



26 June 2019

## **Auditor-general flags lack of accountability as the major cause of poor local government audit results**

**PRETORIA** – The auditor-general (AG), Kimi Makwetu, today released yet another set of municipal audit results that show an overall decline in audit results for the 2017-18 financial year.

Releasing his latest report on the performance of South Africa's municipalities, Makwetu said this undesirable state of deteriorating audit outcomes shows that various local government role players have been slow in implementing, and in many instances even disregarded, the audit office's recommendations. As a result, the accountability for financial and performance management continues to worsen in most municipalities.

This general report deals with the audit outcomes of local government for the financial year ended 30 June 2018. It precedes the amendments to the Public Audit Act, which became effective on 1 April 2019. Accordingly, the requirements of these amendments will be applicable for the first time to audit reports issued for the financial years that ended on or after 31 March 2019.

These amendments introduce the concept of a material irregularity in audits performed under the Public Audit Act and, once a material irregularity has been identified, may result in a number of possible actions, including the referral of the material irregularity to an investigative body, where there are complex and intricate matters not capable of being concluded directly by the audit. Once a recommendation is made through an audit such will be required to be effected within a period prescribed by the auditors, failing which, a binding remedial action will be issued by the auditors to the accounting officer to correct the identified material irregularity, also within a prescribed period. The

last recourse, after all the above steps are exhausted, will be for the Auditor-General to consider initiating a process that would trigger a certificate of debt in the name of an accounting officer or accounting authority associated with such material irregularity, once all the relevant, appropriate evidence has been secured.

## **Unheeded accountability advice yields undesirable audit results**

Makwetu's office has, as early as 2013, consistently cautioned those charged with oversight and governance about administrative lapses that could cripple local government and its ability to deliver services to the citizenry. Since the current local government administration took office, the governance issues affecting municipalities have continuously been flagged with them in various formats, including individualised meetings with the leadership and through the AG's 2016-17 general report, but the latest set of results indicates that this constant advice has largely been ignored.

The AG notes that there were municipalities across the country that were able to consistently achieve a clean audit status even though they were faced with similar challenges than their counterparts. Twelve of these municipalities were in the Western Cape and included the local municipalities of Swellendam, Witzenberg, Bergrivier, Breede Valley, Cape Agulhas, Cederberg, Hessequa, Matzikama and Overstrand. Other municipalities that consistently perform well were Senqu (Eastern Cape), Midvaal (Gauteng) and Okhahlamba (Kwazulu-Natal). The best practices at these municipalities included stable leadership that is committed to a strong control environment and effective governance. Continuous monitoring of their audit action plans in order to timeously address any audit findings and a pro-active approach to dealing with emerging risks were also common features at these municipalities.

It is unfortunate that these limited excellent practices are often dwarfed by the pervasive control and monitoring failures evident at a significant number of other municipalities across the country. The impact is that the fiscal resources placed at their disposal are either misused or not properly accounted for as required by public finance management laws. The trickle-down effect of these failures on services has been glaringly evident over the years across a number of municipalities, large and small.

Evidence of these is largely incomplete projects, unsupervised projects, lack of maintenance of significant service delivery infrastructure and haphazard road maintenance projects and infrastructure. Contained in the detail of this report are examples of these deficiencies and municipalities where they are prevalent.

## A. Accountability in local government continues to decline

The central message of the AG's latest report is that as a result of unheeded advice to implement his office's recommendations, local government "accountability for financial and performance management continues to deteriorate".

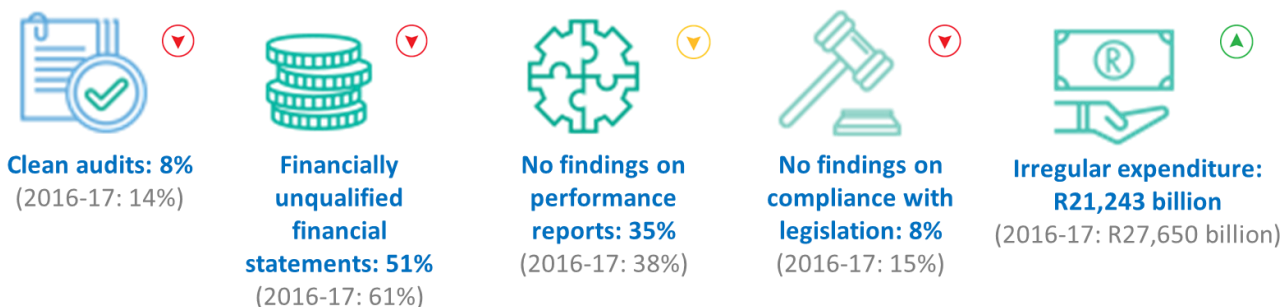
The report lists the following as the main indicators of the deteriorating accountability during the year under the review:

### 1. Audit outcomes regressed and irregular expenditure remains high

The Auditor-General of South Africa (AGSA) audited 257 municipalities and 21 municipal entities for the 2017-18 financial year.

