality and the communities they serve are usually the casualties of such decisions.

When questioned, many have blamed external influence and inefficient procurement departments as the primary source of incorrect decisions. Is this the problem? The author believes that it is. A possible solution to this, while sounding simple, could actually be the remedy to ensuring better results.

The author believes that an independent body needs to be set up by government in order to evaluate and award tenders. This department would be responsible for coming up with innovative ways to ensure that the procurement process of appointment is fair and transparent. The department should consist of senior and skilled individuals who are rotated on a regular basis to ensure fairness in all decisions. This could possibly curb the inefficiencies in the procurement process and could lead to better outcomes for municipalities. All service providers must also be set strict targets and be measured on a continuous basis. Service providers must agree to specific service levels and failure to meet set targets will lead to action. At the end of the day, the purpose of the awarding of any tender should be on benefitting municipalities and the communities that they serve, not individuals.

Tomorrow we will look at the aspects surrounding *Open and Effective Competition*, as well as *Ethics and Fair Dealing*. The Five Pillars are not separate functions; all aspects need to be considered together in order for any procurement process to work.



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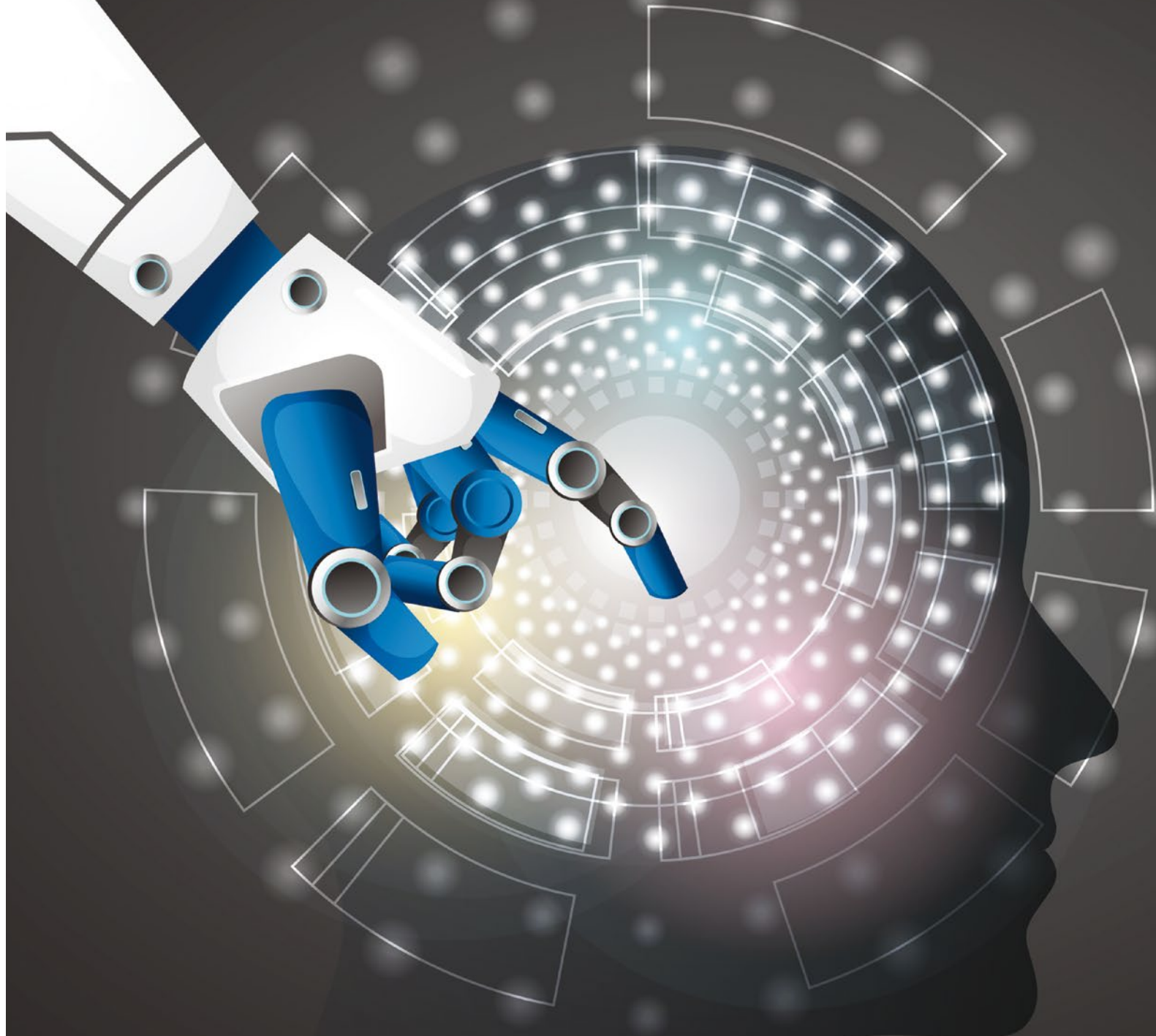
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DOES MEETING MINIMUM COMPETENCY REGULATIONS MAKE YOU COMPETENT?

