

7-9 OCTOBER 2019

CIGFARO ANNUAL CONFERENCE DURBAN ICC

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WHAT DO YOU TAKE BACK HOME?

The Chartered Institute of Governance, Finance and Risk Officers (CIGFARO), 90th Annual Conference is drawing to an end. The three (3) days conference was reflecting on one of the key ingredients for good corporate governance and organisational growth to be sustained over a long period of time.

It is a fact that “even if you could have more than sufficient resources at your disposal, but there is 0% of Leadership, your organisation is destined to failure”.

When delivering a keynote address at the opening of this conference, Dr Nkosasana Dlamini-Zuma said: **“.....it is clear that we need to do things differently as the three (3) spheres of government”.**

You have been well behaved delegates for this conference through the three (3) days, **BUT** a concern is: **“What are you taking back to your Municipalities, Departments and other government entities”.** Transformation Leadership has to start with each and everyone who has attended this conference so that we practically demonstrate a dire need of doing things differently in order to turn the tides especially at our Municipalities.

The CIGFARO President, Board members and their staff take this opportunity to express their appreciation for the support received from all Delegates, Sponsors, Exhibitors, Speakers, Panellists, Daily Newspaper Editorial Team, the Host City, the Durban ICC and everyone who has contributed positively towards the success of our 90th conference. We really value your contributions.

Communities are out there waiting for us to deliver much improved services, innovatively and most prudently. This is what we need to take home: **“effective and efficient service delivery”.**

We wish you all the best in your endeavours. We trust and hope that the 2019 Festive Season will provide you with the necessary energy and zeal which will make you a different positive person henceforth. Please have a safe journey back home. **“Adios”**



Abbey Tlaetsi, Chief Executive Officer

CONFERENCE DELEGATES KINDLY TO BE SEATED BY 08H50

Wednesday 09 October 2019

Program Directors: Annalene Marais & Asma Sheik

07:30 – 09:00	Final viewing of exhibitors stands	Exhibition Hall
09:00 – 09:30	Exhibitors Prizes for delegates – only given to those in Plenary session	
S23		
09:30 – 10:00	The role of Government in effecting the Expropriation of Land Act	Sue Bannister <i>City Insight</i>
S24		
10:30 – 11:00	Implementing densification planning that will minimize service delivery costs and completely integrate communities – path to reality	Beryl Mphakathi <i>Ethekewini Municipality</i>
S25		
11:00 – 11:30	Introducing Policy and Tariff Strategies that will encourage efficient and productive use of vacant land	Fathima Khan <i>eThekwini Municipality</i>
S26		
11:30 – 12:00	Closing of Conference <ul style="list-style-type: none"> - Thanking of overseas visitors - Handing over exhibitors Award - Closure 	Peet du Plessis <i>CIGFARO President</i>
S27		
12:00 – 13:00	Transformational Leadership	Umbusi Ziqalo <i>Motivational Speaker</i>
S28		
13:00 – 13:30	Refreshments and conference hand-outs	Exhibition Hall

PROGRAMME DIRECTORS



Annalene Marais



Asma Sheik

Please remember to participate on our social media platforms:

Facebook: <https://www.facebook.com/InstituteMunicipalFinanceOfficers>

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THE AGSA **INTEGRATED ANNUAL** REPORT 2018-19



Tabled in Parliament on **26 September 2019**

<https://www.agsa.co.za/Reporting/AnnualReport.aspx>

#AnnualReport

Articles are the view of the writer and don't necessarily reflect the views of CIGFARO





ADVANCING MUNICIPALITIES AND THE COMMUNITIES THEY SERVE

HOMEgrown EXPERTISE

The partnership between Sebata Municipal Solutions, Utility Systems and IPES-Utility Management Services (UMS) – all Sebata Holdings group companies – further strengthens their holistic approach to supplying local government with technologies that advance the communities they serve.

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Utility Systems is an industry leader in the field of Smart Water Management. Established in 2001, the company offers cutting-edge smart digital technology and has a global customer base. At the heart of the Utility Systems solutions is the Water Management Device, which when added to a water meter, is capable of flow limitation, Standard Transfer Specification (STS) based prepaid metering, and Bulk Water Management.

IPES-Utility Management Services (UMS)

Founded in 1996, UMS specialises in the development, implementation and management of sustainable revenue enhancement and revenue protection services to municipalities and utilities. For the past two decades, UMS has been extensively involved in the financial viability of municipalities, and forms part of the holistic Sebata revenue management solution.



utilitysystems



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Proposed Economic Transformation Strategy – Implications for Government Finances

By Lucas Raphela
National School of Government

It is clear that South Africa's current economic trajectory is unsustainable. Economic growth has stagnated, unemployment is rising, and inequality remains high. This is unsustainable on many fronts with real gross domestic product (GDP) per capita having been on the decline since 2015. The immediate effects for the public sector has been the declining of the tax base and budget cuts in many of the state institutions. The following are a few proposals that have the potential to improve the prevailing dire economic situation.

Agriculture and services sectors present significant opportunities for lowering unemployment, which is at its highest point in many years. Service sectors such as construction, retail, and tourism offer great scope to support inclusive growth by absorbing the youth. It is common knowledge that a greater budgetary support for tourism agencies is required and measures should be introduced to protect their budgets from the negative impact of currency fluctuations given their impact on marketing in foreign destinations.

The services sector has generally been more resilient than other sectors in downturns. On an annual basis, services consumption has not contracted since the mid-1980s and this needs to be maintained to build on a much broader economic strategy.