To ensure reporting simplicity and targeted messaging, the latest report focuses on only the municipalities. The outcomes of the municipal entities are included in the report's annexures (available on [www.agsa.co.za](http://www.agsa.co.za)).

The graphic below summarises how municipalities (nationally) performed in various audit areas:



## **Overall audit outcome regression**

Of the audited municipalities, the audit outcomes of 63 regressed while those of 22 improved. Only 18 municipalities managed to produce quality financial statements and performance reports, as well as complied with all key legislation, thereby receiving a clean audit. This is a regression from the 33 municipalities that received clean audits in the previous year.

## **Poor quality of submitted financial statements and performance reports**

Makwetu explains that credible financial statements and performance reports are crucial to enable accountability and transparency in government. He reveals that most municipalities still continue to fail in these areas.

He states that: "Not only did the unqualified opinions on the financial statements decrease from 61% to only 51%, but the quality of the financial statements provided to us for auditing was even worse than in the previous year. Only 19% of the municipalities could give us financial statements without material misstatements." Makwetu adds that the performance reports of 65% of the municipalities that produced such reports had material flaws and were not credible enough for the council or the public to use.

## **Highest level of non-compliance with key governance laws since 2011-12**

The AG reported material non-compliance with key legislation at 92% of the municipalities, an increase from 85% in the previous year. Municipalities with material compliance findings on supply chain management increased from 72% to 81%. Both these are the highest percentages of non-compliance the AGSA has reported since 2011-12.

## **Irregular expenditure remains high, but is lower than in previous year**

Makwetu reports irregular expenditure that still remains high, but decreased from R29,7 billion to R25,2 billion after the record highs in the previous year.

He says the reported total includes the R4 billion irregular expenditure of those municipalities of which the audits had not been completed by the cut-off date of his report.

“The amount could be even higher, as 46% of the municipalities were either qualified on the incomplete disclosure of irregular expenditure or disclosed in the financial statements that they did not know the full extent of irregular expenditure,” he explains.

In total, R17,3 billion (81%) of the irregular expenditure related to expenses incurred in 2017-18 – representing 5% of the local government expenditure budget. This total includes R6,4 billion in payments made on contracts irregularly awarded in previous years – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts continue to be viewed and disclosed as irregular expenditure.

### **Delays in the tabling of annual reports to councils**

The Municipal Finance Management Act (MFMA) prescribes that municipalities should submit their annual reports to their respective municipal councils. The AG reports that by 31 May 2019, of all audits completed, only municipalities in the Gauteng, KwaZulu-Natal, Mpumalanga and the Northern Cape have fully complied with this MFMA prescript – all registering a 100% tabling rate.

The following provinces have municipalities that had not tabled their reports by 31 May 2019:

- North West and Eastern Cape have one municipality each that had not tabled
- Two municipalities each have not tabled for Limpopo and the Western Cape
- Free State has three municipalities that had not yet tabled.

“The MFMA prescribes steps that must be taken by the municipal manager or mayor in the cases that the municipality is unable to meet the requirements to table its report to council. Furthermore, the Act also empowers the AGSA to submit the financial statements and the audit report of a municipality directly to the municipal council, the National Treasury, the relevant provincial treasury, the MEC responsible for local government in the province and any prescribed organ of state, should the mayor fail to table the municipal annual report,” the AG reminded.

## **2. Lack of consequences for transgressions and irregularities**

The report reveals that the recommendations made by Makwetu's office to local government leadership last year to ensure that the basics were in place, thereby improving accountability and audit outcomes, did not receive the necessary attention at most municipalities. And there were largely no consequences for those who flouted existing legislation, as highlighted by the key findings below:

### **Failure to investigate findings**

The audit office's consistent and insistent calls for local government leadership to effect consequences for transgressions and irregularities were not heeded. The AG reports material non-compliance with legislation on implementing consequences at 60% of the municipalities – an increase from 54% in the previous year.

