



A U D I T O R - G E N E R A L

General Report of the Auditor-General on Local Government

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Foreword

Local government, being that sphere of government that is literally “the closest to the people”, is viewed by government as the primary vehicle for service delivery and reconstruction in democratic South Africa. In order to achieve and demonstrate credible improvements in service delivery, local government should empower communities through participative processes, job creation and economic development.

In this post-election period, integrated development plans have to be established and funded, municipalities must be amalgamated and systems, such as performance management systems, should be designed and introduced to provide a sound basis for the implementation of policies and delivery of services. Sound financial management principles, to support proper governance during this phase of development and implementation, are being legislated at the moment.

I consider it necessary to report regularly and objectively to national and provincial government about local government issues from an overall perspective during these preparatory stages, as these two spheres of government have, especially now, a crucial responsibility to strengthen and support local government in developing a sound basis for service delivery to the people. I trust that this report will at least contribute to facing the massive task that is lying ahead.

S A Fokie
Auditor-General

Pretoria

06/05/2003

1 Introduction

1.1 Reporting framework

I am continuing to improve the reports I provide to Parliament, refining their clarity and purpose. This is the first year that two separate general reports are being issued. The *General Report of the Auditor-General on Audit Outcomes for the Year Ended 31 March 2002* [RP266/2002] relating to institutions as required by the Public Finance Management Act, was already issued in October 2002.

The future intention of this general report is to report on the audit outcomes in respect of local government, as indicated in the *Activity Report of the Auditor-General for the Financial Year 2001/2002* [RP211/2002] (activity report). However, it should be noted that because of the demarcation of municipalities and the delay in the promulgation of the Municipal Finance Management Bill, the focus on audit outcomes in this report is limited to high-level summaries of the status of audit reports and audit findings on the auditing of performance management. In addition, information on current local government issues has been included. This information has been obtained from the results of a municipal readiness survey.

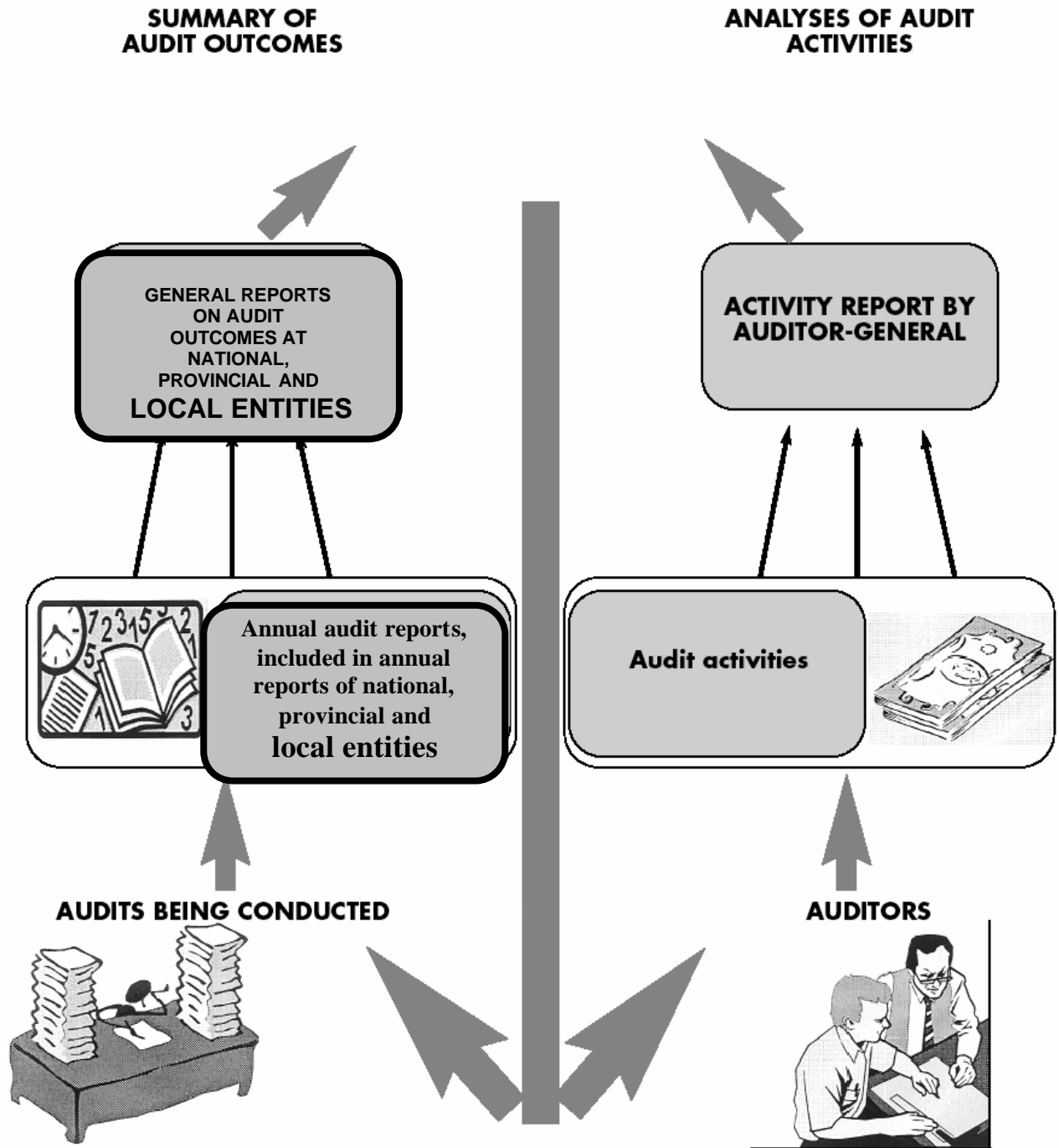
I envisage focusing in more detail on audit outcomes relating to service delivery at local government level in future reports.

It is also important to clarify the distinction between the two general reports on audit outcomes (for local government in this report) and the activity report mentioned above.

- General reports on audit outcomes document the audit findings generated through all the individual audits conducted in the national, provincial and local spheres of government. These reports afford legislatures the opportunity to assess and compare, at a holistic level, the performance of government entities year on year and also to compare the performance of the entities with one another at all levels, for example national, provincial and local.
- The activity report, on the other hand, looks at the functions, responsibilities and performance of the Auditor-General and the work carried out. It contains information derived from audit observations, surveys and interaction with stakeholders. It includes an insight into the key factors facing organs of state from the Auditor-General's perspective.

The difference between these reports is summarised graphically on the next page.

GENERAL REPORT FLOW TO PARLIAMENT



1.2 Background and purpose of the report

In the activity report it was mentioned that “..., a separate report on audit outcomes in respect of local government will be submitted to the national and provincial legislatures after completion of the local authorities audits” (paragraph 1.1 of RP211/2002 refers).

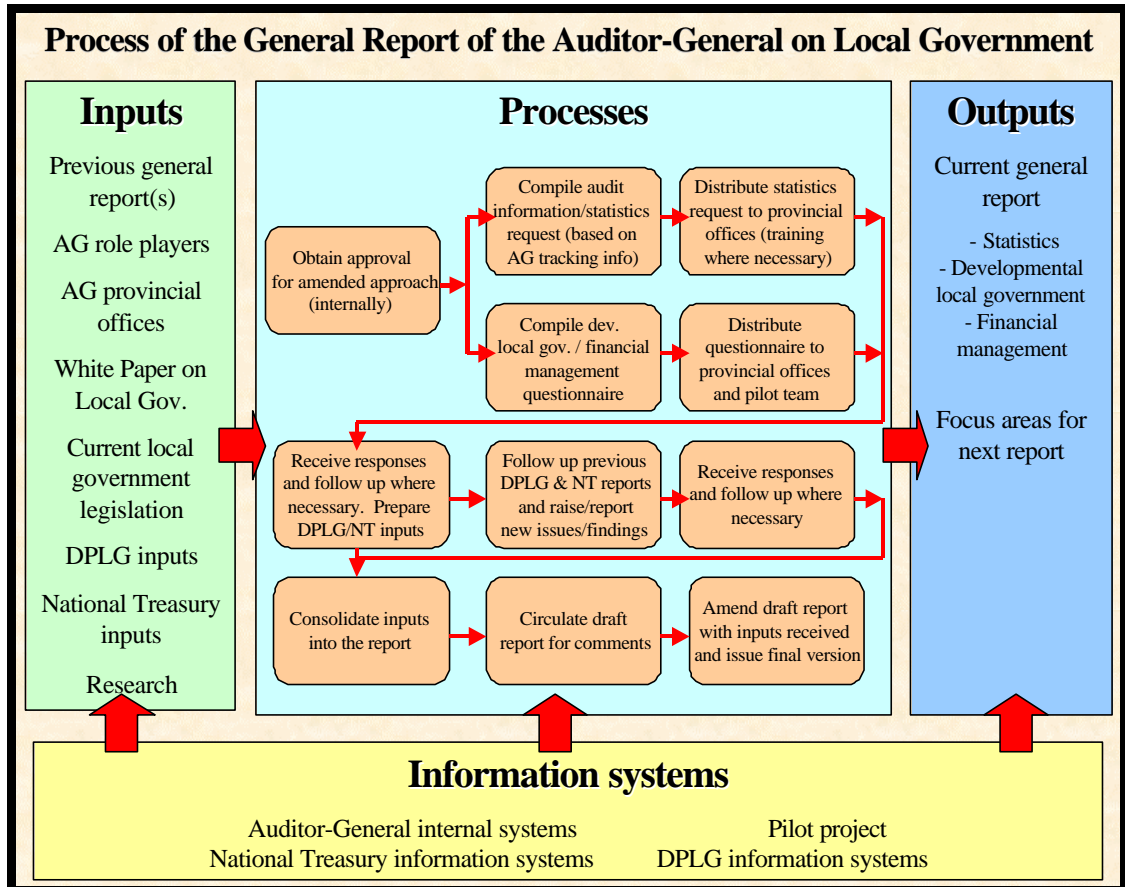
As part of the general report flow to Parliament, the purpose of this report is therefore to report the key issues currently facing local government in South Africa.

