



**Western Cape
Government**

Provincial Treasury

BETTER TOGETHER.

2018/19 AUDIT OUTCOMES: PT'S RESPONSE AND SUPPORT TO UNDERPERFORMING MUNICIPALITIES

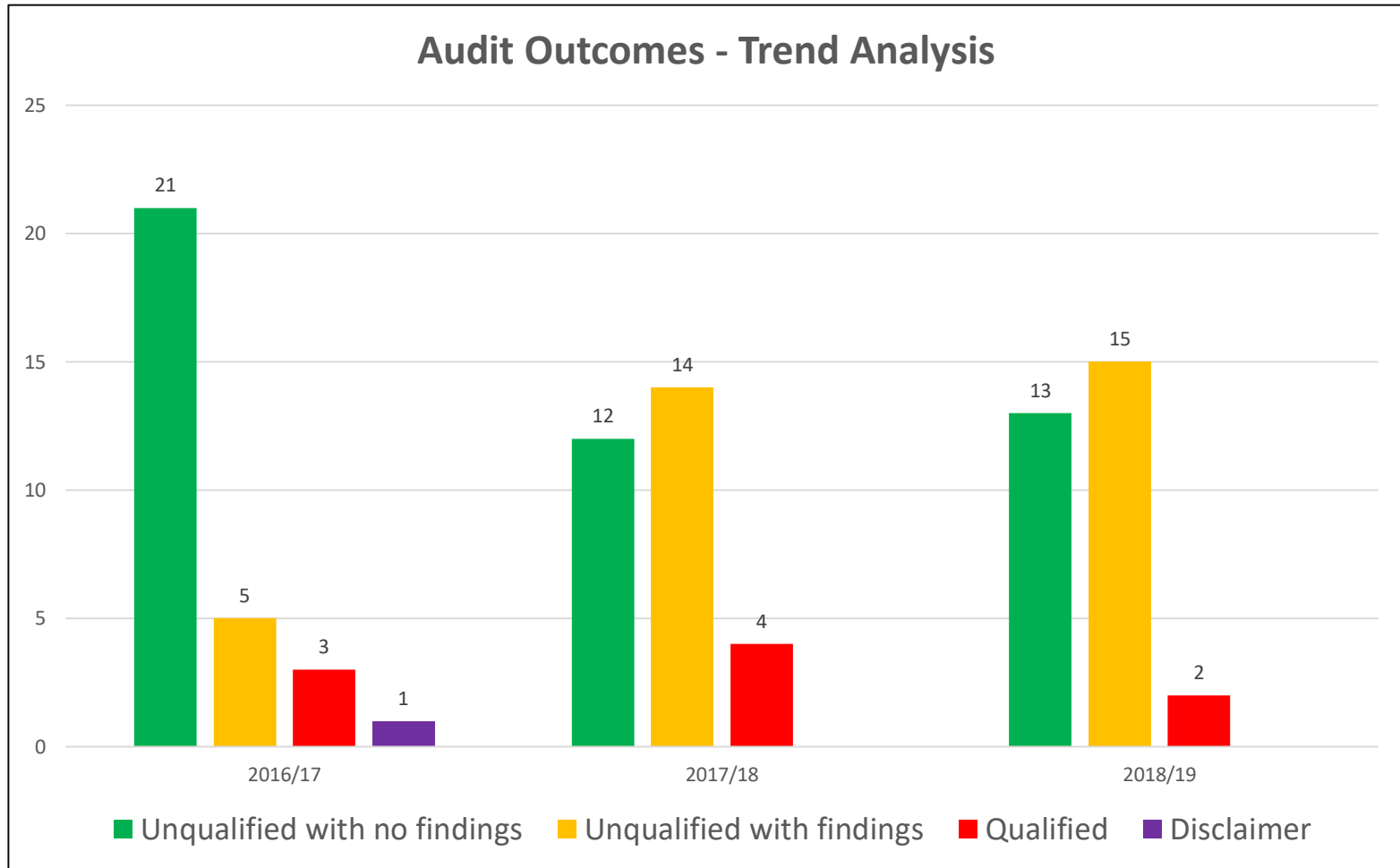
Western Cape Provincial Parliament: Standing Committee
on Local Government