Simphiwe Dzengwa
Executive Director: Municipal Finance
South African Local Government Association

On 7 September the Minister of Finance presented to Parliament a detailed response about the number of Municipal Managers and Chief Financial Officers who currently meet the Minimum Competency requirements as per the Municipal Regulations on this item. Since then, there has been a lot of commentary and public discourse on this matter. Some of this commentary has been misguided, misinformed and lacked context. As the Voice of Local Government, Salga deem it necessary to explain further what the Minister said.

To properly understand the issue of minimum competencies, the question has to be flipped around to ask whether not meeting the minimum competency regulations makes you incompetent for your role as a Chief Financial Officer (CFO) or Accounting Officer? The short answer is that if you do not meet the minimum competency levels you are not automatically deemed to be incompetent.

SALGA supports the minimum competency training as a way of orientating senior managers to LG operations, not as a qualification. While an initiative such as having minimum competency levels for critical senior roles in municipalities is commendable, it does require that it be given context. It is not possible that a six to nine months program would qualify someone as competent as such but rather practice/praxis is the most important determinant of competency levels.

It should be considered holistically along with other factors such as the qualifications, experience and performance of incumbents over a period of time, whether incumbents are currently in the process of obtaining the minimum competency levels and whether incumbents meet the required competency areas but due to the absence of a recognition of prior learning model or not attending a formal course and therefore not submitting a portfolio of evidence they may be deemed not to meet the requirements. Also a CFO who has undertaken this program but has for example a History background will continue being incompetent, so the intent of this training must not be misinterpreted.

Recently in response to question in Parliament the Minister of Finance gave statistics regarding the number of CFOs and Accounting Officers who meet the Municipal Regulations on minimum competency levels. His response indicated that based on cold hard data at hand as at 30 August 2018 approximately 50% of incumbent Accounting Officers met the minimum competency levels and approximately 40% of CFOs met the minimum competency levels.

While this cold hard data from National Treasury is most likely to be accurate it lacks the proper context. It does not indicate how many of the incumbents have been recently appointed. It also does not indicate how many of the incumbents are currently in the process of undertaking the minimum competency qualification that allows you to meet the competency requirements.

In order to illustrate the point we conducted a quick exercise. Using the information submitted by National Treasury we selected some municipalities that have CFOs reflected as meeting the minimum competency and other CFOs who are reflected as not meeting the minimum competency. We obtained the latest audit outcomes for these selected municipalities from the Auditor-General's office.

The table below reflects our findings:

TABLE REFLECTING AUDIT OUTCOMES OF SOME MUNICIPALITIES WHILE CONSIDERING WHETHER THE CFO MEETS THE MINIMUM COMPETENCY REQUIREMENTS			
MUNICIPALITY	PROVINCE	CFO MEETS MINIMUM COMPETENCY REQUIREMENTS	AUDIT OPINION 2016/17
Senqu	Eastern Cape	No	Clean
Fezile Dabi	Free State	Yes	Adverse
Mohokare	Free State	Yes	Disclaimer
Greater Giyani	Limpopo	Yes	Audit not finalised
Theewaterskloof	Western Cape	No	Clean
Mossel Bay	Western Cape	No	Clean
Hessequa	Western Cape	No	Clean

This clearly shows that audit outcomes, which is a key performance area of a CFO, has no direct causal link with whether the CFO meets the minimum competency requirements or not. It is reasonably expected that any competent CFO should be able to achieve a clean audit or at the least an unqualified audit. What the table reflects is that for the sample selected the competence of a CFO in achieving good audit outcomes has no direct correlation with whether the CFO meets the minimum competency requirements or not.

It is also worth noting that even a seasoned chartered accountant who may have been a CFO or financial director at a JSE or foreign listed company for over 7 years will also be deemed to be not meeting the minimum competency levels in terms of these regulations. Even though the CFO responsibilities of a municipality from an administrative perspective are much less onerous when compared to those of a listed company, that chartered accountant will still be required to undertake some of the modules of the minimum competency qualification and submit the portfolio of evidence in order to be deemed competent in terms of these regulations. An anecdotal point to make here perhaps is that some of the commentators, some of whom are themselves university lectures of this minimum competency program, would themselves be deemed 'incompetent' if they were to apply for senior positions in municipalities! On the other hand, some of the competent managers who submitted excellent Portfolio of Evidence assignments, did not do these themselves and some of the institutions offering this training know this but seem to be in the money making business, quite to the detriment of the objectives of the program. Salga has shared this concern with Treasury.

The other dynamic that is often overlooked is the tension that sometimes exists between the political and administrative dimensions within a municipality. In many cases it is a healthy and necessary tension but there are instances when it is unnecessary and unhealthy. In the negative cases it is really irrelevant if you are a CFO or Accounting Officer who is competent or not because you may be forced to sign-off or execute certain actions which you know are improper or irregular because of the pressure that is coming to bear from the political dimension.