In order to ensure that this report is interpreted correctly, it is important to consider the following limitations:

- The report was written in the absence of overarching legislation about municipal finances, as the Municipal Finance Management Bill has not been passed yet.
- The population of municipalities used in sections 2 and 3, was for the period under review, complicated by the following factors, which make comparison and the provision of statistics at particular dates very difficult:
 - Although the newly established and, in most instances, amalgamated municipalities, as demarcated by the Demarcation Board, came into existence on 6 December 2000, many municipalities continued to function as separate units after this date.
 - Some municipalities amalgamated all the administrative units into one municipality from the start of the financial year on 1 July 2001, whilst others only amalgamated from 1 July 2002 or have not amalgamated yet.
- Audits are not finalised by a specific date, as there is currently no formal legislative process to enforce early preparation of financial statements. Financial statements are frequently submitted late; thereby delaying audits and the subsequent reports thereon.
- The pilot sites selected by the Department of Provincial and Local Government for the implementation of performance management systems largely determined the sample of municipalities that were surveyed. The results of the survey included in this report are therefore just for illustrative purposes and not necessarily representative of any province.
- Due to time and capacity limitations not all of the 284 municipalities could be included in the municipal readiness survey.

1.3 Report compilation process

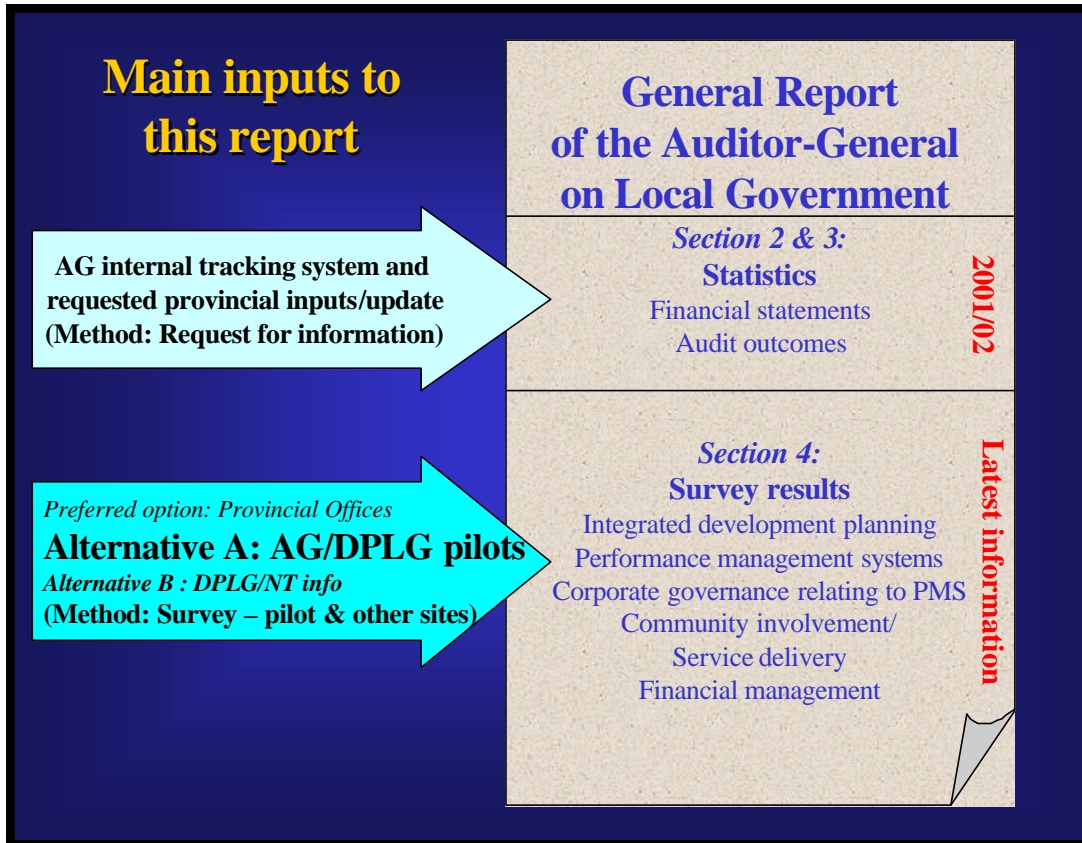
The process of compiling this report is based on a tested and proven methodology used successfully in the past. Changes have, however, been made to the typical content included in this report as more emphasis was placed on the overall state of local government in South Africa from my perspective. The process that has been followed can be graphically illustrated as follows:



Due to time and capacity limitations, the internal tracking system of the Office of the Auditor-General (office), inputs from the office’s provincial business units, as well as questionnaires distributed to 65 municipalities were used to obtain the required information. The main source of the survey results is the questionnaire that was distributed.

1.4 References to findings

The findings contained in sections two to four of this report arose from the feedback received during the process adopted by the office as described above and are summarised as follows:

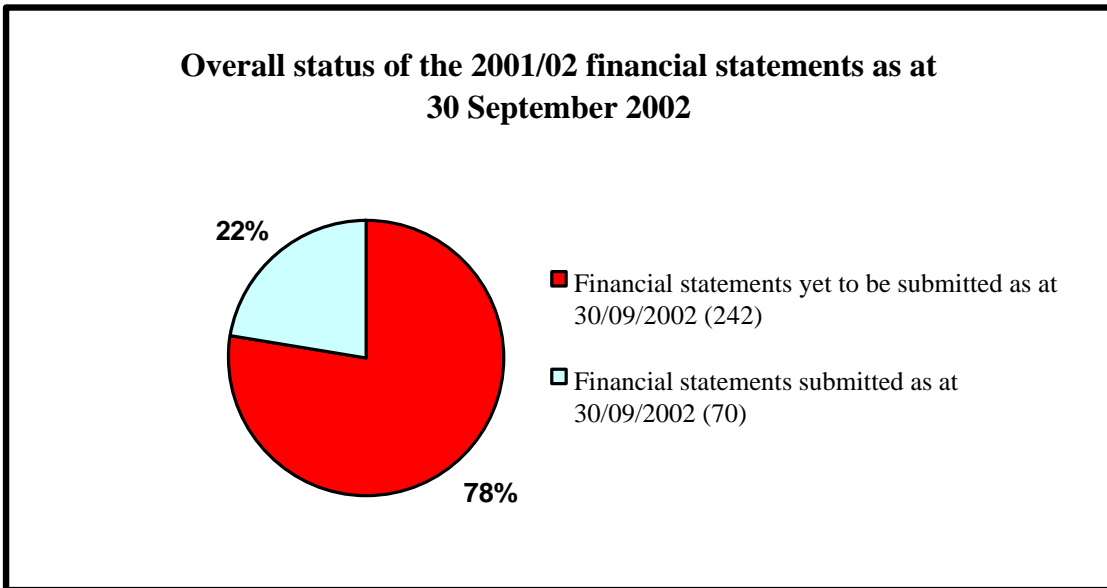


1.5 Acknowledgement

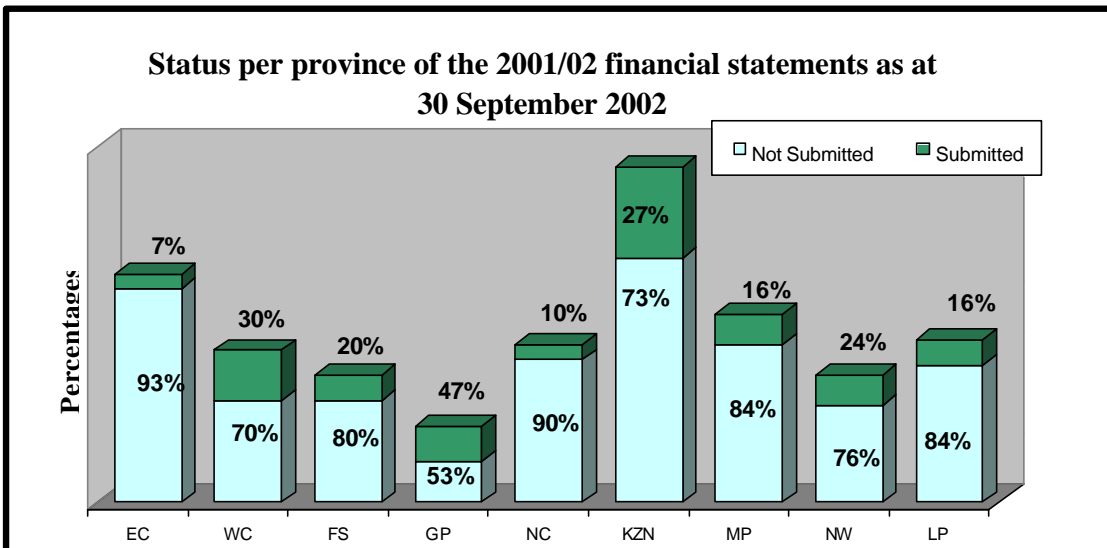
The assistance rendered by the 65 municipalities that participated in the survey, the 26 municipalities that were part of the pilot interim performance management system audits and the cooperation of the Department of Provincial and Local Government (DPLG) and the National Treasury (NT) are sincerely appreciated.