The agricultural sector can also assist with reversing both unemployment and low growth while countering rural poverty. This sector is however constrained from an insurance perspective as the costs of agricultural insurance are quite high. The insurance component associated with the agricultural industry seriously needs to be relooked at Government level.

Chile's success in exporting agricultural products was the result of public intervention in irrigation and a very effective and transparent water licensing regime for agriculture. This may also need further investigation for a possible implementation in South Africa.

The implementation of youth employment interventions needs to continue in order to ensure that training requirements are demand driven. These include training opportunities to remove barriers to entering the labour market. Apprenticeships based on cooperation between technical, vocational, other training institutions, and the private sector, are required. South Africa's negative trend in wage inequality is vastly attributed to an uneven and underperforming basic education system.

Reducing anti-competitive practices and barriers to entry can facilitate the entry of SMMEs, improve rivalry among incumbents, and generate inclusive growth benefits in the short term in a manner that promotes economic transformation.

Procurement policy is another key avenue which government can use to further support small businesses. Steps should be taken to improve oversight and monitoring of the subcontracting relationship, possibly through the creation of a dispute resolution mechanism. This can also be used to manage the risks that come with possible contractual and performance complications.

Investment is needed in the rail freight transport industry specifically in ageing infrastructure, security, and operations. Rail freight tariffs are much lower than road freight transport; however the road freight transport maintains a 70% market share in transport. The investment will improve competitiveness of the economy and will improve linkages between regions.

Public transport has a role to play in overcoming spatial planning challenges through the integration of modes of transport. The costs of commuting

in South Africa have increased by more than inflation on an annual basis, affecting the poor the hardest. Local and provincial government need to work together to ensure integration.

In the water sector, there is finally a realization that an independent water regulator is needed to improve the overall efficiency of water provision and improve price setting. There is a need to bring more competitiveness within the water sector. There is also a need to have a national water conservation programme to reduce water waste and demand within the country.

It is very encouraging to note that in the manufacturing sector, the exports to the Southern African Development Community (SADC) more than doubled between the years 2008 and 2014. Regional growth opportunities should be harnessed to promote export growth and the recent social unrest that took place mainly in Gauteng, should be curbed before it impacts negatively on diplomatic relations within the SADC.

There is a proposal concerning the sale of power stations. This will see the new owners supplying a specific amount of electricity annually over the remaining lifetime of the power station to the "Single Buyer Office" at Eskom at a predefined tariff. This will in turn assist government to get the best expertise from the private sector. As things stand Eskom is underspending on transmission and distribution networks in favour of maintenance of its plants and the sale will bring more focus to Eskom and will reduce the fiscal state debt. The over-reliance of municipal budgets on electricity revenue needs to be corrected; electricity is currently used by municipalities as a debt collection tool and this may need to change overtime as more consumers move off of the grid.

Conclusion


Economic transformation must continue to be implemented in a manner that does not compromise the ability of the economy to compete in global product and labour markets. The State's capability is at the centre of these key interventions that are required. Institutions such as CIGFARO need to continue to build this required capacity for the State to be responsive to ever demanding needs to improve Africa's most industrialised economy for the next decade and beyond.



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ARMS has established its base of operations in Gauteng with Headquarters in Johannesburg, and regional offices in Polokwane and East London. ARMS assists clients with all matters relating to assurance, advisory, risk management and governance. The founders and partners of this firm bring decades of accounting and auditing experience to the business. This group of professionals are leading the company as it establishes a reputation of providing high quality professional services.


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“Changing Mindsets”

By Yusuf Aboojee – Group Head: Strategy & Special Projects – Transaction Capital Recoveries (Pty) Ltd

In May 2019, South Africa made headlines around the world... but for all the wrong reasons. According to a report from the World Bank on Poverty and Equity, South Africa is the world's most unequal country. According to the report, the gap between rich and poor is wider in South Africa than in any other country.

Mthandazo Ndlovu* emphasizes that inequality has been exacerbated as a result of systemic failures at a government level. An analysis of the wealth distribution of South Africans shows that the richest 10% of households hold 71% of the total wealth of the country while the poorest 60% hold 7% of the total wealth. This is significantly different to the international average where the richest 10% hold 50% of total wealth and the poorest 60% hold 13% of total wealth. An additional worrying fact is that 55.5% of the population live in poverty, with 25.2% of the total population living below the food poverty line.

Ndlovu makes the statement that the inequality results from systemic failures at government level. Is this true? Has government as a whole failed the people? Is Government only concerned with fighting political battles and corruption? Are people crying for the past? I personally do not believe so. Yes, we have the highest inequality in the world and yes, it is truly worrying, if as a country we focus on all the doom and gloom we may never start to address key issues, one of which is inequality.

If we look at what South Africa looked like as a newly democratic country in 1994, we would see statistics such as 50.9% of households having access to electricity, 62.6% of households having access to water, and 51.5% of households having access to proper sanitation. This occurred in a period where the total population increased nearly 40% from 41.2 million in 1994 to 57.5 million currently.

However, should we as a country not realise that 15.3% still don't have access to electricity, 11.0% still don't have access to water and 17.0% still don't have access to proper sanitation? We should in fact look at the improvement to celebrate and focus on improving further.

Too often, we look at the negatives and not at the positives. By focusing on the negatives and the obvious politicking that follows, we remain focused on the past, fighting to justify actions and the returns that they yield. Mindsets need to be changed towards the concerns and voices of the people, to celebrate any success, to focus on worrying issues, and to leverage what has worked to improve it even further.