MS Teams

14 July 2020

2018/19 Municipal Audit Outcomes

Western Cape Municipal Audit Outcomes since 2016/17



2018/19 Audit Outcomes - Risks and Concerns

- **Non-compliance with laws and regulations** (55% of municipalities)
 - **Material procurement and contract management** material findings raised at 12 (41% of municipalities)
- Increase in **irregular expenditure from R0,68 billion to R2,7 billion;**
- Overall, **debt-collection periods exceeding 30 days have deteriorated** mainly due to the overall socio-economic conditions.
- **Effective use of consultants** – Financial Reporting Services
- Predetermined objectives: **incorrect reporting of performance information**

Top Categories of Audit Findings: 2018/19

Finding Category	Specific audit issues	Number of municipalities affected
Supply Chain Management	Regulation 32	11 municipalities
	Bid Committee	9 municipalities
	Declaration of interest	10 municipalities
	Local Content	9 municipalities
	Deviations	18 municipalities
	Regulation 29	
Predetermined Objectives	Incorrect Reporting of Performance Information	15 municipalities
Information Technology	IT User Access Management	11 municipalities
AFS Disclosures	Various	23 municipalities
Traffic Fines	Incomplete Disclosure of Fines Revenue	7 municipalities

Response Plan: SCM Support Initiatives

SCM interpretation and implementation challenges

- An intervention was held between National and Provincial Treasury on the **4-5 February 2020**, to address the major SCM challenges and audit issues. **This is an ongoing intervention with the NT:OCPO.**
- A response per line item would be provided by NT to the WCPT matrix on the key SCM issues and how these issues are to be resolved or responded to (Workshop with NT on 4-5 February 2020). Quarterly feedback will also be provided to the National Technical Committee of Finance (TCF) i.t.o progress,
- Proposals have been made to NT to established a structure to assist the Office of the Chief Procurement Office (OCPO) to address the SCM challenges and audit issues.
- An intervention will be held with the AGSA to reach consensus on how to conduct the next round of audits, whilst the NT is addressing the SCM issues.
- Provincial comments have been submitted to NT regarding the local content challenges dated **4 June 2020.**

Response Plan: SCM Initiatives

- Provincial Position Paper has been submitted to the NT on the SCM Audit Challenges (Local content, SCM Regulation 32, 36 and 29).

Improving the SCM internal control environment

- Provincial Treasury introduced a very comprehensive **Combined Assurance Programme** to **improve on preventative controls** by utilising Risk and Internal Audit in the Supply Chain Management environment.
- **Continued District Combined Assurance Workshops** will be conducted to capacitate Internal Auditors and Risk Management Officials District, Bid Committee Members, Line Managers and SCM officials. The workshops are aimed at early detection mechanism.

Engagements with the relevant IGR structures

- The NT (OCPO) to engage with AGSA and **review and provide guidance** on the SCM Regulation 32.
- **NT, OCPO to provide guidance on:**
 - **Auditing of SCM Regulation 29 (2), 32 (transversal contracting within local sphere) and 36.**
- PT to explore different mechanism in terms the legislative requirements relating transversal contracting (MOU/IGR structure)
- National Treasury's Infrastructure Delivery Framework for municipalities is still under review and PT will collaborate in order to address the deficiencies.
- **Intervention required with DTI and NT** on the impact the local content regulations had on service delivery.
- Municipalities to **avoid using regulations 32** until interpretation challenges are addressed - **PT to provide best practice mechanisms** to Municipalities on the implementation of SCM Regulation 32.
- Municipalities must review previous deviations expenditure and Identify areas that can be included in the SCM Policy such as Strip & Quote