2 Submission of financial statements

In terms of legislation, municipalities have to submit their annual financial statements to the Auditor-General within three months following the end of their financial year on 30 June. At 30 September 2002, the due date for submission, some 242 or 78% of the 312 municipalities had yet to submit their financial statements for the 2001/02 financial year (In total, 312 municipalities were used due to the issues discussed under section 1.2). As depicted below, some municipalities have still not submitted financial statements for financial years prior to 2001/02.

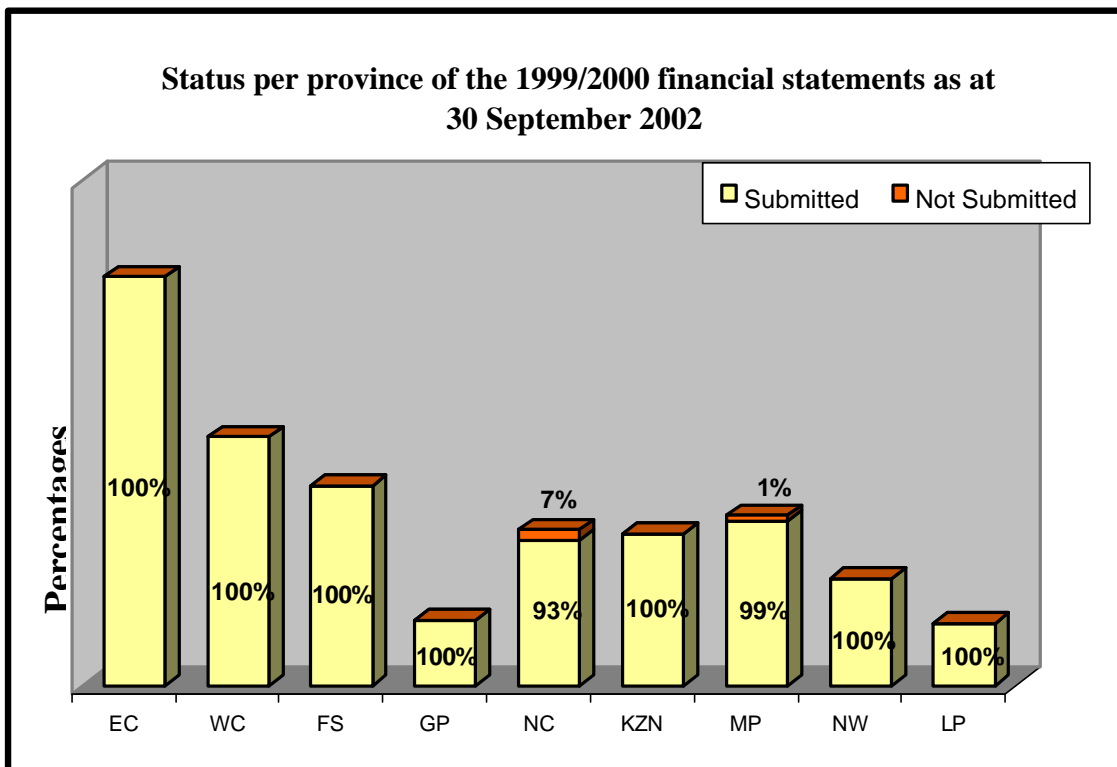
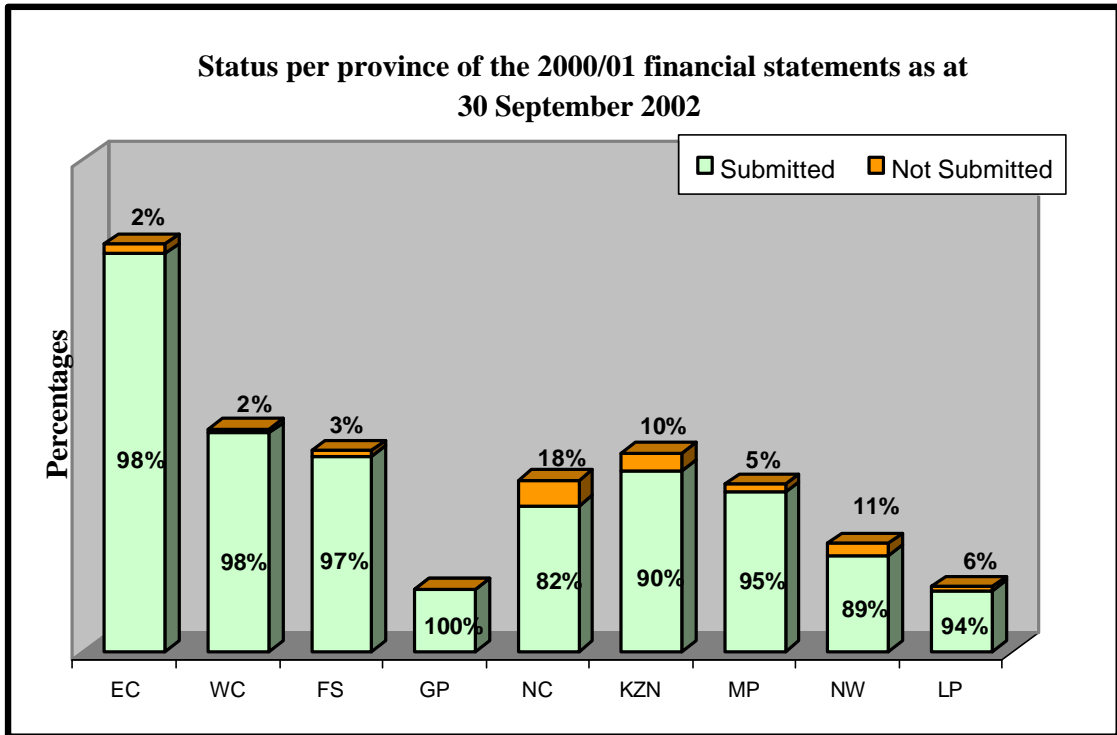


The results per province making up the above national percentages are summarised as follows:





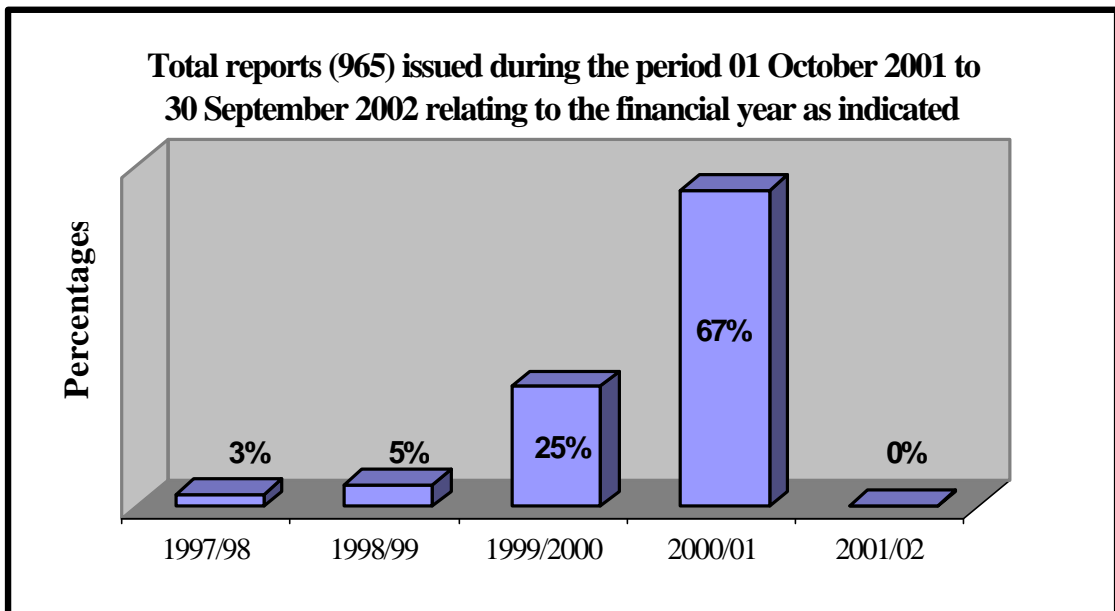
With regard to the previous two financial years, the status of financial statements to be submitted, indicated as percentages, is as follows:



3 Summary of the audit outcomes of local government

3.1 Reports issued: 1 October 2001 – 30 September 2002

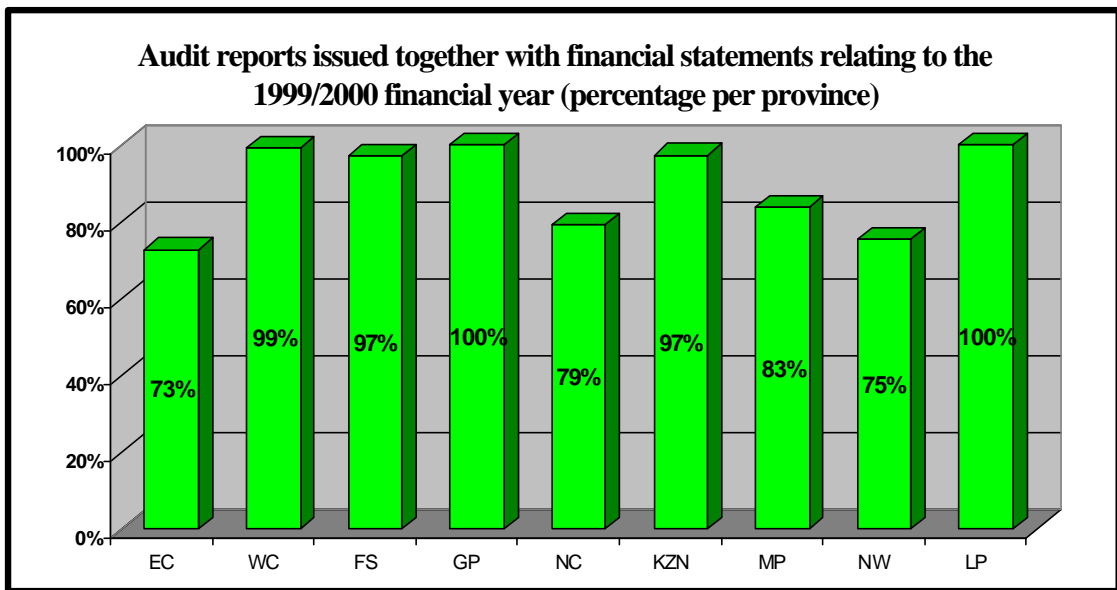
During the period 1 October 2001 until 30 September 2002, 965 (806 for the period 1 October 2000 to 30 September 2001) audit reports were issued to municipalities by the respective provincial auditors. As reflected in the graphs below, some of these reports were issued in respect of financial years as far back as the 1997/98 financial year. This can be ascribed mainly to difficulties experienced by municipalities in compiling and submitting financial statements for audit purposes in good time. The number of audit reports mentioned includes special audit reports issued to municipal councils on the non-submission of financial statements and/or financial records in disarray. The majority of such reports were issued to Eastern Cape municipalities.



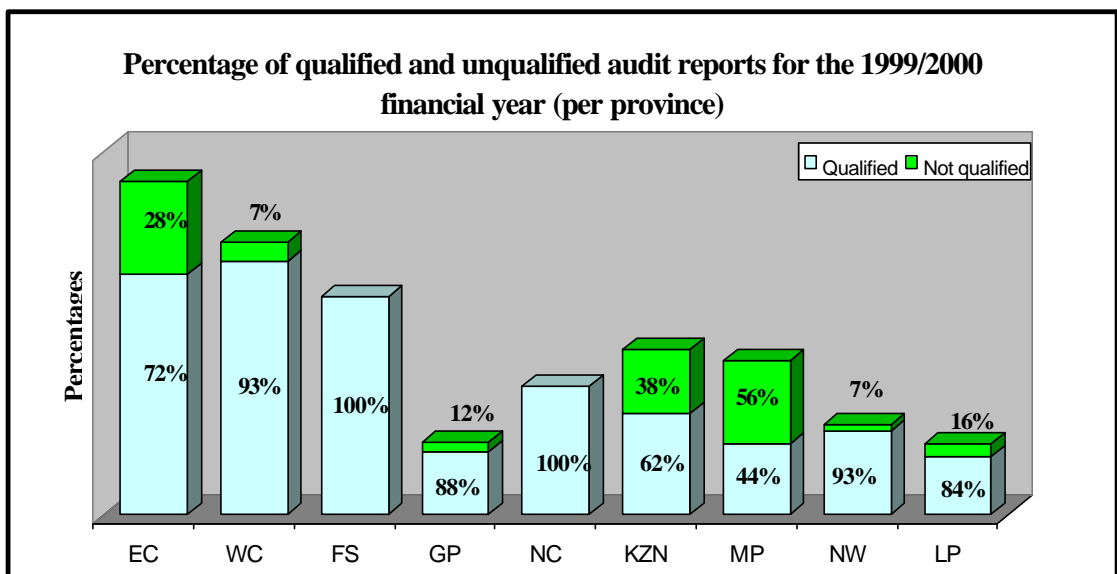
From the above graph it can be noted that a large percentage of reports relating to the 1999/2000 and 2000/01 financial years were finalised during the period 1 October 2001 to 30 September 2002.

3.2 Status: Finalisation of the 1999/2000 audits as at 30 September 2002

Altogether 766 municipal audit reports, in respect of the 1999/2000 financial year, were issued up to 30 September 2002, of which 241 were issued during the period 01 October 2001 to 30 September 2002, whilst the balance was issued prior to 01 October 2001. Of this total, 644 audit reports (87%) were issued together with financial statements, whilst 122 reports (13%) were issued without financial statements, to promote accountability. The position per province relating to the total of 87% is summarised below:



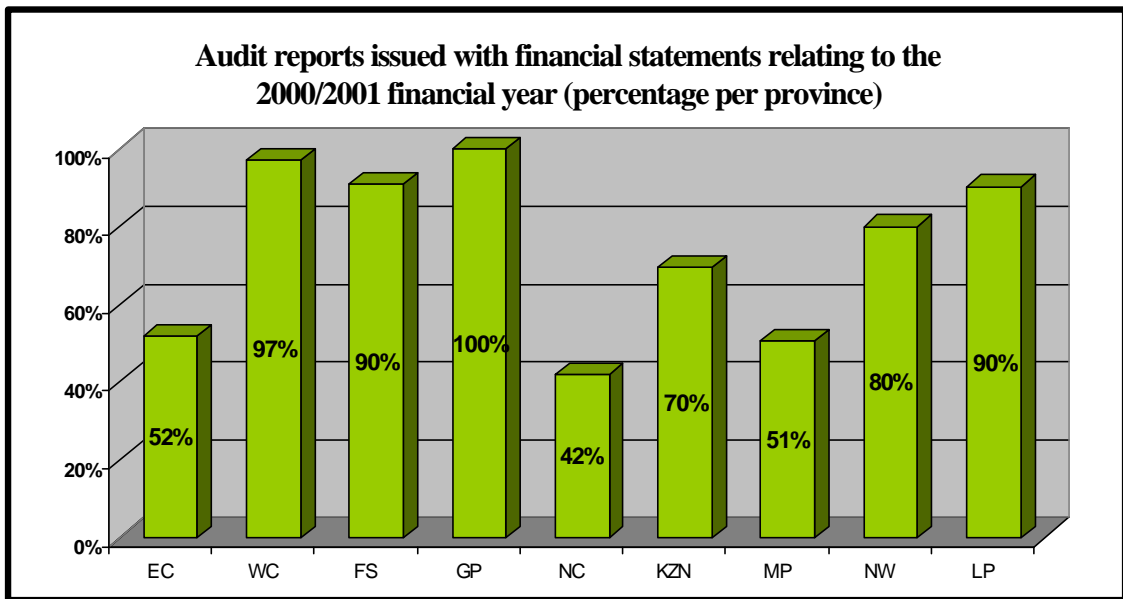
Of the 664 audit opinions that were expressed only 126 (19%) were not qualified. The graph below indicates the percentage of reports that were qualified and unqualified per province:



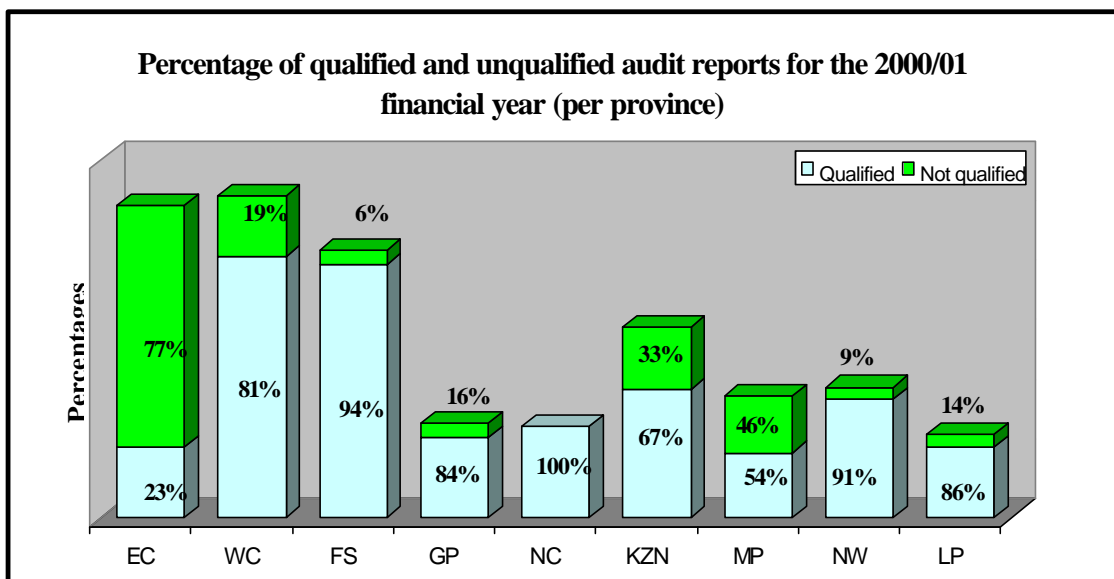


3.3 Status: Finalisation of the 2000/01 audits as at 30 September 2002

For the 2000/01 financial year, a total number of 777 municipal audits have to be conducted and reported on, of which 647 were issued during the period 01 October 2001 to 30 September 2002, whilst the balance was issued prior to 01 October 2001. As at 30 September 2002 a total of 543 (70%) had been completed, whilst 234 reports (30%) were finalised without financial statements. The position per province relating to the 70% is summarised below:



Of the 543 audits that had been completed up to 30 September 2002 and for which audit reports had been issued, only 159 (29%) of the audit opinions expressed were not qualified. The graph below indicates the percentage of reports that were qualified and unqualified per province:



3.4 Progress made since 30 September 2002

A follow-up was done to determine what progress had been made in relation to the number of financial statements received, reports issued and the number of unqualified reports that were issued between 1 October 2002 and 31 December 2002. The results received are summarised below per province:

<i>Annual financial statements received</i>				
	<i>Total</i>	<i>2001/02</i>	<i>2000/01</i>	<i>1999/2000</i>
Eastern Cape	257	0	110	147
Western Cape	14	13	1	0
Free State	10	10	0	0
Gauteng	10	10	0	0
Northern Cape	13	7	6	0
KwaZulu-Natal	34	30	4	0
Mpumalanga	109	3	52	54
North West	13	9	4	0
Limpopo	6	5	1	0
TOTAL	466	87	178	201
<i>To be submitted</i>		155		
<i>% not submitted</i>		50%		

<i>Number of reports issued</i>					
	<i>Total</i>	<i>2001/02</i>	<i>2000/01</i>	<i>1999/2000</i>	<i>1998/99</i>
Eastern Cape	397	0	196	201	0
Western Cape	15	13	1	1	0
Free State	10	1	8	1	0
Gauteng	5	5	0	0	0
Northern Cape	27	3	14	8	2
KwaZulu-Natal	18	11	6	1	0
Mpumalanga	72	0	28	44	0
North West	10	5	5	0	0
Limpopo	2	2	0	0	0
TOTAL	556	40	258	256	2



	<i>Number of unqualified reports</i>				
	<i>Total</i>	<i>2001/02</i>	<i>2000/01</i>	<i>1999/2000</i>	<i>1998/99</i>
Eastern Cape	79	0	39	40	0
Western Cape	9	3	0	0	6
Free State	0	0	0	0	0
Gauteng	3	1	0	0	2
Northern Cape	1	0	1	0	0
KwaZulu-Natal	33	7	3	1	22
Mpumalanga	26	0	6	20	0
North West	0	0	0	0	0
Limpopo	3	1	0	0	2
TOTAL	154	12	49	61	32

When the responses received between 30 September 2002 and 31 December 2002 are added to the results received up to 30 September 2002, it is found that the percentage of unqualified reports has declined from the 29% reported in par. 3.3 to 26% (208/801) for the 2000/01 financial year, whilst the percentage for the 1999/2000 year has improved by a marginal 1% from the previously reported 19% to an average of 20% (187/920).

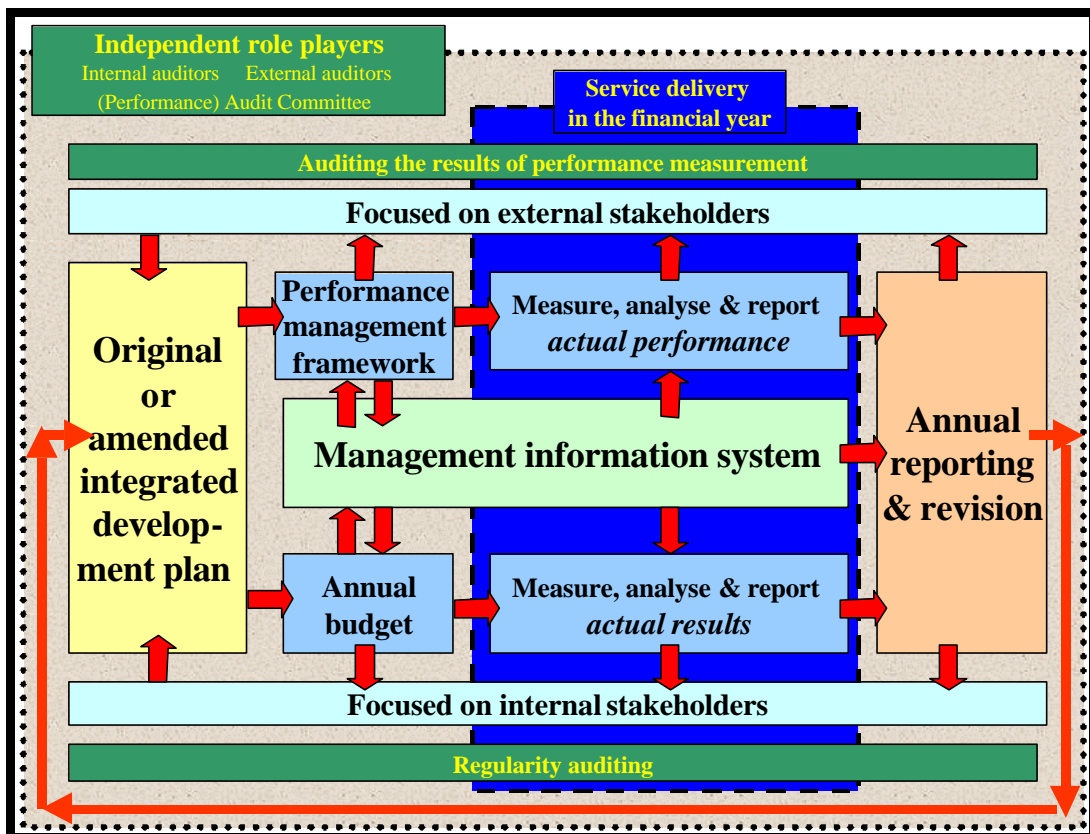
4 Results of the municipal readiness survey

4.1 Background and purpose of the survey

As indicated in the introduction the information contained in this section is based on the results of the survey conducted. The accuracy of the responses has not been verified and accordingly no audit assurance is provided on the analysis of the results.

Since the municipal election in December 2000, the local government environment has changed from both a demarcation perspective and a legislative perspective. The number of municipalities has been reduced from 843 to 284, whilst new legislation has been implemented regarding municipal structures and systems. From a financial perspective changes are also imminent, as envisaged in the Municipal Finance Management Bill. It is not yet possible to directly relate results in this report to the 284 municipalities due to the factors listed in section 1.2 above.

The current local government environment, relating to integrated development planning, the annual budget and financial results and performance management, can be summarised graphically as follows, taking into consideration the additional audit requirements embodied in the latest legislation and regulations:



The three major focus areas in the municipal environment currently consist of integrated development planning, performance management as well as financial budgeting and control.

In order to assess the readiness of municipalities for the envisaged changes, I conducted a survey at 65 municipalities to establish whether municipalities were ready for:

- The implementation of integrated development planning;
- The development and implementation of performance management systems;
- Corporate governance issues relating to performance management (including internal audit and performance audit committees);
- The improvement of service delivery and community participation; as well as
- Financial management regarding operational and capital budget aspects.

It should be mentioned that besides the performance management pilot sites of the Department of Provincial and Local Government, other pilot sites in all the provinces were selected in close consultation with the provincial audit offices.

4.2 Structure and limitations of the survey

The survey was conducted at 65 municipalities which covered 66% of the metropolitan municipalities (Category A), 22% of the local municipalities (Category B) and 23% of the district municipalities (Category C). In total 23% of all municipalities was covered. In order to assess the readiness of municipalities, the questions in the survey were structured so as to measure the availability of:

- people;
- processes; and
- technology.

Where possible, results have been presented on a provincial and national basis in order to allow for comparisons as well as to add value for both national and provincial role players within local government.

It must be emphasised that the survey was done on a limited number of municipalities in a pre-emptive fashion, i.e. at a very early stage of implementation. The intention was therefore merely to identify issues as early as possible and not to provide audit assurance or to identify specific municipalities.

In order to prevent and avoid any misinterpretation of results on a national or provincial basis, it is important that the following realities are noted:

- Sample municipalities were selected on a judgemental basis and not scientifically;



AUDITOR - GENERAL

- The judgemental sample can therefore not necessarily be extrapolated to the province or national level as a whole; and
- The 65 municipalities that participated in the survey are geographically made up as follows:

<i>Province</i>	<i>Number of municipalities surveyed</i>	<i>Total number of municipalities in province</i>	<i>Percentage of municipalities covered</i>
<i>Gauteng</i>	11	15	73%
<i>Free State</i>	6	25	24%
<i>Mpumalanga</i>	6	24	25%
<i>Limpopo</i>	7	28	25%
<i>Eastern Cape</i>	7	45	16%
<i>Northern Cape</i>	8	31	26%
<i>Western Cape</i>	7	30	23%
<i>KwaZulu-Natal</i>	7	61	12%
<i>North West</i>	6	25	24%
Total	65	284	23%

4.3 Summary of survey results

A high-level assessment of the survey results as well as the relevant report references appears below:

Survey focus areas	High-level assessment of current status		
	People	Processes	Technology
Integrated development planning	☺	☺	☺
Development of performance management system	☹	☹	☹
Corporate governance relating to performance management - Performance audit committees (Paragraph 4.4.2 refers)	☹	N/A	N/A
- Internal audit	☹	N/A	N/A
Service delivery and community involvement (Paragraph 4.4.3 refers)	☺	☹	☹
Operational and capital budget preparation and monitoring	☺	☺	☺
<p><i>N: Key to assessment:</i></p> <p>☺ Adequate – little or no room for improvement.</p> <p>☺ Acceptable – room for improvement.</p> <p>☹ Inadequate – significant room for improvement.</p> <p>N/A Not applicable.</p>			