Addressing inequality in South Africa is one of those issues that government at all levels needs to address immediately. We often receive news around the salaries of CEO's at South African companies at the various financial year ends. And they are significant when comparing them to what the average

worker earns in South Africa. Nowhere is it more prevalent than seeing the income figures of South Africa's wealthy persons compared to that of a poor person. Recent commissions of enquiry have also shown the flow of huge sums of money between officials and businessmen. Such sums simply boggle the mind of ordinary middle-income citizens.

Government needs to put processes in place to address inequality and it needs the assistance of the private sector at all levels to ensure that this works. These include the participation of large corporates and small businesses alike. Central to this strategy is the fact that jobs need to be created.

With the current state of our economy this is difficult especially since the traditionally large employment industries such as manufacturing, construction, mining, and agriculture all have severe challenges. Therefore, government needs to play its part by putting together a stimulus plan aimed at reversing these challenges. The dumping of internationally manufactured and produced goods and commodities in our country needs to be addressed and balanced. We need to bring back the concept of *Proudly South African*, where locally manufactured goods and commodities are promoted rather than cheaper imported versions. With growth in demand the construction and mining industries can start to grow.

Another priority area of government should be access to quality education. Many of the teachers in South Africa need to be commended for the work that they are able to do given the conditions of some of the schools. However, in many schools learning is rather limited due to unproductive teachers. Currently 87.7% of children attend school, but of these only 11% go on into further studies. Unfortunately, many don't complete their studies and many graduate with degrees that are not suitable for the market. Government should focus on technical training for young people.

Access to healthcare is another area that needs to be addressed. Currently the public healthcare system needs urgent improvement. The proposed NHI scheme is a very hot topic.

Changing our mindsets is key to addressing issues facing the population and the economy in South Africa. Addressing the real issues such as inequality should be a priority. Plans and strategies to increase employment, access to basic and further education and access to better healthcare, should be at the top of government's list.

- Mthandazo Ndlovu, Governance coordinator at Oxfam.

QUOTE OF THE DAY

What does thoughtful leadership mean to you?

Thoughtful leadership is understanding yourself and your environment, appreciating the multitude of perspectives and adjusting the communication style based on the audience and desired outcome sought.

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“Migration to New Professional Designations for CIGFARO Members”

At the CIGFARO Annual General Meeting (AGM) held on the 8th of October 2018, the members present considered and approved the new professional designations of the Institute. These professional designations, which are aligned to the SAQA requirements, were launched at the CIGFARO Annual Conference in 2018. Over the past year these professional designations have been refined and the requirements for transition established.

The designations are as follows:

1. A current Senior Associate Member will transition to a Chartered member with the following designation:
- Chartered Government Finance Officer
2. A current Associate Member will transition to a Professional member with the following designations:
- Professional Government Finance Officer
- Professional Government Internal Auditor
- Professional Government Risk Officer
3. A current Licentiate Member will transition to a Technician with the following designations:
- Government Finance Technician
- Government Auditor Technician
- Government Risk Technician
4. A current Junior Member will transition to a Registered member with the following designations:
- Registered Government Finance Practitioner
- Registered Government Internal Auditor
- Registered Government Risk Practitioner

All General members will become Affiliate members, with our student members retaining their Student designation.

The transitional arrangements have been circulated to members to ensure the full transition takes place within the stipulated timeframes. Members will be transitioned based thereon that the:

- Member is in good standing with the Institute i.e. all annual fees and outstanding charges are fully paid;
- Member has submitted the necessary information to ensure compliance with requirements set.



DRAFT - 2020 TRAINING SCHEDULE

Cash and Liquidity Management Training		
DATE	TOPIC	PLACE
February 2020	Cash and Liquidity Management	Western Cape
	Cash and Liquidity Management	KwaZulu Natal
	Cash and Liquidity Management	Gauteng
	Cash and Liquidity Management	Eastern Cape

mSCOA Budgeting Training		
DATE	TOPIC	PLACE
February & March 2020	mSCOA Budgeting	Eastern Cape
	mSCOA Budgeting	Western Cape
	mSCOA Budgeting	KwaZulu Natal
	mSCOA Budgeting	Gauteng

Ethics Training		
DATE	TOPIC	PLACE
February & March 2020	Ethics	KwaZulu Natal
	Ethics	Gauteng
	Ethics	Eastern Cape
	Ethics	Western Cape

Performance Information for Managers and Supervisors Training		
DATE	TOPIC	PLACE
April & May 2020	Performance Information for Managers & Supervisors	KwaZulu Natal
	Performance Information for Managers & Supervisors	Gauteng
	Performance Information for Managers & Supervisors	Free State
	Performance Information for Managers & Supervisors	Northern Cape

Risk Management for Risk Champions Training		
DATE	TOPIC	PLACE
April & May 2020	Risk Management for Risk Champions	North West
	Risk Management for Risk Champions	Limpopo
	Risk Management for Risk Champions	Eastern Cape
	Risk Management for Risk Champions	Gauteng
	Risk Management for Risk Champions	KwaZulu Natal

Tarrif Modelling Training		
DATE	TOPIC	PLACE
April 2020	Tarrif Modelling	KwaZulu Natal
	Tarrif Modelling	Gauteng
	Tarrif Modelling	Mpumalanga
	Tarrif Modelling	Northern Cape