Unauthorised Irregular Fruitless and Wasteful Expenditure

● Prevention of UIF&W

- Ensure that **preventative controls are adequately designed and effectively implemented** Process to follow once UIF&W has been identified:
- **Reporting to relevant stakeholders** (Mayor, MEC for local government & AG)

● Investigation and determination by council (MPAC):

- **Unauthorised Expenditure** – determination by council to authorise via adjustment budget or certify expenditure irrecoverable and written off or recoverable from person liable for that expenditure
- **Irregular, Fruitless and Wasteful Expenditure** - determination by council to certify expenditure as irrecoverable and written off or recoverable from person liable for that expenditure
- **Ratification of minor breaches** (SCM policy)
- **Consequence Management (Recovery of UIF&W and consider instituting disciplinary action and criminal charges against the liable person/s)**
- **Disclosure in AFS**
- **Impact of Public Audit Amendment Act**

Submission of 2018/19 Annual Financial Statements (AFS), Audit Files and Asset Registers

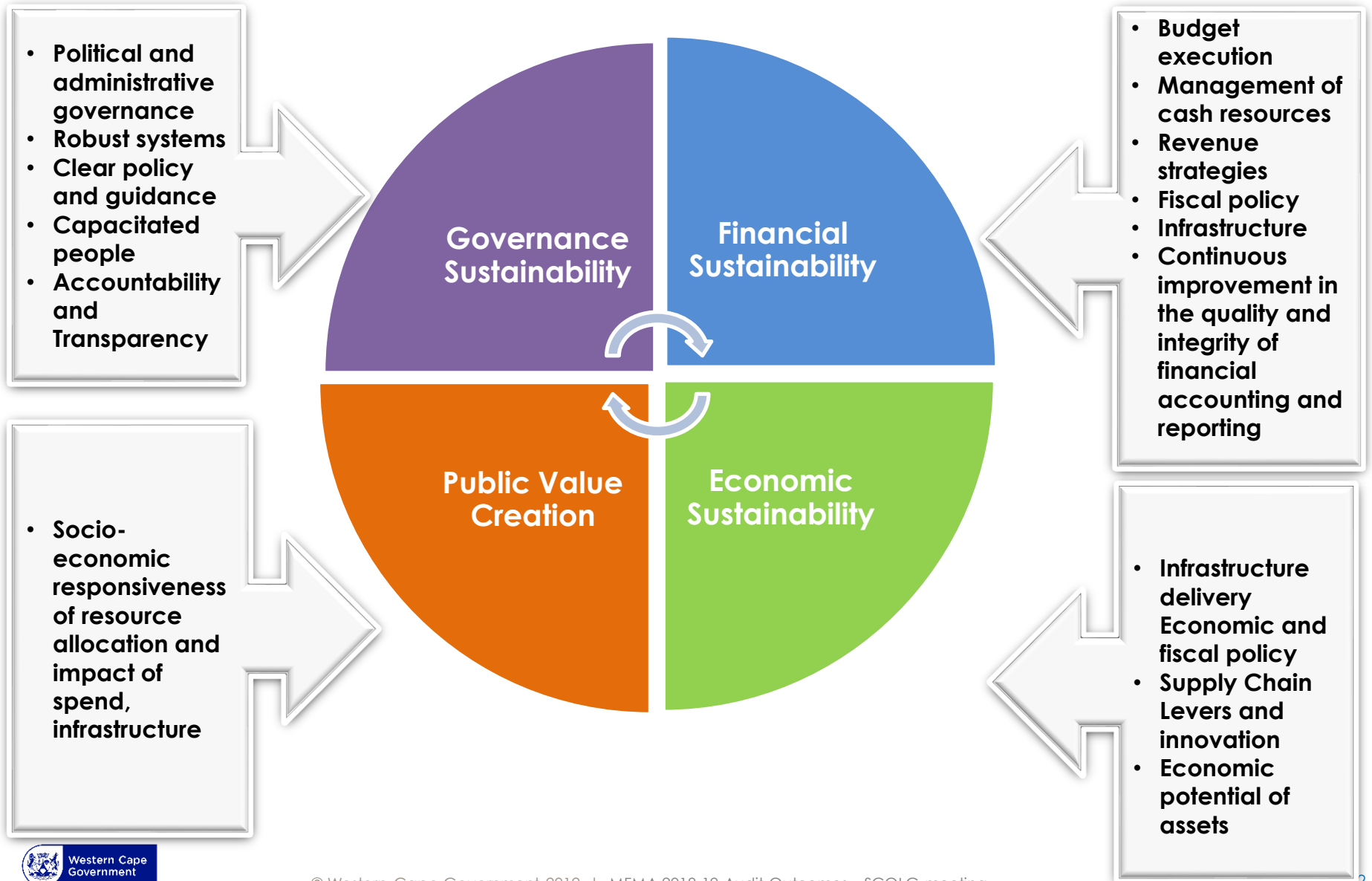
- Except for Kannaland Municipality, **every other municipality within the Province**, complied with the MFMA legislative prescripts regarding the submission of AFS and Annual Performance Reports, including review by the Audit Committees.