It has to be also noted that while this training and regulation is necessary as part of the bigger effort to professionalize local government, it is somewhat a double standard in that the same requirement does not apply to the other spheres. A striking example of this is that through a section 139 intervention in a municipality, Provincial or National government will deploy an Administrator to run a municipality. A question is never asked whether this person does meet the 'minimum competency requirements' or the Administrator is automatically assumed to be 'competent'.

SALGA therefore welcomes the comments by the Minister of Finance wherein he indicated that he will be promulgating an amendment to these regulations to give all officials 18 months from the date of appointment to obtain the necessary required competency levels. As long as this amendment is coupled with the requisite funding required so that officials can attend courses in order to undertake the minimum competency qualification, then the minimum competency level gap will be greatly reduced come 2021. Whether this alone will translate into competent or better competent officials remains to be seen.

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- Project implementation
- Monitoring & evaluation

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Reclaiming governance and accountability in the Public Sector -

“A New Dawn for Public Service”

By Karen Heese

There is little doubt that South Africans have been shaken by the revelations of the Zondo Commission; confirming their worst fears that many public sector officials have not necessarily acted in the best interests of the public, without apparent accountability or consequences. This appears to have taken place in the context of political patronage, which has subverted the objectives of a democratic, accountable and developmental state.

There is also little doubt, considering the year-in year-out comments by the Auditor-General (AG) that the local government sector has been particularly compromised by an absence of incentives for malfeasance. In a climate of moral ambivalence, this has meant that there is little consequence for weak governance and poor delivery. Reclaiming the objectives of accountable governance in the interests of all South Africans, most especially the poorest, is not only a moral imperative to restore the promise of a democratic order, but also an economic necessity.

Local government is under immense strain to deliver services that meet not only the backlogs of the past, but those that amass daily in fast-growing cities, especially in a recessionary climate where revenue coffers have come under increasing strain at the same time that the national fiscus has constricted its scope for transfers.

Consider then the implications of an era of more judicious, equitable and appropriate use of what has been to date unauthorised, irregular, fruitless and wasteful expenditure. In the 2016/17 financial year, these categories recorded R43.5 billion, R65.3 billion and R4.2 billion, respectively. What would happen if, as the AG urges “sufficient steps” were taken to recover these sums, but more importantly, if officials were to avoid such future waste and direct it to optimal projects?

Much-needed funds for delivery would be freed up, contributing to the economic energy required for a New Dawn, and for tangible service delivery for citizens to become convinced of the inclusivity of a catchy slogan.

But this can only come to pass with political will, within individual political parties, within councils and across inter-governmental structures to ensure commitment to the AG’s “consistent and insistent calls to increase consequences”; breaking from material non-compliance with legislation, seen in 55% of municipalities in 2016/17, with an especial focus on supply chain management and alertness to possible fraud or improper conduct.

It is pertinent to note that amendments to the Public Audit Act are likely to increase such accountability, with the AG given authority to act on flagged areas of concern. In 2016/17, these were found in 61% of municipalities, with the vast majority failing to conduct the required investigation.

While investigation of potentially corrupt or improper conduct is crucially important as a deterrent to ill governance, the likelihood of greater oversight and follow-up action by the AG is an important incentive for self-policing and internal oversight. Regrettably, a spate of investigations, prosecutions and convictions may be necessary for the consequences of corrupt activity to be felt.

Hence, a New Dawn needs to be driven not only by resolute commitment from all political leaders, but by a focus on the incentive structure that ensures accountability. The extended role of the AG must therefore be supported by all politicians, in all councils and beyond, if local government is to feel the warmth and light shed by the rays of a new dawn.

Heese is Municipal IQ’s Economist.

Ends

“Passing the Buck”

Prof André de Villiers, ProsGro Consultant

We have experienced a traumatic decade - From an economic meltdown in 2008 to zero growth and increasing unemployment in 2018. Inequality has grown, people have become despondent and residents in the townships use every possible opportunity to protest violently against poor service delivery by municipalities. Libraries, schools and trains get destroyed on a daily basis.

The country is truly in a very precarious place!

What has passing the buck got to do with this? Simply stated, the Wild West was truly wild and a Colt 45 was easily drawn in a saloon or bar. Usually whilst playing poker the dealer was closely watched to see if he was cheating. To stop cheating the deal was passed around the table and the next dealer was indicated by the buck. This was a knife with a buckskin or buckhorn handle. If you did not want to deal, you passed the buck - in other words your responsibility.

The fact that municipalities in South Africa have been passing the buck for far too long is clearly illustrated by the grave situation in the Vaal river system. It has become so critical that the Human Rights Commission has found it necessary to do an investigation into the matter.

An estimated 50 megaliters of raw sewerage has been flowing into the river daily for a very long time. Informal settlements on the banks of the river and the Emfuleni Municipality’s inability to treat sewerage because of insufficient and faulty infrastructure, are to blame.