### **Failure to take action on findings**

Auditors found the following:

- A total of 74% of the municipalities did not adequately follow up allegations of financial and supply chain management misconduct and fraud, and 45% of the municipalities did not have all the required mechanisms for reporting and investigating transgressions or possible fraud.
- Inadequate follow-up was also evident in municipalities again not paying sufficient attention to the findings on supply chain management and the indicators of possible fraud or improper conduct that Makwetu's office had previously reported and recommended for investigation. "More than half of the municipalities did not investigate any of the findings reported. Where investigations did take place, 34% of the municipalities failed to resolve all of the findings satisfactorily," says the AG.
- At 62% of the municipalities, the council failed to conduct the required investigations into all instances of unauthorised, irregular and fruitless and wasteful

expenditure reported in the previous year – a slight regression from 60% in the previous year.

The AG further notes, “sufficient steps were also not taken to recover, write off, approve or condone unauthorised, irregular and fruitless and wasteful expenditure as required by legislation. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R71,1 billion, while that of unauthorised expenditure was R46,2 billion and that of fruitless and wasteful expenditure was R4,5 billion”.

### **3. Increasingly difficult environment for auditing**

The AG raised his concern about the continued difficulties facing his audit teams when conducting their audit work.

“The audit environment became more hostile with increased contestation of audit findings and pushbacks whereby our audit processes and the motives of our audit teams were questioned,” says Makwetu. He also points out that in some municipalities, pressure was placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure, without sufficient grounds. Instances of threats to and intimidation of our auditors were also experienced in most of the provinces,” revealed the AG.

He further disclosed that the persistent culture of not responding to audit recommendations not only affected his office, but has now extended to other accountability role players within municipalities – such as internal audit units, audit committees and municipal public accounts committees.

“At some municipalities, the recommendations of these role players were not implemented, which made it difficult for them to have a positive impact on the audit outcomes. It is also worth noting that some municipalities did not implement the programmes initiated by the treasuries and cooperative governance departments to influence positive audit outcomes and service delivery initiatives. Some municipalities did not respond to these key departments’ support initiatives aimed at improving

governance in local government in general and at the ailing municipalities in particular” he adds

Makwetu re-iterated that leadership should set the tone for accountability, and if audit outcomes are not as desired, energy should rather be directed at addressing the system relapses identified instead of coercing the auditors to change their conclusions.

## **Negative impact of accountability failures on the lives of citizens**

Accountability failures in local government have a negative impact on the lives of citizens, warns Makwetu.

“Where there is no accountability, municipalities struggle or fail to meet their objectives. This in turn adversely affects the citizens who rely on municipalities for their service delivery.”

The AGSA’s audits highlighted two key areas of impact, namely:

- The financial health of municipalities
- The delivery and maintenance of municipal infrastructure

Examples of how accountability failures negatively affect the lives of citizens include:

### **Financial health of municipalities**

The inability to collect debt from municipal consumers was widespread. In these circumstances, it is inevitable that municipalities will struggle to balance their books. In total, 34% of the municipalities disclosed expenditure that exceeded their income (deficit) – the total deficit for these municipalities amounted to R5,8 billion.

The financial woes of local government also weighed heavily on municipal creditors. The impact of this inability to pay creditors was most evident in the huge sums owed for the provision of electricity and water to Eskom and the water boards, respectively.

Five provinces responded to the impending financial crises through provincial intervention by placing a total of 18 municipalities under administration.



The AG points out that: “While the poor economic climate does play a role in the deterioration of municipalities’ financial health, many are just not managing their finances as well as they should. For example, we are reporting fruitless and wasteful expenditure that amounted to R1,3 billion for the period under review. This is effectively money lost. The potential R1,6 billion loss of investments made with the VBS Mutual Bank also significantly weakened the financial position of the 16 affected municipalities, and had an impact on the delivery of infrastructure and maintenance projects.”

### **Shortcomings in the development and maintenance of infrastructure**

The AGSA’s audits again identified a number of shortcomings in the development and maintenance of infrastructure by municipalities. These included the underspending of grants, delays in project completion, and non-compliance with supply chain management legislation.