PT support initiatives

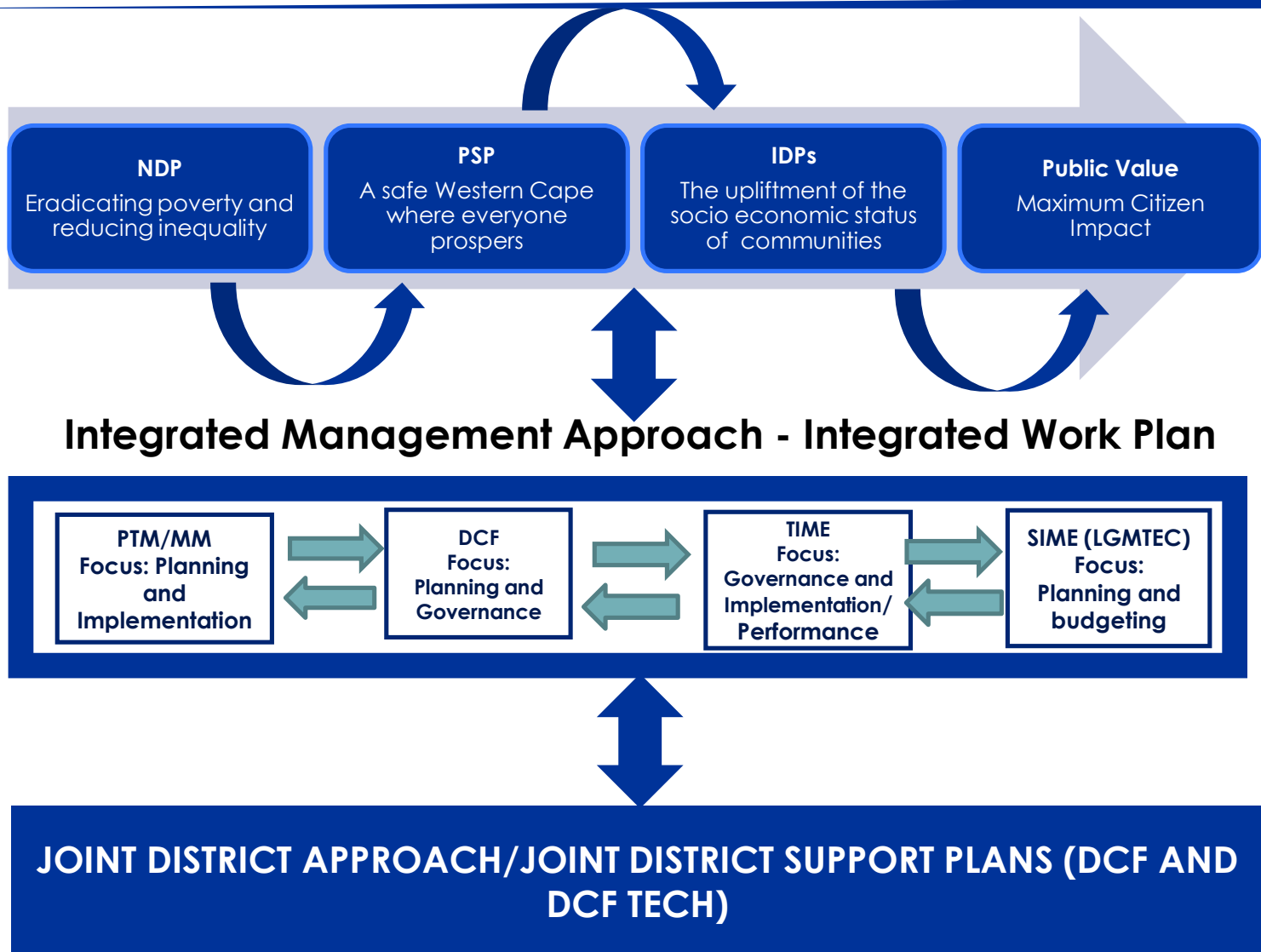
- Quarterly Accounting Working Committee meetings
- Joint Technical Team Established in Audit to timeously address municipal audit challenges received.
- Invitation extended to all municipalities to submit AFS for review by PT. Reviews completed for 57% of municipalities.
- Audit action plans reviewed by applicable units in PT to determine adequacy thereof.