4.4 Highlights from survey results

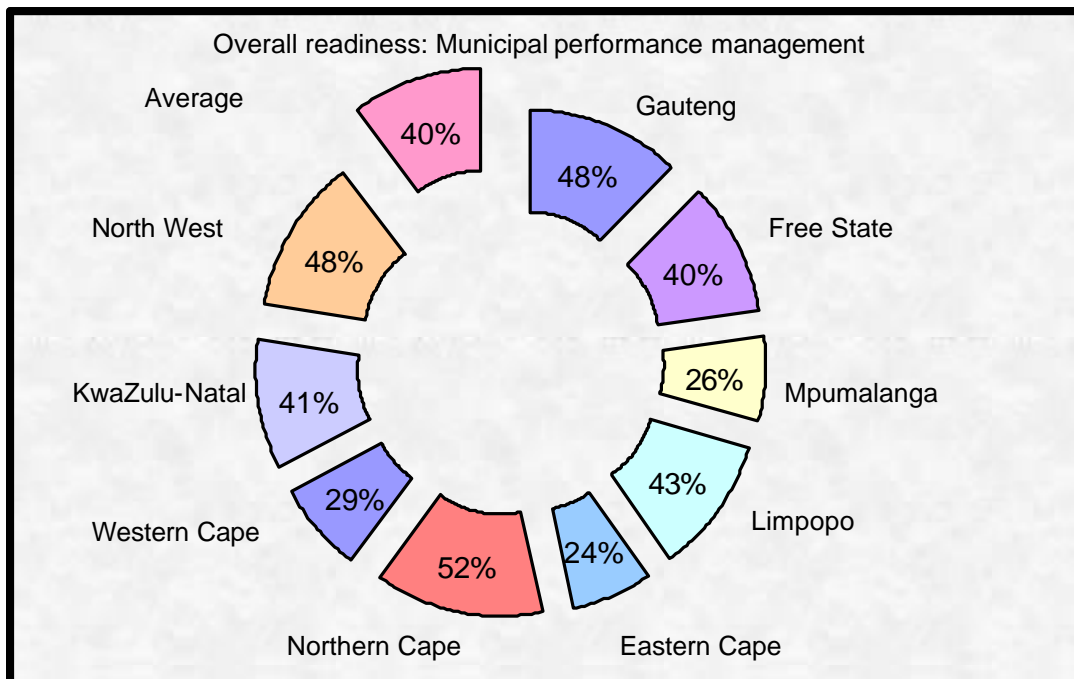
Included below are some of the most relevant findings/highlights from the survey results.

4.4.1 Overall readiness for municipal performance management

By analysing all the feedback received, the overall readiness of municipal performance management was calculated, taking the following into consideration:

- Dedicated employees responsible for a performance management system framework;
- Dedicated employees responsible for compiling performance management reports;
- Community participation as part of the performance management process;
- Formally adopted process for the development of a performance management system;
- Performance management system formally adopted by the municipal council;
- Formally adopted process for the review of the performance management system; and
- Aspects of a performance management system included in the current management information system.

The results obtained from combining all the issues mentioned were used to calculate the estimated overall readiness for performance management and are summarised as follows:



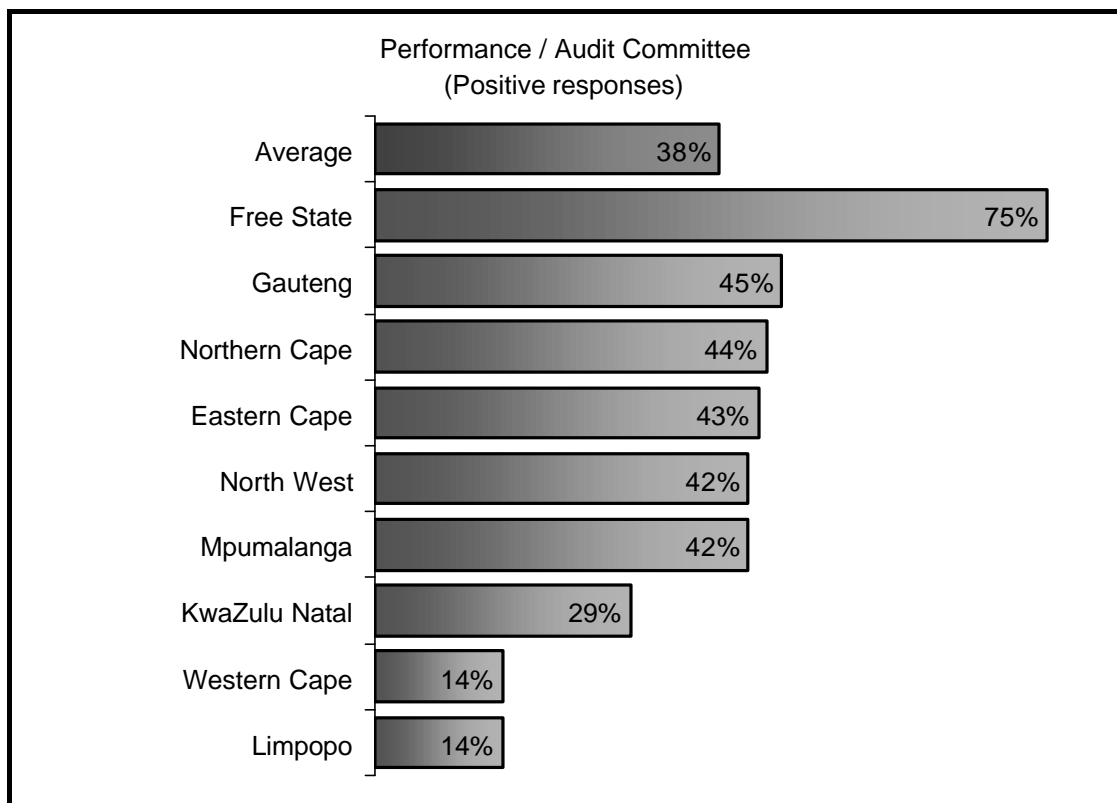
4.4.2 Corporate governance relating to performance management

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals...the aim is to align as nearly as possible the interests of individuals, corporations and society.” – Taken from Sir Adrian Cadbury’s Corporate Governance Overview, 1999 [World Bank Report].

The key tool to enhance corporate governance with specific reference to performance management is the audit committee.

The *Local Municipal Planning and Performance Management Regulations, 2001* (R796), issued by the Department of Provincial and Local Government on 24 August 2001, deals with the performance audit committee in regulation 14. In terms of this regulation a municipality must annually appoint and budget for a performance audit committee consisting of at least three members, the majority of whom may not be involved in the municipality as a councillor or an employee.

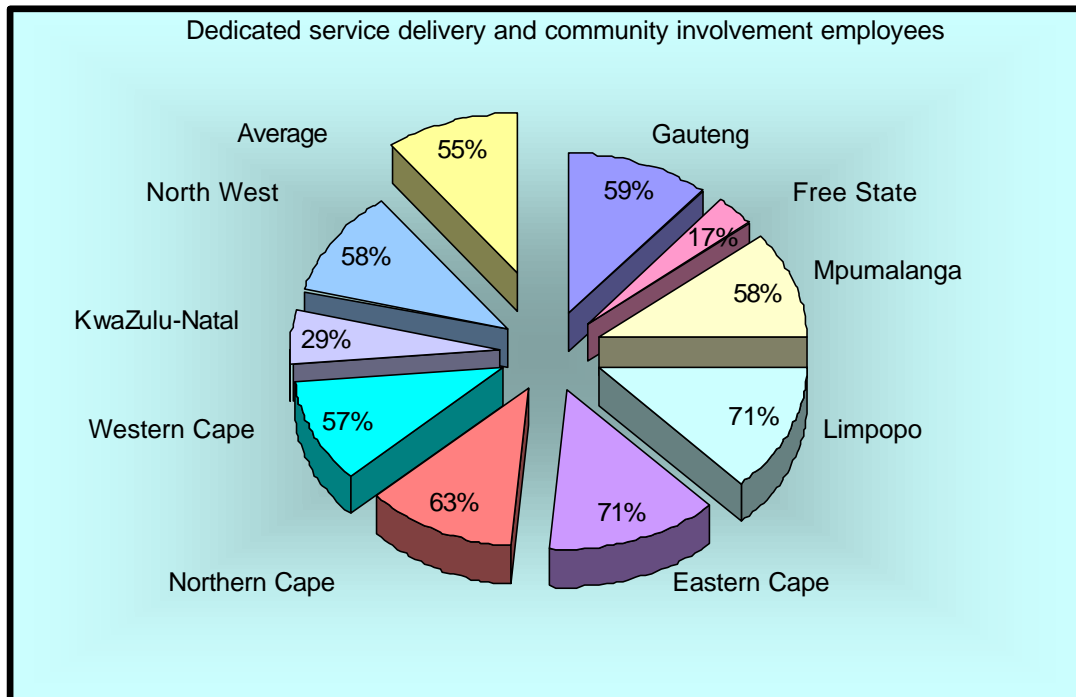
Results from the survey indicated that 38% of the municipalities had a performance audit committee and/or a normal audit committee, with the provincial results summarised as follows:



The concept of corporate governance and performance management is something new in local government in South Africa. However, given the recent corporate failures, as well as the overall incidence of white-collar crime and fraud in South Africa, the office will consider promoting transparency and effective corporate governance within municipalities.