GRAP Annual Financial Statement Training		
DATE	TOPIC	PLACE
May & June 2020	GRAP Annual Financial Statement	Mpumalanga
	GRAP Annual Financial Statement	Western Cape
	GRAP Annual Financial Statement	KwaZulu Natal
	GRAP Annual Financial Statement	Gauteng
	GRAP Annual Financial Statement	Eastern Cape

Revenue Management Workshop		
DATE	TOPIC	PLACE
May 2020	Master Class Revenue Management	Mpumalanga
May-20	Master Class Revenue Management	North West
Jun-20	Master Class Revenue Management	Northern Cape

GRAP - mSCOA Impact on AFS Manual Training		
DATE	TOPIC	PLACE
06 - 07 May 2019	GRAP - mSCOA Impact on AFS Manual	Free State
09 - 10 May 2019	GRAP - mSCOA Impact on AFS Manual	Eastern Cape
13 - 14 May 2019	GRAP - mSCOA Impact on AFS Manual	Mpumalanga
16 - 17 May 2019	GRAP - mSCOA Impact on AFS Manual	KwaZulu Natal
21 - 22 May 2019	GRAP - mSCOA Impact on AFS Manual	Gauteng

Debt Management Training		
DATE	TOPIC	PLACE
July & August 2020	Debt Management	Mpumalanga
	Debt Management	KwaZulu Natal

Supply Chain Management - Contract Management Workshop		
DATE	TOPIC	PLACE
July 2020	Supply Chain Management - Contract Management	KwaZulu Natal
	Supply Chain Management - Contract Management	Northern Cape
	Supply Chain Management - Contract Management	Gauteng
	Supply Chain Management - Contract Management	Western Cape

Supply Chain Management - Acquisition Management Training		
DATE	TOPIC	PLACE
July 2020	Supply Chain Management - Acquisition Management	Gauteng
	Supply Chain Management - Acquisition Management	Free State
	Supply Chain Management - Acquisition Management	Mpumalanga
	Supply Chain Management - Acquisition Management	KwaZulu Natal

Microsoft Word - Excel Training		
DATE	TOPIC	PLACE
October 2020	Microsoft Word - Excel	Eastern Cape
	Microsoft Word - Excel	KwaZulu Natal
	Microsoft Word - Excel	Gauteng

Finance for Non-Financial Managers Training		
DATE	TOPIC	PLACE
October 2020	Finance for Non-Financial Managers	Gauteng
	Finance for Non-Financial Managers	Eastern Cape
	Finance for Non-Financial Managers	KwaZulu Natal



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PROJECT MANAGEMENT: A KEY COMPONENT IN CLEAN AUDITS

By Peter Michel and Prof André de Villiers, ProSGrow.

In the first article on Day 1 of the Conference on "South African Municipalities at the Crossroads", it was mentioned that the Auditor-General deplored the lack of accountability in municipalities.

To quote him: **"The leadership sets the tone at the top at any organisation. If an organisation's leaders are unethical, have disregard for governance, compliance and control, and are not committed to transparency and accountability, it will filter through to the lower levels of the organisation"**

In Part 2 of the 2017/18 MFMA report by the Auditor-General (AG), it was stated that more than half of all municipalities did not comply with legislation in terms of dealing with unauthorised, irregular, fruitless, and wasteful expenditure. In other words simply nothing was done to investigate wrongdoings, rectify problems, and recover money wrongly spent.

As an example (without naming and shaming the specific municipality), an audit found that an amount of R21,7 million of a project budgeted to cost R21,9 million for a sports complex had been spent, whilst only a fence had been erected around the site.

In analysing Infrastructure Development and Maintenance Grants, the total expenditure was R35,6 billion of which a total of R2,7 billion was not spent. Of the projects undertaken 24% were not completed on time. Furthermore, 49% of municipalities had no policy on maintenance of sanitation infrastructure, and 48% had no policy on water infrastructure maintenance. Nearly 40% of municipalities lost over 30% of their water. This is unacceptable in a water strapped country.

Niccolo Machiavelli stated: **"When you go into the battle armed, you have so much more courage."** With a proper understanding of how project management principles and processes work, many of the above criticisms of the Auditor-General can be addressed and non-compliance can be minimised.

Fundamental to understanding project management is the matter of defining project management in order to distinguish it from general management. Broadly stated, project management may be described as a special form of management, applied under specific circumstances, to improve the likelihood of the achievement of clearly stated objectives, through the application of a disciplined approach.

However, even more important is the understanding of what a project really constitutes. In specific terms, a project could be defined as follows:

- A unique, non-repetitive endeavour.

- With a defined beginning and end.
- Aimed at achieving agreed upon and clearly specified and measurable objectives.
- While consuming specifically allocated resources.
- And conforming to the quality, cost, and time limits set.

There is integration of all these factors and a project typically follows a Life-Cycle approach:

- By breaking down the process into manageable units or tasks to minimise risk.
- And by controlling the process through a single point of responsibility or a project manager.
- To ensure a specific client's satisfaction.

The client is obviously the municipality who appoints either an internal or external project manager who manages the project by way of a Project Plan. As a project usually cuts across organisational boundaries, it is essential that a silo approach, where there is a tendency to protect own turf, should be avoided.

One of the most important starting points for any project is the identification of the need and specification of requirements that should be met.

This is followed by advertising of the proposed project and the tender process. It is a known fact that this has become an easy opportunity for corruption in most municipalities. Although the MFMA has specific guidelines which should be followed, persons with devious intent often find loopholes. An attitude of, *it is now our time to share in the spoils of a new South Africa*, often prevails. Serving the community to the best of your ability does not count.