PT's Response: An Integrated Outcome Based Financial Governance Approach

SUSTAINABLE LOCAL GOVERNMENT



An Integrated Management Approach



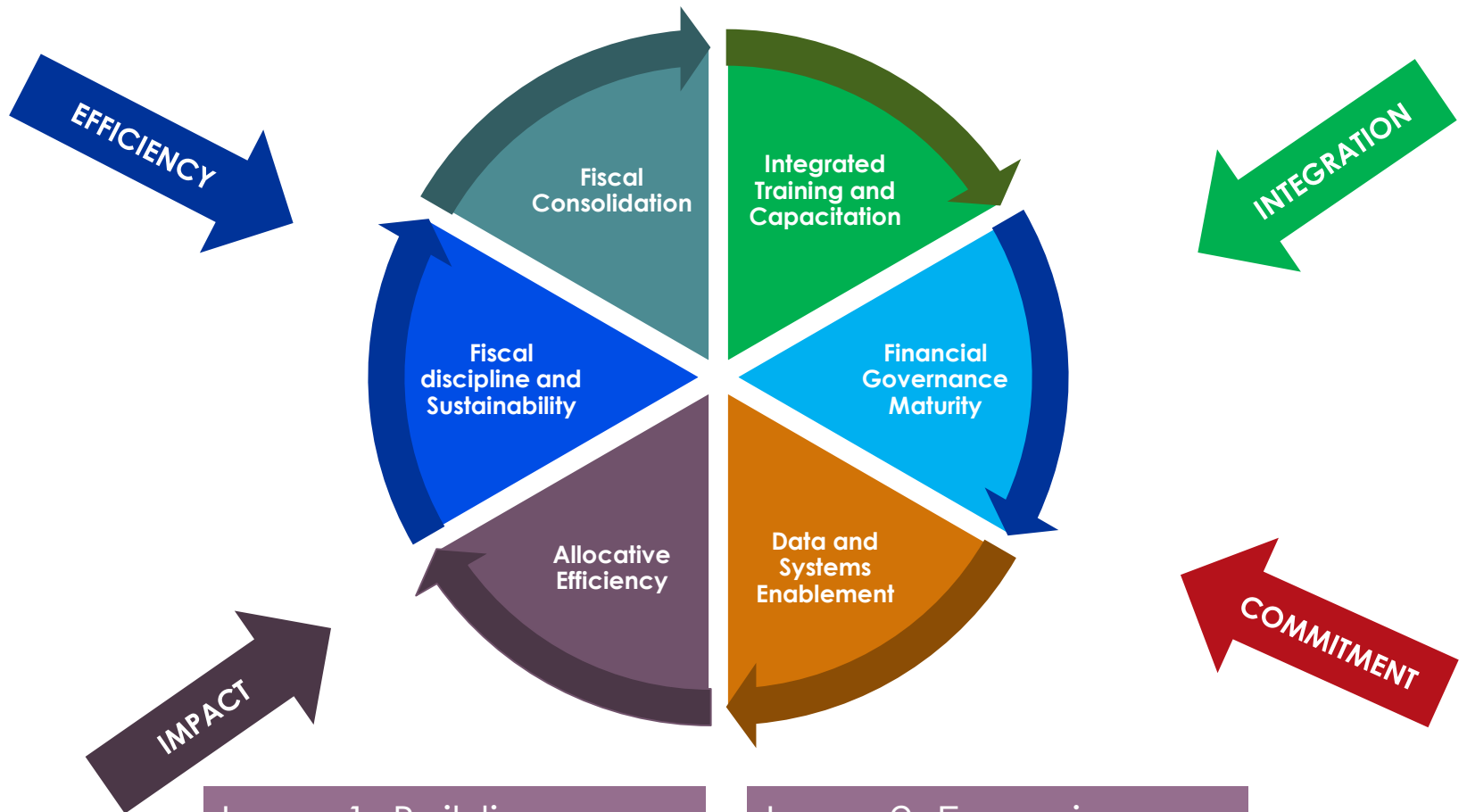
An integrated and value-based financial governance approach