4.4.3 Service delivery and community involvement

In order for communities to be able to participate in local government it is vital that specific human resources within the municipality be dedicated to this process. Based on the feedback received, 55% of the municipalities indicated that they employed dedicated employees responsible for service delivery and community involvement, as illustrated below:



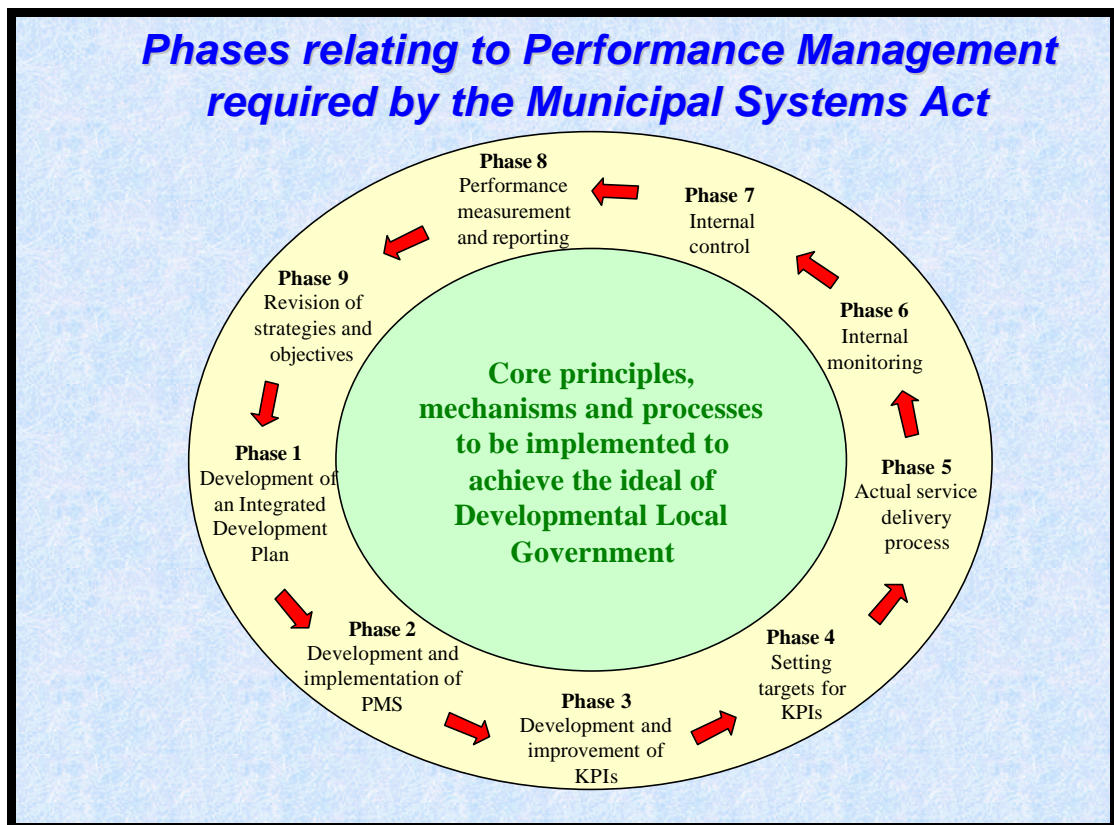
Although most pilot municipalities have indicated that they do have dedicated employees regarding integrated development planning, which is the strategic planning of the municipality, other aspects to be considered in future include the necessary technical experience, qualification and availability of staff members tasked with the integrated development planning. The identification of additional training needs and requirements is also important.

5 Auditing the results of performance measurement

5.1 Background

Section 45 of the Municipal Systems Act requires me to audit the results of municipal performance measurement annually. In order to comply with this requirement a new methodology and reporting format was developed. Due to the fact that the performance management system is a new challenge and requirement for municipalities, a phased approach was adopted. The methodology also takes into consideration the current requirements of the office's approved audit approach and the procedures used are in line with this approach.

A nine-phase approach was used, with phase one starting with the Integrated Development Plan and phase nine dealing with the revision of strategies and objectives. The nine-phase approach is in line with the latest legislation and regulations issued by the Department of Provincial and Local Government and can be summarised as follows:



Value-adding features of the audit methodology include the use of a high-level interview checklist to ensure that only phases or aspects of performance management that have already been addressed and implemented by a municipality are audited.

5.2 Testing of the developed audit methodology

Due to the fact that performance management is in its infancy at many municipalities, most of the audit work done to date, as well as the testing of the new methodology, has been limited to pilot sites.

Service providers were appointed to test the developed audit methodology and make recommendations for its improvement. The basis for the practical testing of the methodology was the 26 pilot sites identified by the Department of Provincial and Local Government for the initial implementation of performance management at municipal level.

The pilot evaluated the phases (as depicted above) 1 to 7 and 9 from a high-level perspective, whilst phase 8 was evaluated in more detail. A report on the findings was prepared and delivered to the Department of Provincial and Local Government. An executive summary in table format has been included hereinafter.

As with the results of the survey, it is again necessary to mention that throughout this section it should be understood that the pilots were conducted on a limited number of municipalities in a pre-emptive fashion, i.e. at a very early stage of implementation. Please refer to the limiting factors mentioned under section 1.2.

5.3 Executive summary of findings

No.	Key focus areas	High-level assessment of current status (N)		
		☺	☹	☹
1 Corporate governance:				
	<ul style="list-style-type: none"> ■ Existence of performance audit committees ■ Existence of internal audit functions ■ Internal audit work performed on performance management system (PMS) 		✓	✓
2 Performance management phases:				
	<ul style="list-style-type: none"> ■ Development of integrated development plan (IDP) ■ Development and implementation of PMS ■ Development and improvement of key performance indicators (KPIs) ■ Setting targets for KPIs ■ Actual service delivery by municipality ■ Internal monitoring and control of performance ■ Performance measurement and reporting ■ Revision of strategies and objectives 	✓	✓ ✓ ✓ ✓	✓ ✓ ✓
3 Performance management and reporting – legal compliance:				
	<ul style="list-style-type: none"> ■ Evaluation of inputs into PMS ■ Internal evaluation of PMS process ■ Evaluation of PMS outputs 	✓	✓	✓
4 Compliance of performance reports:				
	<ul style="list-style-type: none"> ■ General KPIs ■ Setting of strategic objectives ■ Linking of objectives to the IDP ■ Setting of targets ■ Actual results ■ Comparison of targeted and actual results ■ Remedial actions 		✓ ✓	✓ ✓ ✓ ✓ ✓
<p><i>N: Key to assessment:</i> ☺ Adequate – little or no room for improvement. ☹ Acceptable – room for improvement. ☹ Inadequate – significant room for improvement.</p>				

6 Opportunities for improvement

6.1 Remuneration of municipal council members

In terms of the Constitution the upper limit of “salaries and allowances” of members of municipal councils must be determined by law.

In view of the remuneration practices followed by certain municipalities, the question arises as to whether employment-related benefits such as residential housing or official motor vehicle allowances are included in the definition.

6.1.1 Applicable legislation

The objective of section 219 of the Constitution is to limit the total remuneration package, allowances and benefits payable to persons holding public office in order to control expenditure of this nature from state resources, and advance parity.

Within the framework established by the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) (act), Regulation 7178 of 2001, published in Government Gazette Notice No. R.999 of 2 October 2001 (Government Gazette No. 22726) (regulations) determines, with effect from July 2001, the upper limits of salaries, allowances and benefits of all members of municipal councils in the country.

6.1.2 Differentiated remuneration packages

Depending on the grading of a municipality, the regulations provide for different remuneration packages for the different members of municipal councils, based on their respective roles, status, duties, functions and responsibilities.

6.1.3 The ambit of allowances and benefits

The act restricts the definition of “benefits” to contributions from the budget of the municipality towards pension benefits and medical aid benefits of a member of the municipal council.

The act defines “allowances” as: *“any allowances, including out of pocket expenses, which form part of an office bearer’s conditions of service, other than a salary and benefits”*.

It would therefore appear that all benefits provided to a member of a municipal council other than pension and medical aid benefits are to be viewed as forming part of that member’s “allowances” for purposes of the act.

6.1.4 The allocation of allowances other than those specified in the regulations

In terms of section 7 of the act it would appear that members of municipal councils can only be granted “salaries, allowances and benefits” as determined in terms of this section, i.e. salaries and allowances within the upper limit as determined by the minister.

It would therefore appear that the total remuneration package that a municipal council may allocate to a specific member of its municipal council may include any recognised allowances, provided that the sum of such salary, allowances and benefits, including out of pocket expenses, does not exceed the applicable upper limit.

6.1.5 Exceeding the upper limit

In practice, municipalities may provide allowances for housing, travel or cellular phone expenses. However, the remuneration packages agreed to by certain municipalities may already include fringe benefits such as official housing, or subsidised transport. In such cases, apart from any potential adverse tax implications for the office bearer concerned, such additional “allowances” expose the municipality to the risk of inadvertently exceeding the upper limits applicable in terms of the act.

6.1.6 Conclusion

The above-mentioned legislative requirements, as well as the risks and possible cost implications relating to municipal council members’ remuneration, are currently very topical issues for municipal audits. The risks and cost effects will have a bearing on audits and thus the office will take this relevant and important remuneration issue into special consideration during future audits.

6.2 Performance management system pilots

During the pilots various opportunities for improvement have been identified and reported to the Department of Provincial and Local Government.

A solid base for the promotion of performance management has already been laid through, *inter alia*, the introduction of applicable enabling legislation and related guidance documentation; the training of municipal officials; and the testing of the concept of performance management through practical implementation on a number of pilot sites.

Following the reviews done at 26 pilot municipalities by the office, it is clear that additional interventions are required, which are briefly discussed below.

6.2.1 Macro-environment

The Municipal Systems Act permits the phasing in of the implementation of performance management and differentiation between different categories of municipalities. The issuing of regulations for a phased and/or differentiated approach should receive urgent attention.

One of the critical success factors for national municipal performance management is the identification of general key performance indicators that are relevant from both a developmental local government and accountability perspective. In line with this philosophy and to enforce the existing “performance management committee”, an improved process and mechanism should be considered, keeping in mind the functions of the Accounting Standards Board in terms of section 89 of the Public Finance Management Act, 1999 (Act No. 1 of 1999).