Project Management as a discipline was developed to cope with specific demands made on an organisation and its management. The distinctive conditions which have to be considered in order to render the utilisation of Project Management as a viable option, may include the following:

- The task is of a non-repetitive nature.
- The task is large and/or complex.
- Substantial risk is involved.
- The integration of activities across functional boundaries is required.
- There exists a need for the utilisation of common resources.
- The outcome of the venture is of major importance.

Taking into account the stated principles and procedures, it becomes clear that a large part of the fundamental objective of a local government, namely service to its community, is reliant on the successful provision and support of infrastructure to supply such services. Typical programmes to ensure such service delivery are underpinned by the required infrastructure and may include:

- Capital development and infrastructure building actions.
- Maintenance of infrastructure such as water and sewerage systems.
- Development and/or implementation of new systems/processes/applications.
- Social development actions.

During the past year Sasria reported that damage due to protest actions had doubled from the previous year and stood at R1,5 billion. With an ability to manage projects effectively and efficiently, more could have been spent on improving the lives of people, thereby preventing some of this wasteful destruction of property in towns and cities.

"Projects don't fail in the end; they fail at the beginning."

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CONTRACT MANAGEMENT, COMMITMENTS AND CONTINGENT LIABILITIES IN THE LOCAL GOVERNMENT

In terms of section 63: Municipal Finance Management Act (MFMA), assets and liabilities management, the accounting officer:

- ❖ is responsible for the management of liabilities of the municipality;
- ❖ must take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for assets and liabilities of the municipality; and
- ❖ that the municipality has and maintains a system of internal control of assets and liabilities including an asset and liabilities register.

Section 112: MFMA states that a supply chain management policy of the municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and must cover procedures and mechanisms for negotiating final terms of a contract.

Section 116: MFMA, contracts and contract management, states that the accounting officer must:

- ❖ take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced;
- ❖ monitor on a monthly basis the performance of the contractor under the contract or agreement; and
- ❖ establish capacity in the administration to oversee the day-to-day management of the contract or agreement.

Section 122: MFMA - preparation of financial statements, states that:

- ❖ every municipality and municipal entity must, for each financial year, prepare annual financial statements which fairly present the state of affairs of the municipality or entity, its performance against budget, management of revenue, expenditure, assets and liabilities, its business activities, financial results, and its financial position as at the end of the financial year; and
- ❖ the annual financial statements must be prepared in accordance with the generally recognized accounting practice prescribed in terms of section 91(1)(b).

Contract management refers to processes and procedures that institutions implement to manage contract execution which covers the performance, modification and termination of contract terms. It is the most critical function in supply chain management unit. However, most local authorities including other state organs pay less attention to this function which then results in several lawsuits instituted by service providers (contractors) against municipalities.

The inability to establish a sound contract management function and legal function has, in several cases, led to a lack of early identification of poor performance by contractors due to the absence of control activities aimed at early identification of poor performance to allow for corrective measures. Lack of effective contract management and failure to maintain a proper contract register to monitor the performance of contractors has caused the following problems:

- ❖ excessive delays in the completion of projects;
- ❖ failure to charge penalties and interests where the project has been delayed;
- ❖ contractors under-quoting during the tender process and then utilize the variations clauses to increase the tender amount even in instances where contractors should have known of the costs; and
- ❖ excessive legal costs in defending lawsuits.

Lack of maintaining a proper register for contingent assets and liabilities has led to challenges when preparing disclosures on contingent liabilities for certain municipalities. Another challenge has been around the application of GRAP 19: Provisions, Contingent Assets & Liabilities where contingent liabilities have been reclassified and recognized as provisions visa versa. This has also prevented municipalities in attaining clean audits due to material non-compliance and findings in internal controls.


Certain municipalities and departments struggle to maintain an accurate and complete commitments schedule which often leads to material audit findings identified by external auditors and these prevent most municipalities from attaining clean audits.


Our role as MNB Chartered Accountants has been critical in addressing the issues raised by Auditor General as most municipalities have improved their audit outcomes.

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Affordable Housing: The issue of housing in South Africa

By Boitumelo Phungwayo, Standard Bank

As South Africa entered the new democracy in 1994, the new government introduced a housing programme to address housing needs of households who earned a monthly income below R3,500. This programme is what many South Africans have known as the *Reconstruction and Development Programme* (RDP). It was assumed that households who earned above this threshold would be able to access the conventional mortgage finance stream. However, many households still found it difficult to access affordable housing opportunities. In 2004, the government introduced the *Breaking New Ground* (BNG) programme as a response to address the need for those households who earned between R3,500 – R7,000. The main objective of this programme was to create a developmental model for sustainable human settlements with emphasis on housing delivery.

To date, the lack of adequate and affordable housing is a serious challenge that our democratic government is faced with. According to research conducted by the *Public Service Accountability Monitor*, the housing backlog in South Africa is estimated to be 2.3 million and growing at a rate of 178,000 houses per annum. The research further asserts that the government will require approximately R800 billion to eradicate the backlog by 2020. Of the nine provinces, Gauteng has the highest demand for housing and yet the greatest number of RDP homes were constructed in the province. This is mainly attributed to the population migration pattern as people migrate in search of employment opportunities.

One of the fundamental challenges of housing in South Africa is that demand far exceeds supply. In terms of demand, many people are in search of accessing adequate and affordable homes. They are constrained by high house prices of the market, impaired credit profiles and low-levels of affordability. The government introduced a once-off demand-side subsidy called the *Finance Linked Individual Subsidy Programme* (FLISP) in order to assist those households who earn too much to access the RDP grant but also find it difficult to access the conventional mortgage finance. These are households who earn a monthly income between R3,500 – R22,000.