Provincial Treasury's mandate: To drive the good financial governance across the provincial and local government spheres that enables:

- effective resource mobilisation and sound fiscal management,
- the effective and efficient use of resources,
- effective financial oversight (Leadership on all levels including the focus on culture),
- building capabilities of officials to enable resilience, agility and innovation.

The Western Cape Provincial Treasury therefore takes an integrated outcome-based approach to good financial governance.

Drivers to give effect to Financial Governance Approach



Lever 1: Building capabilities and shifting organisational culture to enable innovation

Lever 2: Engaging with external actors to inspire and drive innovation

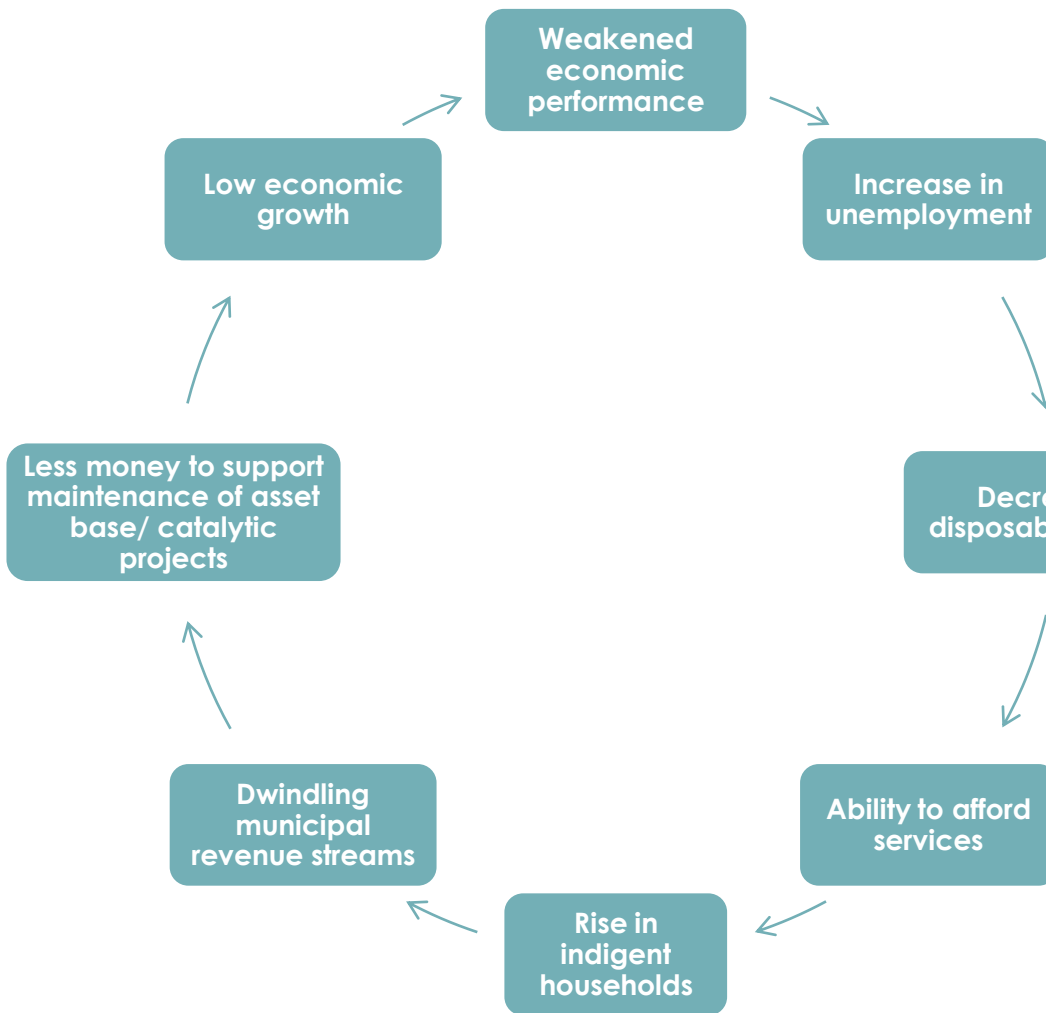
PT STRATEGIC FOCUS AREAS

- **Fiscal Consolidation and efficiency gains** for resource efficiencies and savings.
- The **application of economic intelligence** to enable resilience and the realisation of opportunities.
- Define **procurement strategies to drive efficiencies and enabling local economic development.**
- **Innovation focusing on the internal control environment** towards optimising governance and performance.
- **Strengthening data, its use and analytical capability.**
- **Strengthening the capacity within departments and municipalities** that can be shared across the public sector for innovation.

Corrective measures at underperforming municipalities



To Note : Emerging risks for Local Governance



- **Significant challenges and growing uncertainties translate into fiscal pressures on consumers and municipalities**
 - Macro-economic conditions, including drought and COVID-19 effects
 - Electricity and water security challenges, and associated infrastructure sector transitions
 - National fiscal health and declining transfers
- **Political instability in municipalities likely to deepen in the lead up to LG elections**
 - Eroding governance: suspensions, suspicious transactions, etc.
 - Community protests
- Dwindling resources, rising demands and declining performance

Governance Context - Challenges

- The **conflict between effective political oversight as opposed to political interference.**
- **Accountability failures within the Political and Administrative Leadership** structures:
 - Vacancies, non-compliance to ethical codes and failure to govern and assume responsibility for compliance with laws and regulations.
- The increased **tension between cost of compliance versus service delivery.**
- **Interpretation and implementation challenges of the legislative framework** impeding the achievement of the intent of policy objectives.
- **Ineffective utilisation of assurance providers** to improve the design and implementation of internal controls.
- **Internal control deficiencies** (Lack of implementation and monitoring of controls).
- **Ineffective consequence management.**
- **Inability to attract and retain qualified and competent persons.**

Municipalities exposed to liquidity risks as at May 2020 as informed by Section 71 : Monthly IYM reports