Although the municipality in its turn may pass the buck on to government for not supplying a large enough infrastructural grant, it is a well-known fact that few municipalities pass the annual audit hurdle. Very often capital grants are returned to the fiscus because of a lack of capacity and competence to successfully initiate and manage infrastructural projects.

Malcolm Plant, chairperson of Save (Save the Vaal Environment), made the following statement: “The best way to resolve the ongoing sins is to hold people accountable ... take them to court and put them in jail for what has happened to the people of Vaal and the people using the river for their lives.”

The whole economy of the region is now under threat of collapse. The tourism industry has ground to a standstill. No young couple wants to wed next to a river that stinks of sewerage.

During the past ten years the E.coli count has shot up from less than 500 000 units to approximately 5 million units per 100 ml of water. The estimated cost to fix this crisis is at least R5 billion – that is an astronomical R5 000 000 000.

There are a multitude of laws which regulate against water pollution and the discharging of sewerage effluent into rivers and streams. Furthermore, the Department of Health should also concern itself with the safety of drinking water and the possible outbreaks of water borne diseases. The Departments of Water and Environmental Affairs have also conveniently been ignoring the pollution.

‘Passing the buck’ has been a general pastime in this case. But it is not only this municipality that has been destroying the ecological environment and the regional economy on a grand scale. Many small municipalities don’t have the required engineering skills nor could they care less about polluting streams close to small towns.

Our concern should not only be with river pollution. Air pollution in urban areas is at unacceptable levels. In our metro’s the current level of air pollution is between 3 and 6 times the acceptable level set by the World Health Organisation. It is estimated that 1200 people die monthly in South Africa as a result of air pollution.. Furthermore, the average life expectancy is two years less as a result of air pollution.

One could argue that rapid urbanisation, the setting up of illegal squatter camps, and the virtually impossible task of most municipalities to supply operable sewerage systems and control air pollution, are the main causes of such problems.

On the other hand we know that effective municipal systems require competent people with the right attitude and commitment to perform in the face of adversity. The technical and managerial capability of most municipalities is of serious concern. For example the ratio of engineers to residents in towns and cities has drastically declined.

Every municipal system consists of interlinked sub-systems, each performing a specific function or task. When one sub-system, such as a sewerage system, breaks down, it affects service delivery and leads to customer dissatisfaction.

But, a system can only have integrity when the people who manage those systems on a day to day basis also have integrity. We are increasingly aware of growing corruption and councillors and officials enriching themselves. The term tenderpreneurship is now commonly used. As they say: ‘It takes two to tango’ and



Whistleblowing and ethics: the 1st in a 3-part series

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Article by Mike Batley, ethics practitioner, www.mikebatley.co.za

‘South Africans owe a debt of gratitude to a handful of courageous individuals who stood up against state capture and put their lives and careers in jeopardy. Without them, so much would have been allowed to continue unobstructed, and we would probably be living in a very different country today. Society owes them gratitude.’ This opening statement from a recent newsletter of the Ethics Institute brings into focus something many of us are probably only vaguely aware of.

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Through the actions of these people information has come to light about fraud and corruption that would probably not otherwise have been known. Indeed, it is likely that thanks to these actions SA has been pulled back from the brink of systemic corruption that would

have been virtually impossible to break.

Whistle-blowing in SA is governed mainly by the Public Disclosures Act, 2000, as amended in 2017. It refers to

“the disclosure of information related to corrupt, illegal, fraudulent or hazardous activities being committed in or by public or private sector organisations – which are of concern to or threaten the public interest – to individuals or entities believed to be able to effect action.” ((https://www.transparency.org/whatwedo/publication/international_principles_for_whistleblower_legislation)).

The focus on the public interest is important. Whistleblowing should be undertaken for the purpose of protecting the public interest, not to undermine it or to settle personal or political scores.

There is concern at present that there are insufficient inducements or protections for whistle-blowers, which may prevent people from coming forward. Whistle-blowers are seldom rewarded in any way for their trouble. There have also been many accounts of how the personal safety of whistle-blowers has been threatened and the enormous toll it takes on their personal mental health and relationships. A recent article by the Helen Suzman Foundation pointed out that whistle-blowers often ‘undergo discrimination, attacks on their reputations, harassment, and in extreme cases, threats to their personal safety and that of people close to them. In some cases, a person who suspects wrongdoing reports it and, after investigation, is proved wrong, but then suffers harmful consequences for his or her good-faith actions. He or she may be taken to court for breaching confidentiality.’

Incredibly, many whistle-blowers pay the ultimate price for their actions. The Open Democracy Centre relates the story of Tlholo Phakoe who is planning his father’s memorial for early next year. It will be 10

years since Moss Phakoe was assassinated, apparently for trying to expose corruption in the Rustenburg Municipality. This number has increased dramatically in the past 6 years in SA (<http://www.odac.org.za/index.php/blog/181-the-price-of-speaking-out>).

However, the vast majority of Protected Disclosures Act cases to come before South African courts thus far have been found to be valid and there is little evidence to justify concerns about ‘frivolous’ or ‘vexatious’ claims.