On the supply side, the rate at which stock is produced is very low due to issues such as lack of development funding for completion of housing projects, delayed township proclamation, land availability and lack of adequate infrastructure. Construction cost remains the highest driver of the total cost of the final housing product. The government as well as private sector need to find innovative solutions to alleviate this cost burden for the developers so that the savings thereof can be passed on to consumer's who are in search of housing opportunities.

Home ownership is critical in addressing the *"triple challenge"* of poverty, inequality and unemployment in South Africa. According to the *Centre of Housing Finance in Africa* (CAHF), housing plays two significant roles:

- 1) Housing as *"a national asset"* – creates economic growth and employment within the construction sector, it affirms the objective of sustainable human settlements, and
- 2) as *"a Private asset"* – it can be traded for cash and used as collateral when applying for loans, the households can use it as an income generator through backyard landlordism or home-based entrepreneurialism.

The study further asserts that a house is also *"a social asset"* because it represents a person's citizenship, provides an address and serves as a place in the settlement. However, people can only be informed of the above through an effective drive on consumer education. Consumer's need to be equipped with economic literacy in order to understand the value of homeownership in creating generational wealth. Thereby alleviating the *triple challenge* that the country is faced with.

In order to deal the wicked problem of housing in South Africa, it should not only be left to the government or just the private sector but should be a collaboration between both these centers of knowledge. This should eradicate the housing backlog and also fast-track housing delivery for all who do not have adequate shelter. Housing is the means and the way to promote life, create generational wealth, create employment and bridge the gap of high inequality in our beautiful nation.

Our role as a bank, whose home is in Africa; is to improve lives and fulfill aspirations through homeownership for all. We are committed to continuously work with governments in finding innovative ways of dealing with this socio-economic issue of housing.

We are obsessed with housing Africa!!!

Revenue Protection Measures for CFO's

By Mr. Bonga Mkhize
Chief Financial Officer at Umvoti Local Municipality

Chief Financial Officers (CFOs) are primarily concerned with growing the revenue potential of their respective Municipalities. These CFO's need to focus on various revenue management instruments including the use of financial management systems, enforcing revenue related bylaws; and developing and implementing policies.

All Municipalities experience losses, losses in revenue, losses in water, and losses in electricity. These losses are undesirable, and due primarily to economic depression, ageing infrastructure constraints, and historic design of the infrastructure. Municipalities need to assess the water and electricity needs of local communities. Based on these findings, water and electricity infrastructure needs to be designed and developed to ensure sustainability and with an eye on future development and growth in these communities.



A CFO needs to ensure that a percentage of revenue generated from investment and services consumed, are spent on additional revenue generating projects and opportunities. This must be done prior to expanding social investments to deliver services that will not only be unstable, but also unsustainable. The biggest question is where should it begin? The first part should be to identify the underlying causes of any revenue losses; these include the following:

- Wasteful water consumption
- Non-payment
- Non-revenue water losses (commercial and technical)
- Non-functioning water meters
- Community resistance



- Lack of resources
- Funding

Revenue Protection Model

CFO’s need to put together a revenue protection model that includes the following:

1) Tariffs Modelling Tools

Municipality’s need to implement tariff that are correct, affordable, and cost reflective. Tariffs must also be put in place for community hall hire; cemeteries & crematoria; swimming pools; access to certain parks; use of stadia; and certain sporting facilities.

2) Data Management and Verification

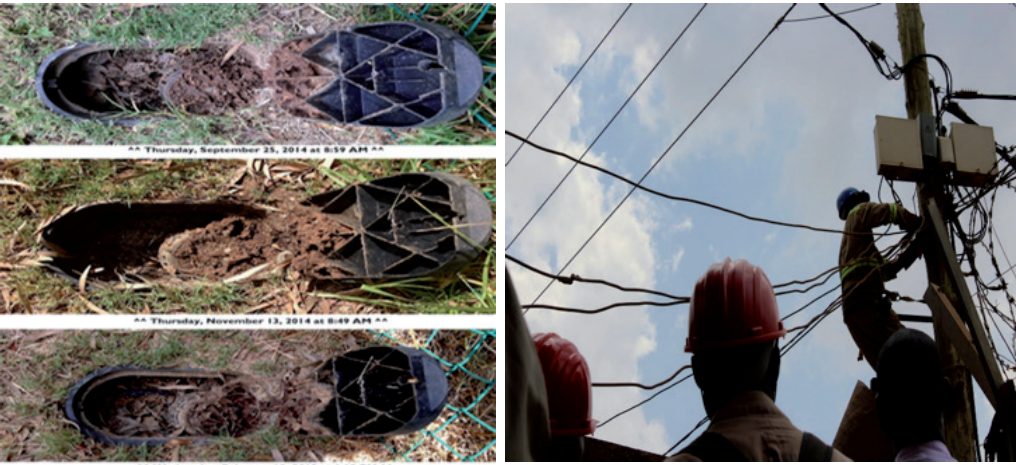
Poor data management remains one of the major root causes that contribute to revenue losses. Sending municipal statements to an incorrect address costs the municipality money which is more than double the costs of delivering a municipal statement to a correct consumer. Municipalities must invest in strategies to improve data.