Makwetu cited as a key concern “the lack of attention paid to water and sanitation infrastructure”. He says the condition of water and/or sanitation infrastructure was not assessed by 32% of the municipalities responsible for water and sanitation; and almost half did not have policies for maintenance. “It is not unexpected then, that 39% of the municipalities that disclosed their water losses reported losses of more than 30%, resulting in an overall loss of R2,6 billion.”

He also highlights that the maintenance of roads did not receive the necessary attention, with the condition of roads not being assessed by 23% of the municipalities responsible for roads and 41% not having a road maintenance plan.

### **Below are examples of accountability failures on municipal infrastructure:**

- **Metsimaholo – Oranjeville sports complex (Free State)**

The construction of the Oranjeville sports complex was budgeted for an amount of R21,9 million. The municipality had spent R21,7 million relating to this project, which is 99,1% of the budgeted amount. It could not be confirmed that services were actually delivered for all the amounts paid as, except for a fence, no building structures were visible during a site visit.

- **Mafikeng – upgrading of First and South streets (North West)**

The project was completed six months late, mainly due to a lack of communication

and coordination between the various role players, including the municipality, consulting engineer, contractor, ward councillor and community.

During a site visit, auditors also noticed that the actual distance of road completed was less than that stipulated in the contract. Irregular expenditure of R4,2 million was incurred on the project.

- **Mopani District – replacement and resizing of asbestos cement pipes in Lulekani (Limpopo)**

The project had a planned completion date of 30 June 2018, which was revised to 15 January 2019 due to delays in the procurement processes that resulted in the project only being awarded towards year-end. In addition, the municipality did not comply with supply chain management legislation, as the bid adjudication committee that made the award was not properly constituted.

## Reasons for the accountability failures

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

- Leadership, senior management and officials failed to develop, implement and monitor effective systems and processes of internal control, including corrective action.
- Vacancies and instability in key positions slowed down systematic and disciplined improvements and affected the ability of councils to hold individuals accountable.
- Key officials lacking appropriate skills and competencies in financial reporting led to over-reliance on consultants and had a negative impact on financial planning, record keeping and reporting.
- Inadequate or a lack of review and monitoring processes as well as officials not being held accountable for poor performance.
- Officials lacking the necessary skills, competencies or appropriate understanding of the management and reporting requirements for performance information.

- Leadership and municipal officials deliberately or negligently ignored their duties and disobeyed legislation, which was not decisively dealt with through mechanisms for enforcing consequences for transgressions.

## **B. The audit outcomes at a glance**

In its annual audits, the AGSA examines the following aspects:

- Fair presentation and absence of material misstatements in financial statements
- Reliable and credible performance information for purposes of reporting on predetermined performance objectives
- Compliance with all legislation governing financial matters

The audited institution achieves a clean audit when its financial statements are unqualified, with no audit findings in respect of reporting on predetermined objectives and compliance with legislation.

### **Total local government expenditure budget in 2017-18**

The expenditure budget for the municipal sphere in 2017-18 was R376,49 billion. Municipalities with clean audit opinions represent R9,51 billion (3%) of this amount, while those with unqualified opinions with findings represent R237,44 billion (62%). Municipalities with qualified audit opinions make up R77,48 billion (21%) of the total budget, while those with adverse and disclaimed opinions represent R23,62 billion (6%). The municipalities with outstanding audits constitute R28,44 billion (8%) of the total expenditure budget.

## Movement in municipal audit outcomes

Only six of the nine provinces had municipalities with clean audits, as illustrated below:



The summary below highlights how the various provinces, in alphabetical order, performed in the year under review:

### Eastern Cape

The province's audit outcomes show a net regression, made up of five regressions and four improvements. The number of municipalities receiving modified (qualified, adverse or disclaimed) opinions increased from 39% in the prior year to 47% in the year under review.