Looking at these realities one can understand why people may be reluctant to come forward to disclose acts of wrongdoing of which they are aware, and that those who do are people of unusual moral character and courage. They may be faced with a choice of being drawn into being actively corrupt themselves or doing nothing and arising from this context made a very careful choice to come forward despite the risks, being profoundly convicted that this is the right thing to do. They are thus highly ethical individuals, able to see beyond temptations such as personal benefit or calls to be loyal to the perpetrators of wrongdoing in the name of some other connection.

We need to recognise these remarkable qualities of whistle-blowers, honour them for the price they are willing to pay for the public interest, and be aware of what we can do to support them.

Some useful resources:

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REVENUE MANAGEMENT - INCLUDING REVENUE PROTECTION - IS KEY TO IMPROVING THE FINANCIAL HEALTH OF MUNICIPALITIES

Part 1 of 3

By Ben Dorfling and Daniel J de Lange

Introduction

Extracts from reports published by National Treasury and the Auditor General reveal that local government is in a state of financial crisis, although there are also pockets of excellence.

On 30 June 2017, metropolitan municipalities recorded water and electricity losses amounting to R3,6 billion (R2.8 billion in 2016) and R6,5 billion (R7.2 billion in 2016) respectively.

National Treasury (NT) reports that municipal consumer debts amounted to R128.4 billion as at 30 June 2017 (compared to R128.3 billion reported in the third quarter). Government accounts for 5.8 per cent or R7.4 billion of municipal consumer debt. The largest component relates to households, which account for 64.8 per cent or R83.1 billion (67.1 per cent or R86 billion in the third quarter). A total amount of R1.7 billion has been written off as bad debt.

According to NT, if consumer debt is limited to below 90 days, then the actual realistically collectable amount is estimated at R24.9 billion, which is 19,4 percent.

Overall, municipalities are not adequately prioritising expenditure on asset management, which is impacting negatively on service delivery and cash flows.

National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 3.4 per cent while the norm is 8 per cent.

The AG in his MFMA audit outcomes report as at 30 June 2017, reports that the inability to collect debt from municipal consumers is widespread. In these circumstances, it is inevitable that municipalities will struggle to balance the books.

In total, 31% of the municipalities disclosed a deficit – the total deficit for these municipalities amounted to R5,6 billion. The financial woes of local government also weighed heavily on municipal creditors. The impact of this inability to pay creditors was most evident in the huge sums owed for the provision of electricity and water to Eskom and the water boards respectively. A combination of various factors, including poor revenue and budget management and the non-payment of creditors, led to 31% of the municipalities disclosing in their financial statements that they might not be able to continue operating. Although they must continue to do so, they were reporting that they were in a particularly vulnerable financial position at the end of the financial year

This paper will highlight the following:

- the negative impact of the deteriorating financial position of municipalities on service delivery
- past reforms to address poor performance
- the National Treasury plans to address the financial distress of municipalities, and
- reasons for failures.

The importance of addressing gaps in the revenue management value chain and keeping track of the developments regarding smart meters, and the Internet of Things to deal with water and electricity losses, are also focus areas.

Negative Impact of Accountability Failures on the lives of Citizens

The Auditor General reports that local government accountability failures result in municipalities not achieving their objectives, which in turn has a negative impact on the lives of citizens. The AGSA's audits highlighted three key areas of impact, namely:

- Financial health of municipalities
- Fruitless and wasteful expenditure
- The delivery and maintenance of municipal infrastructure

The AG points out that the poor economic climate does play a role in the deterioration of municipalities' financial health. However, many are just not managing their finances as well as they should.

The AG also highlights the poor financial health of municipalities and indicates that one of the main contributing factors is POOR REVENUE MANAGEMENT.

It is clear that the many gaps which exist in the Revenue Management Value Chain, absence of effective Revenue Protection measures, and poor internal controls, are also contributing significantly to the current poor financial health of many municipalities.

Past Reforms

South Africa's local government financial management system has undergone several reforms and there has been considerable progress.

However, there is still a long way to go before all municipalities are fully functional and sustainable. It is internationally acknowledged that South Africa has some exceptional financial management legislation and practices, but these must be institutionalised if overall performance objectives are to be achieved.

The financial management reform agenda for local government is an evolutionary process and needs to be nurtured to maturity. Government has initiated several capacity building initiatives to support municipalities in achieving this:

Capacity building grants-FMG (Since 2004)

Municipal Finance Improvement Programme (MFIP) Phase II

Province-specific strategies

Cities Support Programme (CSP)

Standard Chart of Accounts for Municipalities (mSCOA)

The Back to Basics approach (in September 2014, the President launched the Back-to-Basics Programme (B2B))

Financial Management Capability Maturity Model (FMCMM) (An assessment was conducted in all municipalities and their entities in 2015)

So far, none of these important support programmes have been able to make a significant impact on the overall performance of municipalities, which is a cause for concern.