3) Water and Electricity Restriction Devices

Municipalities must move with the times. If there is a need to implement new systems such as smart metering, then this should be implemented as soon as possible. The fourth industrial revolution dictates that we need to move to digitalization of system of revenue streams to reduce potential losses and improved controls for revenue protection. These smart tools will allow municipalities to apply restrictive devices for water and electricity where payments are not forthcoming, even though usage is increasing. This will also assist in improving data and verification.

4) Maintenance of Infrastructure and Installations

There is a growing need for municipalities to maintain or further enhance its current infrastructure. The installation of new revenue infrastructure will need to (and is able to) address the pressures brought by ageing and non-maintained infrastructure.



5) Regular Investigation of Tampering

Municipalities need to actively audit meters to ascertain whether those meters are active or not. This will ensure that the quality of data used for billing processes is correct at any given time. The issue of faulty meters should also be negated by the introduction of new, enhanced smart technological tools, and will ultimately lead to a decrease in potential losses and an increase in municipal revenue. It will also assist in write-offs where necessary.

6) Debt and Credit Control Management

Sound policy implementation for debt management and effective credit control systems are necessary to improve revenue collection, and also to strengthen control of potential revenue losses. A Municipality must effectively implement disconnections where it is required to do so. These assist in creating a culture of payment amongst consumers of utilities. Introducing data management through analysis and enrichment will enable a Municipality to improve resource management, develop new revenue streams, and clamp down on potential fraud and corruption. It will also assist in the accurate billing.

7) Indigent management

The management of an indigent register is one strategic function that needs to be prioritized. Critical factors that determines success is the timing of when the application process is completed; and the verification process thereafter. Indigent registration is often treated by consumers as a process for free electricity and or water. Instead it should be strategically treated by Municipalities as tools for revenue management. Municipalities must also take a decisive decision on whether they want to invest in infrastructure for indigent connections versus paying customers. How can a Municipality balance return on investment versus the greater water and electricity needs of the very poor?

8) Formalisation of Land

An urgent need to formalize land as one instrument for revenue raising potential remains a fundamental issue. Required amendments to certain acts (such as Municipal Property Rates Act); will assist to minimise the amount of revenue foregone for not billing certain properties that are owned by government, trusts, etc.

In conclusion the formal establishment of Revenue Steering Committees’ in municipalities becomes imperative to strengthen oversight on processes and monitoring the implementation of policies and procedures to protect municipal revenue.

Municipalities need to focus on the basics to protect and enhance its revenue, herewith some key considerations and suggestions:

- Invest in resource capacity building specifically in the revenue management team and credit control teams
- Regular reviews of credit control and indigent policies
- Invest in meter reading systems to eliminate the manual processes; monitor manual readings closely; and investigate any discrepancies.
- Develop a comprehensive revenue strategy that will incorporate the holistic revenue management value chain.
- Introduce monthly Ward reports on status related to non-payment of debt, service delivery, and meter management overview.



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“Research Article on the Assessment of the Implementation of the Back-To-Basics Programme among the Municipalities”

This article is a summary of a research article commissioned by the Local Government Sector Education & Training Authority (LGSETA)

South African Municipalities are currently experiencing challenges relating to sustainable service delivery, revenue collection, rising debt, poor governance, and community protests. The Department of Cooperative Governance and Traditional Affairs (COGTA), sought to address this crisis of local government through a strategy called *Back-to-Basics* (B2B) introduced in 2014. Along with the Strategy, a programme of implementation was designed. B2B is an intervention aimed at improving local government in 5 key areas:

- (1) delivering basic services;
- (2) good governance;
- (3) sound financial management;
- (4) institutional capacity; and
- (5) public participation.

The Strategy sought to intervene in dysfunctional municipalities and provide support to those municipalities with the potential to do well. The Local Government SETA (LGSETA) recently embarked on a research project to assess the implementation of the Back-to-Basics Programme amongst municipalities, since its introduction in 2014. The aim was to ascertain whether the achieved progress under the B2B Programme is leading to the realisation of the stated objectives.

Key Findings of the Research Project:

- (1) Data suggests that there has been an improvement in the state of municipalities within this period.
- (2) From 2015/16 to 2016/17, the number of municipalities doing well increased from approximately 100 to just over 115.
- (3) The number of municipalities that were dysfunctional or not doing well decreased from approximately 60 to just over 40, reflecting a positive change of 20 municipalities.
- (4) At the same time, the number of municipalities with the potential to do well increased by 15.

All good and well, however at the same time, the Auditor General (AG) released his Municipal Finance Management Act (MFMA) report where the following outcomes were found:

- (1) Municipal Infrastructure Grant - AG found that the achievement of targets decreased and that reliable reporting declined. Spending reduced in water and sanitation with funds being used for other purposes, and performance against achievements of targets and timeframes for routine water infrastructure maintenance decreased. Approximately 45% of municipalities did not have a fundable consolidated infrastructure plan in place, a key element of the original B2B Strategy.
- (2) Financial Management - audit opinions improved, but there was an increase in material non-compliance findings in supply chain management, with little consequence management for findings from the previous year.

- (3) Municipal Revenue Collection Rates – Collection rates remained poor with 38% of municipalities reporting a decrease in revenue collection from 2014 to 2018, and 25% reporting no change in revenue collection. Further, 28% of managers said that their budgets were unrealistic. These results suggest that financial management is unlikely to have improved under the B2B Programme, on average.
- (4) Institutional Capacity Building - Senior management vacancies increased to 28%, including increases in vacancies for the position of Municipal Manager and Chief Financial Officer. Nearly 30% of managers in municipalities also reported that their municipality's organogram was unrealistic, with some arguing that there were positions on the organogram that did not add value and were a financial burden to the municipality.