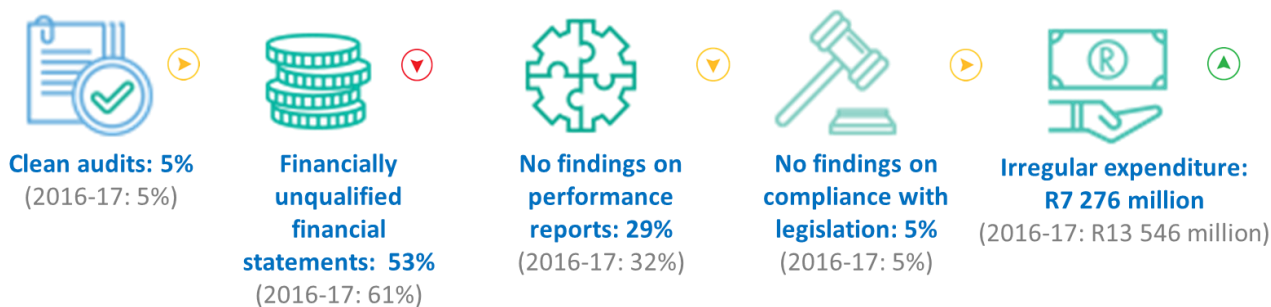
The overall financial health of municipalities in the province regressed, as 76% of the municipalities had concerning financial health indicators or required intervention, compared to 66% in the previous year. Of these municipalities, 29% (2016-17: 21%)

faced significant cash flow and viability challenges, which were emphasised in their audit reports.

The AG commended municipalities in the province for spending 96% of the conditional grants that were allocated for infrastructure development.

For the province to improve its outcomes, Makwetu advises that the “political and administrative leadership must strive to create a culture that will result in a responsive and accountable local government. The tone at the top must be focused on ethical leadership and good governance, supported by a well-capacitated administration with an emphasis on filling the municipal manager and chief financial officer roles with competent individuals in order to promote stability”.

The graphic below gives a brief summary of how the province performed in various audit areas:



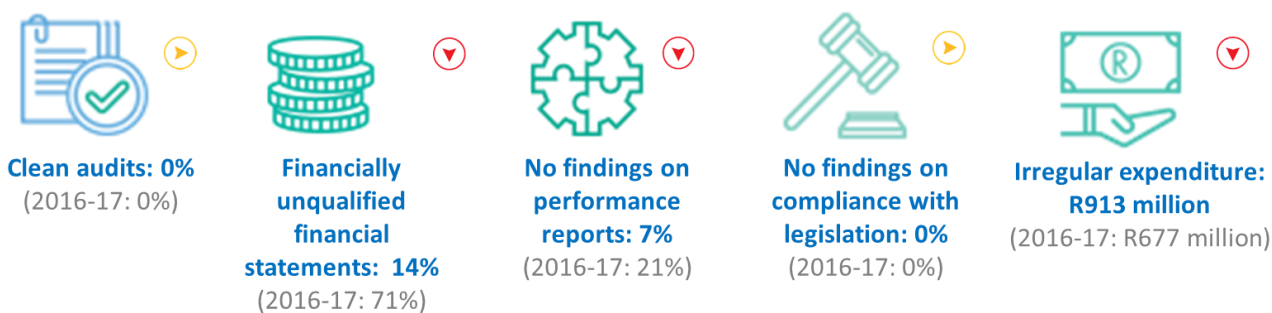
## Free State

The AG has again raised his concern about the state of municipalities in the province noting, in part, that: “The Free State local government environment displayed a total breakdown in internal controls as the province’s political and administrative leadership, yet again, exhibited no response to improve its accountability for financial and performance management.

“The leadership did not implement our recommendation to ensure stability and the filling of vacancies in key positions, despite their commitment to do so. This resulted in the significant deterioration of municipal audit outcomes, service delivery and financial health. The required level of oversight by all assurance providers in the province was non-existent at most municipalities and we doubt if there is political will to do the right

thing for the right reason, mainly due to political interference to the detriment of good governance.”

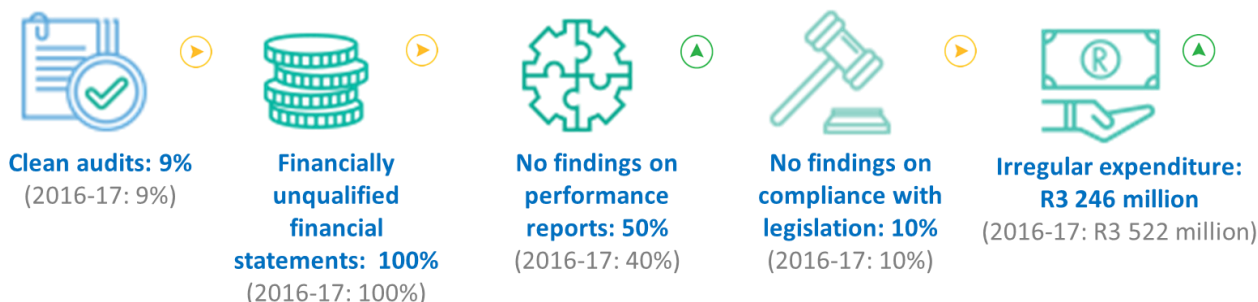
Makwetu says the financial crisis in the province is becoming a critical concern. “Although some municipalities had been placed under provincial intervention, this was not effective, as these municipalities’ financial sustainability did not improve. Several municipalities in the province qualified for mandatory intervention by the provincial executive, which is applicable when a municipality is in a serious financial crisis and is in material breach of its obligations to provide basic services or to meet its financial commitments; however, no decisive action was taken by the provincial leadership to implement the constitutional prescripts. Consequently, municipalities’ financial health continued to deteriorate from a net current liability position (where current liabilities exceed current assets) of R4,8 billion in the prior year to R6,1 billion in the current year.”