Reasons for the Accountability Failures

The AG's report singles out the following as some of the major contributors to the accountability failures and the regression in audit outcomes:

Vacancies and instability in key positions slowed down systematic and disciplined improvements. Inadequate skills led to a lack of oversight by councils (including the mayor) and insufficient implementation and maintenance of financial and performance management systems by the administration.

Political infighting at council level and interference in the administration weakened oversight, hindered dealing with consequences and made local government less attractive for professionals to join.

Leadership's inaction, or inconsistent action, created a culture of 'no consequences', often due to inadequate performance systems and processes.

At some municipalities there was a blatant disregard for controls (including good record keeping) and compliance with key legislation, as it enabled an environment in which it would be easy to commit fraud.

Leadership did not take repeated audit recommendations and warnings of risks for which they needed to prepare seriously.

Municipalities focused on obtaining unqualified financial statements at a great cost by using consultants and auditors, which was to the detriment of credible performance reporting and compliance with key legislation.

Provincial and national role players did not sufficiently support municipalities.

The AG has placed the staff turnover at the senior management at the top of his list of reasons for failures at municipality. There is no doubt that no institution can perform without skilled, dedicated and committed leaders with vision and the ability to do the job.

It may be time that municipalities appoint their departmental heads, who should be career professionals, on permanent employment contracts to promote certainty regarding employment and stability at senior management level.



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THE ROLE OF THE AGSA IN THE ACCOUNTABILITY CHAIN

As public sector auditors, the role of the AGSA is to report to oversight structures on the credibility of the financial statements and performance reports and on whether the auditee complied with the key legislation.

It is the role of oversight structures to use the audit reports to determine the reliability of the financial statements and performance reports for oversight and decision-making purposes and to call the administration to account for matters reported in the audit report.

But as public sector auditors with keen interest in seeing auditees succeed, the AGSA has always done more than just report:



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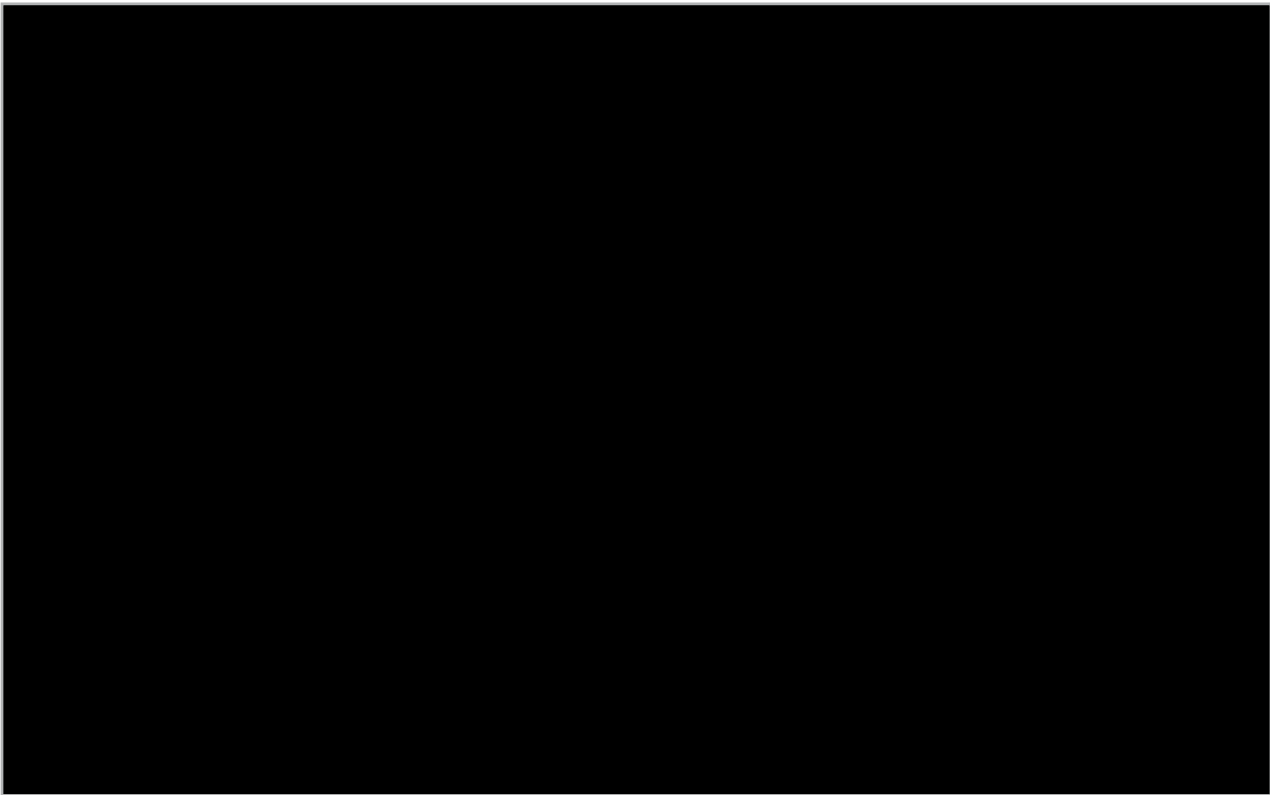
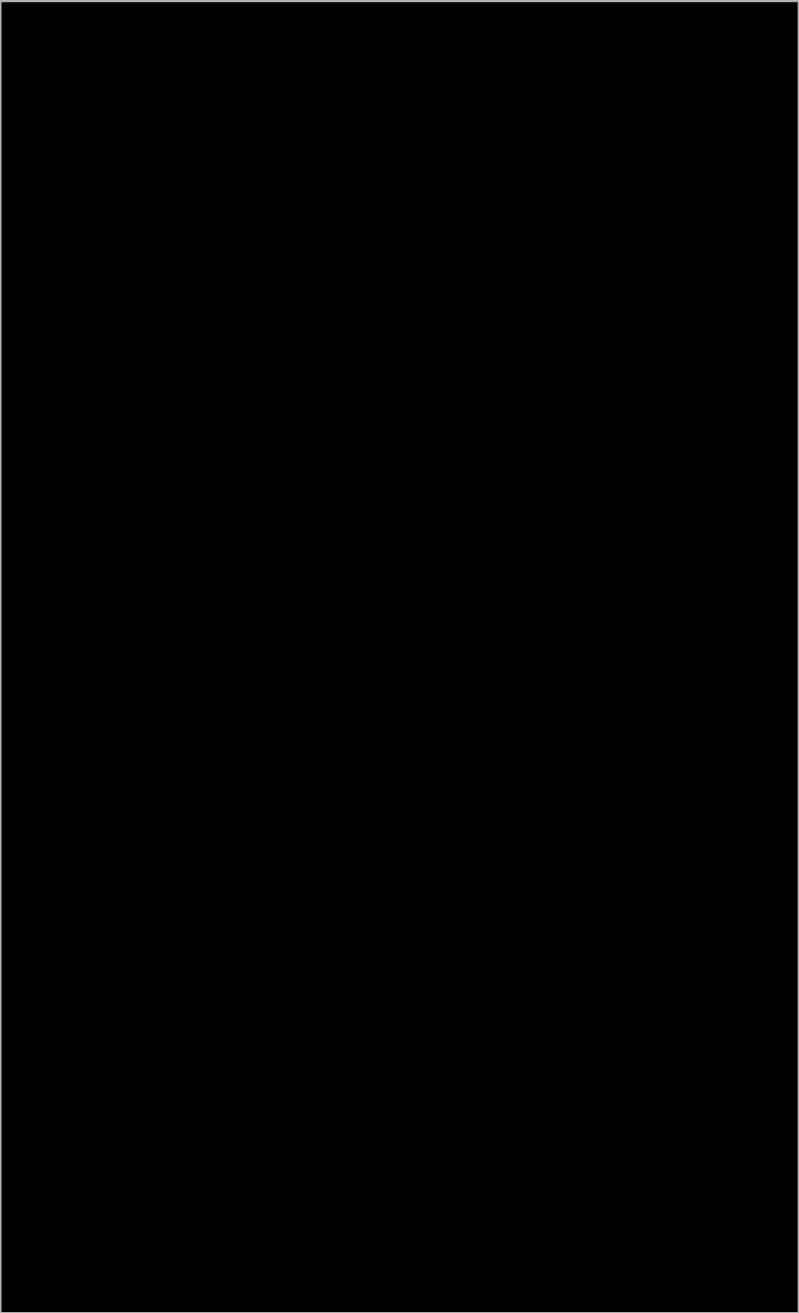