Conclusions

The disjuncture between the findings of the AG and the performance improvements reported by COGTA raises questions of the reliability and credibility of information being reported on B2B. The data leaves the Back-to-Basics Programme with two significant concerns. Firstly, the extent to which municipalities are cooperating with the Programme, with only about 45 municipalities reporting every month. This suggests that municipal buy-in and cooperation with the Programme has been low.

Secondly, the extent to which the data being reported can be relied upon as accurate is called into question. This is a significant problem for an intervention that is essentially structured as monitoring support, except for municipalities that are dysfunctional and receive direct intervention.

Based on these findings as well as the information from the AG, there is little evidence to suggest that B2B is having a significant impact on municipal performance overall. Some reporting suggests that municipalities are in a better position now compared to earlier in the Programme. The reliability of this evidence is in question, given that it is contradicted in parts by the AG and that municipal officials themselves admit that the information they report is often inaccurate. Even if municipal performance is improving, it is also not clear that this is an effect of the B2B Programme. National and provincial stakeholders have argued in interviews that the value of B2B is not the monitoring programme. Rather, it is the continuation through B2B of the work of municipal support programmes like that initiated through the Local Government Turnaround Strategy, particularly in dysfunctional municipalities that receive direct support.

There is also little evidence to suggest that the municipalities themselves buy-in to the Programme with irregular reporting and the quality of reports low. This calls into question the effectiveness and sustainability of the B2B Programme outside of dysfunctional municipalities where direct support is provided.

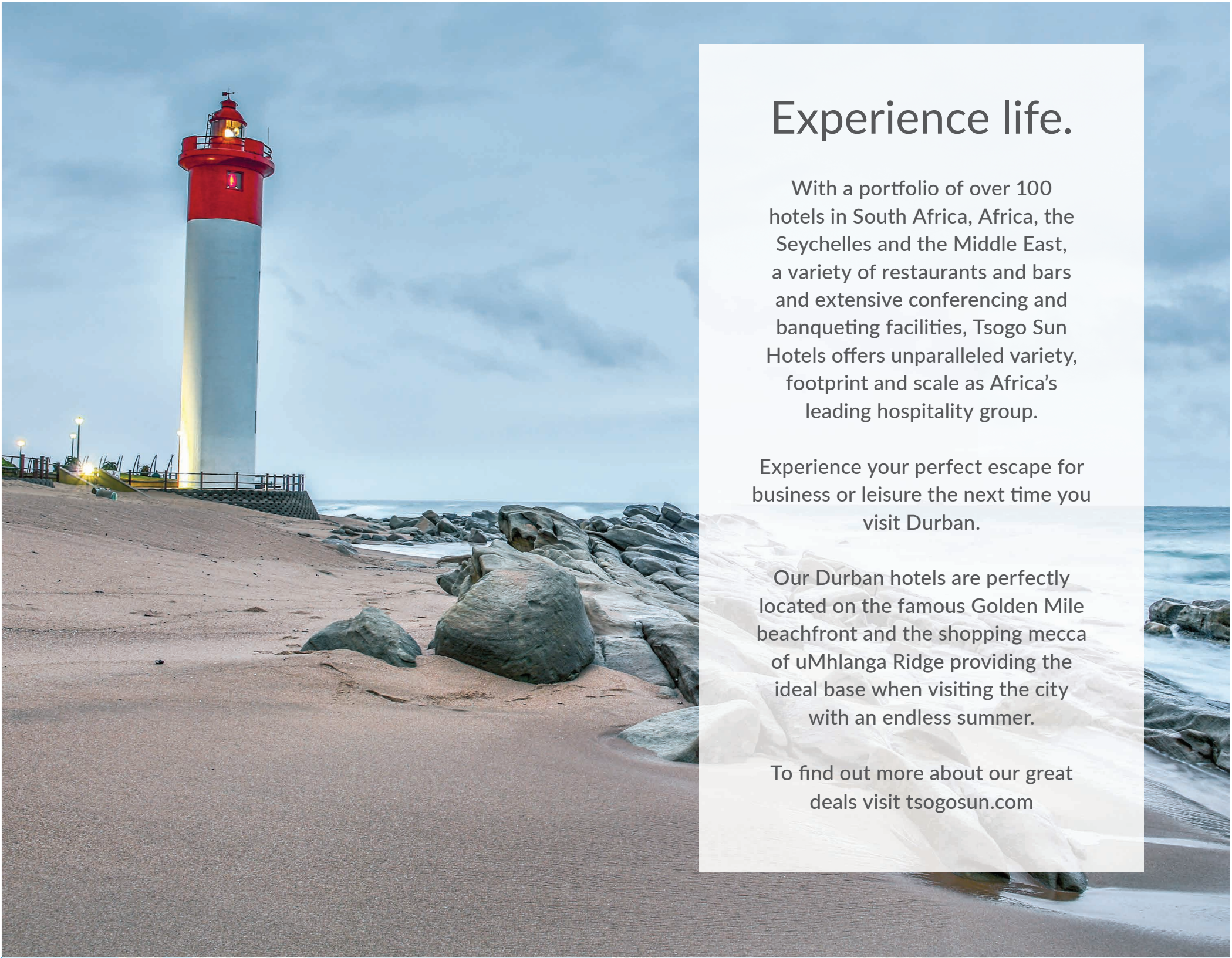
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