6.2.2 Corporate governance

The lack of adequately experienced people to serve on audit committees, especially at the smaller municipalities, can be overcome through an appropriate pooling and distribution of resources by implementing district audit committees (which is allowed by the regulations) to oversee the performance management of a number of municipalities. Consideration should therefore also be given to withdrawing the permissible alternative of a separate performance audit committee and incorporating these responsibilities into those of the audit committees.

6.2.3 Enabling structures

During the course of the review it became clear that the newly added responsibility for performance measurement and management was being handled differently amongst the various municipalities. Depending on the capacity and knowledge levels within municipalities, it may be beneficial to create a dedicated post/unit specifically for administering/coordinating performance management in each municipality, with a direct reporting line to the municipal manager. Should individual municipalities not have the capacity or required resources, the “pooling” of resources at district level, using shared service centre concepts, should be considered.

6.2.4 Training and capacity building

The time and effort that have gone into the various training initiatives to date are acknowledged, but the results of the survey indicate that further training and capacity building at municipal level are still required.

In order to ensure that the challenges faced in implementing performance measurement within local government are addressed in a structured manner, a detailed project plan, including proposed timelines, for implementing performance management should be drafted as a guideline for municipalities.

Progress against this proposed plan should be discussed regularly and inputs obtained should be utilised to update the implementation plan in order to achieve the stated objectives within the set timeframes.

7 Progress regarding inter-governmental matters mentioned in previous report

Municipalities in South Africa have undergone various changes since the *White Paper on Local Government* was published in March 1998. New legislation has been passed, including acts dealing with municipal demarcation, structures and systems. Draft legislation, such as the Municipal Finance Management Bill, has also already affected municipalities in anticipation of the implementation. Clarity of legal requirements by way of consolidated final legislation is urgently needed to ensure proper implementation of government policies and governance principles.

Given all the recent requirements for change, as well as the challenges resulting from the required changes, local government in South Africa needs to be commended on the progress already made to date. Through all the changes and despite the current reality of financial constraints, most municipalities still provided essential services to the communities. However, the main areas of concern still remain financial constraints and inability to obtain private funding, as well as the costs of restructuring after the demarcation process.

Issues included in the previous report that still have not been finalised include passing the Municipal Finance Management Bill and the Property Rates Bill. Due to the delay in the formal establishment of the Accounting Standards Board and the many items on its agenda, the introduction of Generally Accepted Municipal Accounting Practice (GAMAP) is likely to be delayed.

Other issues, reported on before, on which progress is reported, are dealt with in more detail hereinafter.

7.1 Restructuring of municipalities

In its annual report for the 2001/02 fiscal year the Department of Provincial and Local Government stated: *“The restructuring of local government is, however, far from over. Municipalities will be required to amalgamate administrations and restructure administrations and service delivery arrangements, among other things. At the same time local government must ensure continued access to municipal services for all citizens. Enormous pressures will initially be placed on municipalities during this process. It is therefore critical to provide financial assistance to municipalities for approximately two years.”*

In order to address this issue a Local Government Transition Fund was established as a one-off grant. From 2003/04 the grant will be incorporated into the Equitable Share. For more detail on grants and transfers by the Department of Provincial and Local Government, please refer to section 7.4 of this report.

7.2 Legislative processes

Various pieces of legislation and regulations for local government have been implemented and will be implemented in the near future. Regarding the legislation already implemented, the most important legislation includes the Municipal Demarcation Act, the Municipal Structures Act and the Municipal Systems Act. The most prominent legislation still to be enacted includes the Municipal Finance Management Bill and the Property Rates Bill.

With regard to the Demarcation and the Structures Acts, the main challenges still remain cross-border issues, integration of systems and administrations, finalisation of the roles and responsibilities between category B and C municipalities and the restructuring process, while integrated development planning, performance management, credit control and debt management are the main areas of concern for municipalities in terms of the Municipal Systems Act. Planning and performance management issues are addressed earlier in this report.

The finalisation and implementation of the Municipal Finance Management Bill in the not too distant future, should assist in consolidating and improving the plethora of national and provincial legislation that still exists. Key findings relating to people, processes and technology for financial management have been discussed earlier in this report. Issues relating to traditional leaders need to be resolved first, before the implementation of the Property Rates Bill can be considered.

7.3 Municipal audit fees in arrears

Municipal audit fees amounting to R16,9 million were in arrears for more than 90 days as at 30 November 2002, compared to R20,3 million at 30 November 2001. As reported before, these outstanding amounts result in cash flow pressures for the office.

No specific reference to the withholding of transfers to municipalities due to audit fees in arrears is made in the current Municipal Finance Management Bill or the Division of Revenue Act (Act No. 7 of 2003). However, both pieces of legislation do include a provision that the transfer of funds may be withheld if there is a serious or persistent breach of measures established in terms of section 216 (1) of the Constitution. A process will therefore have to be considered by the office to ensure that all municipal audit fees in arrears are indeed considered to be a serious or persistent breach of section 216 (1) of the Constitution, before the National Treasury may withhold any transfer of funds.

7.4 Initiatives/actions at national level

From a national perspective the Department of Provincial and Local Government has various initiatives and programmes that have been designed to assist municipalities. There are three main programmes within the Department of Provincial and Local Government, mainly aimed at the external environment, each with its own sub-programmes. Tabled below is a list of the main programmes, as well as sub-programmes for which funds are either transferred directly to municipalities or institutions that are related to municipalities:

<i>Main programme</i>	<i>Sub-programme for which transfers are made to municipalities or municipality-related institutions</i>	<i>Total transfer 2001/2002</i>
Governance and development	■ Municipal Infrastructure Investment Unit (MIIU)	R6 000 000
	■ Consolidated Municipal Infrastructure Programme (CMIP)	R1 025 900 000
	■ Local Economic Development Fund	R98 575 000
	■ Social Plan Fund	R570 000
	(Integrated Sustainable Rural Development Fund)	(R33 020 000)
Institutional reform and support	■ Disaster management	R5 000 000
	■ South African Local Government Association (SALGA)	R16 000 000
	■ R293 town personnel grant	R358 123 000
	■ Local government support	R160 000 000
	■ Local Government Transition Fund	R578 000 000
	■ Municipal Systems Improvement Programme	R42 871 000
	■ Local Government Equitable Share	R2 607 256 000
Auxiliary and associated services	■ Municipal Demarcation Board	R15 842 000

(Source: 2001/02 Annual Report of the Department of Provincial and Local Government – for details of the transfer breakdown per province, where applicable, readers are referred to the annual report of the DPLG or the Division of Revenue Act for 2001/02)

In addition to the National Treasury funds that are available and transferred to municipalities, international donor funding made available to the Department of Provincial and Local Government is also indirectly available to municipalities. For the financial year ended 31 March 2002, the Department of Provincial and Local Government received an amount of R59,6 million from donors, of which R36,7 million was spent during the financial year, while a total of R21 million was rolled over to the 2002/03 financial year. A shortfall of R1,5 million existed at the beginning of the financial year.

7.5 **Generally Accepted Municipal Accounting Practice (GAMAP)**

Since the previous report on local government issues, *General Report of the Auditor-General on Audit Outcomes for the Year Ended 31 March 2001* [RP58/2002], the Accounting Standards Board (ASB) for the public sector has been established. GAMAP is currently high on the agenda and a strategy paper and sequence of promulgations have already been drafted.

Issues that are currently considered by the ASB and included in the draft strategy include the following:

- GAMAP will only be prescribed where something similar is not available internationally;
- Pilot municipalities will be required to comply with the mixture of GAMAP and SA Public Sector Financial Reporting Standards (SAPS FRS);
- Other municipalities will only be required to comply as from 1 July 2004;
- Where the SAPS FRS is imminent, the GAMAP equivalent will not be promulgated;
- The critical statement that has to be issued where there is no suitable alternative, for example GAMAP 114 (Funds, Reserves and Capital Receipts), will be rewritten and issued for implementation;
- Other suitable GAMAP statements to be promulgated this year subject to some changes are: 103, 104, 106, 107, 108, 112 and 113;
- One generic disclosure requirement for all spheres of government will be issued. It will be up to the National Treasury to issue a more detailed guide for local government, as is the case on national and provincial level;
- In some cases where there is no GAMAP or international statement, statements of GAAP from the South African Institute of Chartered Accountants (SAICA) will be made applicable in the interim;
- In some less urgent cases where international development is in process and the GAMAP/SAICA alternatives are problematic, nothing will be promulgated for some time, for example in the case of leases and research and development costs.

8 Conclusion

Developmental local government is defined in the *White Paper on Local Government* as:

*“local government committed to working with citizens and groups within the **community** to find sustainable ways to meet their social, economic and material needs and **improve the quality of lives**”.*

The mission of the office, on the other hand, is:

“Providing independent and objective quality audit and related value-added services in the management of public resources, thereby enhancing good governance in the public sector”.

Against the backdrop of the above definition and mission, it is trusted that this report will assist national, provincial and local government in strengthening the initiatives to promote developmental local government in South Africa.

The transitional phase relating to the amalgamation, changes in functions and administration at municipal level should be finalised, as a matter of urgency, whilst the overarching legislation to ensure accountability and service delivery from a financial viewpoint should also be implemented.

This report is seen as the first new separate general report on local government, to be tabled in Parliament and the provincial legislatures to assist with the accountability process and identify what areas in local government need to be addressed, both at national and provincial level.