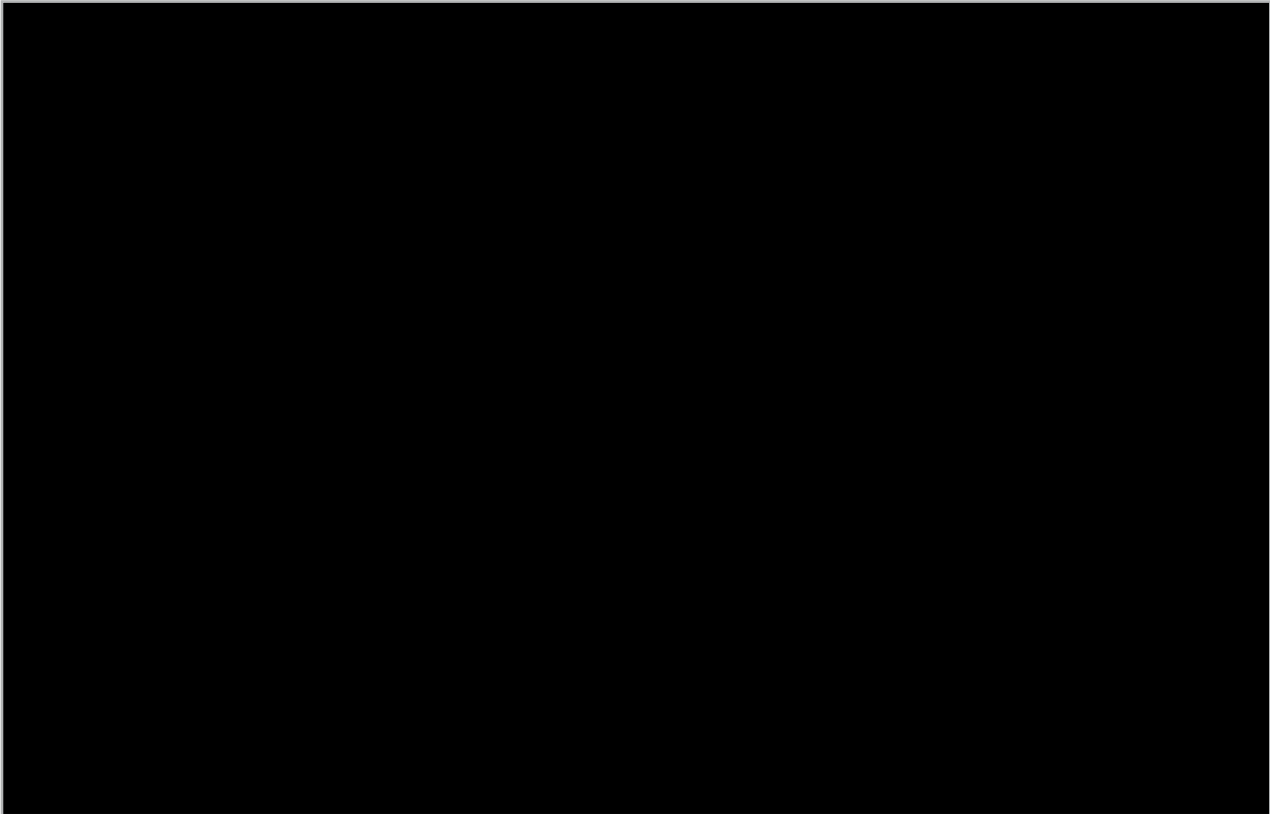
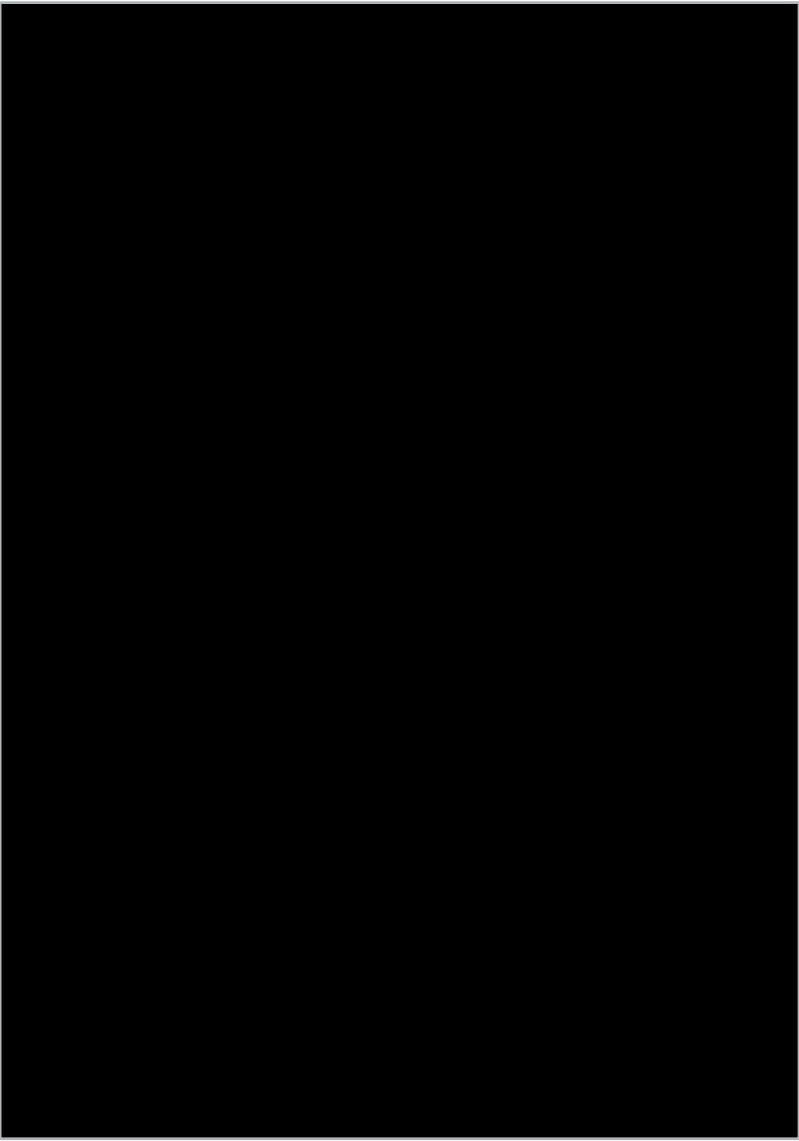
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