Accountability for financial and performance management continues to deteriorate

CIGFARO
8 October 2019
Aspirations for the public sector

**Robust financial and performance management systems**
- Sound financial management systems
- Successful implementation of the audit recommendations
- Reduction in irregular and fruitless and wasteful expenditure

**Oversight and accountability**
- Accurate and empowering financial and performance reporting
- An appreciation of the role of applying consequences for transgressions and poor performance
- Improved accountability leading to limited referrals for investigation and certificates of debt issued

**Commitment and ethical behaviour**
- Visible commitment by all players in the public service to contribute towards the financial health of the country and an improved social reality for our people
- Demonstrated ethical behaviour and professionalism in the public sector as cementing characteristics of a capable state.
Our expanded mandate

Refer material irregularities to relevant public bodies for further investigations

Take binding remedial action for failure to implement the AG’s recommendations for material irregularities

Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

**Effective date of amendments to PAA is 1 April 2019**
In the second year of administration, audit outcomes continue to regress

Indicators of deteriorating accountability

- 2017-18: 40% (101), 30% (78), 9% (24)
- 2016-17: 44% (114), 28% (71), 12% (31)
- 2015-16: 20% (48), 25% (60), 9% (21)

Movement:
- Outward: 22
- Inward: 63
- Outstanding audits as at 31 January 2019: 148
- Total: 24
### Accountability continues to deteriorate

#### Key issues

<table>
<thead>
<tr>
<th>Financial statements</th>
<th>Performance reports</th>
<th>Compliance with key legislation</th>
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<tbody>
<tr>
<td>- Late submission of financial statements</td>
<td>- Quality of performance reports submitted for auditing slightly improved</td>
<td>- Material non-compliance with key legislation on financial and performance management continues to escalate</td>
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<tr>
<td>- Quality of financial statements submitted for audit very poor</td>
<td>- Performance indicators and targets not useful</td>
<td>- Material non-compliance identified at all metros</td>
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<td>- Quality of published financial statements worse than previous year</td>
<td>- Achievement reported not reliable</td>
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<tr>
<th>Supply chain management and irregular expenditure</th>
<th>Effecting consequences</th>
<th>Difficult environment</th>
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<tbody>
<tr>
<td>- Material non-compliance with supply chain management widespread – highest since 2011-12</td>
<td>- Material non-compliance with legislation on implementing consequences regressed</td>
<td>- Increased contestations, pushbacks, treats and intimidation</td>
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<td>- Irregular expenditure decreased but remained high</td>
<td>- Inadequate follow-up of allegations of financial and supply chain management misconduct and fraud</td>
<td>- Regular service delivery protests</td>
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<td>- Council failed to conduct investigations into all instances of UIFW</td>
<td>- Lack of commitments towards implementing recommendations that enable improved audit outcomes</td>
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<td>- Sufficient steps not taken to recover, write-off, approve or condone UIFW</td>
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#### Impact

**Financial health**

- Financial health status of 76% of municipalities is concerning or require intervention
- Inability to collect debt
- 34% of municipalities disclosed a deficit
- 87% of municipalities exceeded 30-day payment period (average payment-period 174 days)
- Total outstanding debt (R18,28 billion owed to Eskom and R9,05 billion owed to water boards)
- 31% of municipalities in vulnerable financial position
- Financial losses suffered at 14 municipalities due to VBS investments – R1,6 billion write-off
- 18 municipalities placed under administration

**Delivery and maintenance of infrastructure**

- No or poor service delivery due to underspending of grants, poor project management and delays and non-compliance with supply chain management legislation
- Condition of water and sanitation infrastructure not assessed by 32% of municipalities
- 39% of municipalities disclosed water losses of more than 30% - loss of R2,6 billion
- Condition of roads not assessed (23%) and no road maintenance plan (41%)
Material non-compliance with legislation on implementing consequences increased from 54% to 60%

Most common findings were that unauthorised, irregular and/or fruitless and wasteful expenditure were not being investigated:

- Irregular expenditure – 125 municipalities (54%)
- Fruitless and wasteful expenditure – 117 municipalities (50%)
- Unauthorised expenditure – 108 municipalities (46%)

Money recovered
Condoned or authorised
Written off by council
Not dealt with by council

Indicators of deteriorating accountability
The root causes of the accountability failure

- **Management** (municipal managers and senior management), political leadership (mayors) and oversight bodies (municipal councils and portfolio committees) do not respond with the required urgency to our messages about addressing risks and improving internal controls – this slow response from management was evident at 81% and no response from 16% of auditees with unfavourable outcomes.

- **Vacancies and instability** slow down systematic and disciplined improvements.

- **Inadequate skills** lead to a lack of oversight by council (including the mayor), and insufficient implementation and maintenance of financial and performance management systems by administration.

- **Political infighting** at council level and interference in administration weaken oversight, hinder the effecting of consequences, and make local government less attractive for professionals to join.

- Leadership’s inaction/ inconsistent action creates a culture of ‘no consequences’, often due to inadequate performance systems and processes.

- **Blatant disregard** for controls, compliance with legislation and AGSA recommendations.

- Focus is on unqualified financial statements by using consultants and auditors, at great cost and to the detriment of credible reporting on performance and compliance with legislation.

- Provincial and national role players do not sufficiently support municipalities.

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**ACCOUNTABILITY**

\[ \text{Instability, skills gaps, political interference and corruption} \]
The role of leadership

**Mayor and council**
- Tone at the top – ethical leadership, good governance and accountability

**Municipal manager and senior managers**
- Capacitate and stabilise administration – free from political interference
- Enable and insist on robust financial and performance management systems

**Provincial leadership**
- Consistent, appropriate and swift consequences for irregularities
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ACCOUNTABILITY = PLAN + DO + CHECK + ACT