Municipality	Cost Coverage			Current Ratio			Liquidity Ratio		
	Norm: 1 – 3 months			Norm: 1.5-2:1			Norm: 1-1		
	March 2020	April 2020	May 2020	March 2020	April 2020	May 2020	March 2020	April 2020	May 2020
Matzikama	0,76	-1,07	-1,31	0,58	0,57	0,49	0,15	0,18	0,06
Cederberg	2,63	0,84	0,04	0,83	0,66	0,60	0,49	0,20	0,10
Witzenberg	2,05	2,82	2,20	1,67	1,61	1,52	0,86	0,80	0,72
Drakenstein	-0,04	0,39	1,14	0,82	0,93	1,02	0,15	0,14	0,30
Theewaterskloof	5,19	5,01	3,87	1,15	1,13	1,07	0,86	0,81	0,75
Knysna	0,78	0,45	0,42	1,82	1,72	1,61	0,32	0,17	0,14
Laingsburg	3,39	-0,02	0,06	1,31	1,31	1,34	0,69	0,69	0,68
Beaufort West	-0,45	-0,59	-2,00	0,70	0,52	0,56	-0,18	-0,18	-0,35

Vulnerable & Distressed Municipalities as informed by PT internal vulnerable criteria

Outcomes of vulnerable criteria	Municipality	Support Strategy
Key Financial Indicators <ul style="list-style-type: none"> • Cost Coverage • Current Ratio • Liquidity Ratio Adoption of budgets Impact of C19	Matzikama	Close monitoring via IYM
	Drakenstein	Cash management diagnostic done, follow up 2 nd Cash management diagnostic to be conducted
	Knysna	Diagnostic completed, the MEC LG to follow up
	Cederberg	To consult with the muni on conducting Financial Health Assessment WCG Diagnostic assessment
	Laingsburg	Close monitoring via IYM
	Beaufort West	Financial Health Assessment to be conducted & included in WCG Diagnostic assessment, to be tabled in Council for way forward
	Kannaland	FRP in place, to be revised

Vulnerable

Distressed

COVID-19: Municipal Support Mechanisms

COVID-19 Impact Study

Knowing how prolonged lockdown and industry shutdown will impact on key economic sectors and employment in each municipality.

Timeframe: Narrative report roll-out June 2020

Vulnerability Model

Anticipate municipal financial and organizational distress, reactive response, creation of early warning system, complete with benchmark/norm levels, creation of central data depository and user-interface (dashboard), ultimately improve executive decision making.

Timeframes

TOR developed
Procurement in June/July
Pilot Oct - Dec
Go-Live 1 Jan 2021

Financial Modelling

Assess whether municipalities (in terms of revenue and expenditure projections) have enough resources to afford additional, unforeseen expenses associated with exogenous shocks and risks.

Timeframes

TOR developed
In-house research and procurement process in June/July
Pilot Sep-Nov
Go-Live 1 Jan 2021

Grant Framework Review

Review initial intent and purpose, impact assessment, overlapping outcomes to improve effectiveness of financial support.

Timeframes

Review of conditional grants and agency payments (National)
May 2020 and (Provincial) June 2020

Final Summary Report July 2020

PT focus areas towards improve outcomes for citizens

- **Improving engagement and communication** between spheres of government to jointly plan and deliver services as well as jointly monitor progress and changes to be more responsive to citizen needs.
- Identifying systematic issues that create problems for citizens, and for services in their efforts to meet needs. Development of **streamlined processes** which can provide more seamless services to citizens.
- **Identifying examples of duplication**, working at cross-purposes, or creating confusion for citizens about who is doing what.
- **Implementing** according to a **coordinated approach to policy and planning for the citizen** which includes the work being done by/with all spheres of government. This approach may also include actions and responsibilities the citizen agrees to do.
- **Building understanding and capacity between the spheres of government** – such as sharing practice frameworks and legal and funding limitations – so they can work together more effectively and generally support each other in their service delivery.
- Strengthening and maintaining **governance and accountability**.

Thank you