## Gauteng

The Gauteng local government sustained its audit outcomes in 2017-18 with one municipality obtaining a clean audit. The analysis of audit outcomes excludes Emfuleni, of which the audit outcome had not been finalised by the legislated date due to safety concerns in the municipal area, which resulted in a temporary suspension of the audit process. The AG commended Midvaal for sustaining a clean audit outcome for the last five years. “As highlighted in previous years, this was as a result of the municipality institutionalising a number of best practices, such as timeously monitoring the implementation of action plans to ensure that internal control deficiencies are addressed and effectively applying consequences. Should such practices be replicated across the province, audit results are likely to improve even further.”

Makwetu also commended the province's municipalities for obtaining a 100% financially unqualified opinion for the past three years. Gauteng also remains the only province without any qualified or disclaimed opinions. However, the quality of financial statements as initially submitted for auditing regressed, as only 30% of the municipalities (2016-17: 40%) submitted financial statements without material misstatements.



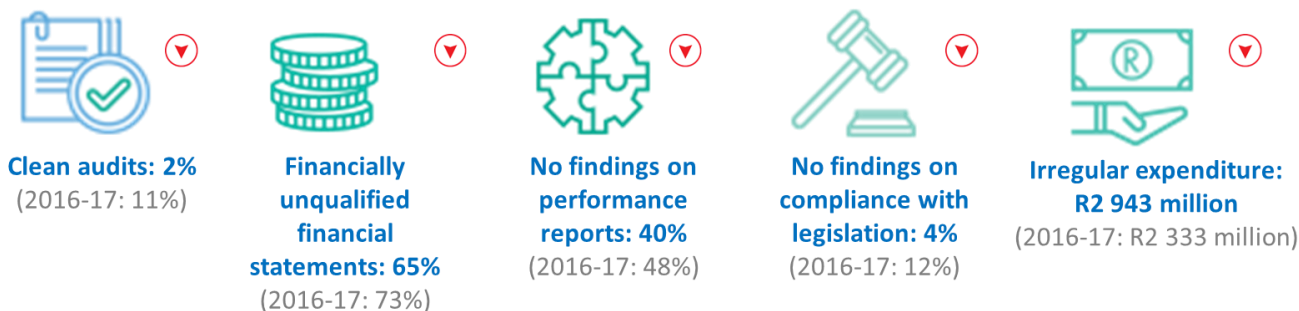
## KwaZulu-Natal

The audit outcomes continued to deteriorate in the second year following the election and appointment of the new political and administrative leadership in the province. The outcomes indicate a net overall regression of nine municipalities since the previous year, comprising 14 regressions and five improvements. There was a substantial decrease in the number of municipalities with unqualified audit opinions without findings (clean audits) from six to one; and an increase in the number of municipalities with modified audit opinions (qualified, adverse and disclaimed) from 14 to 18.

“We again identified and reported that the leadership along with management was slow to respond, or did not respond at all, to the early warning risk signals and recommendations that we regularly communicated during our engagements. Vital internal controls were ignored. It is also worth noting that the levels of tension, intimidation and threats, as well as pushback and hostility, increased during the execution and reporting phases of our audits, as the leadership and management were under pressure to achieve better audit outcomes. These factors coupled with surges in service delivery protests made the audit landscape complex and challenging for our audit teams,” reveals the AG.

“Many of the challenges across local government are vast and require attention and a long-term solution. Equally, there are basic lapses that are sometimes overlooked,

which can be fixed easily and quickly by addressing the building blocks of a sound system of internal control," Makwetu advises.



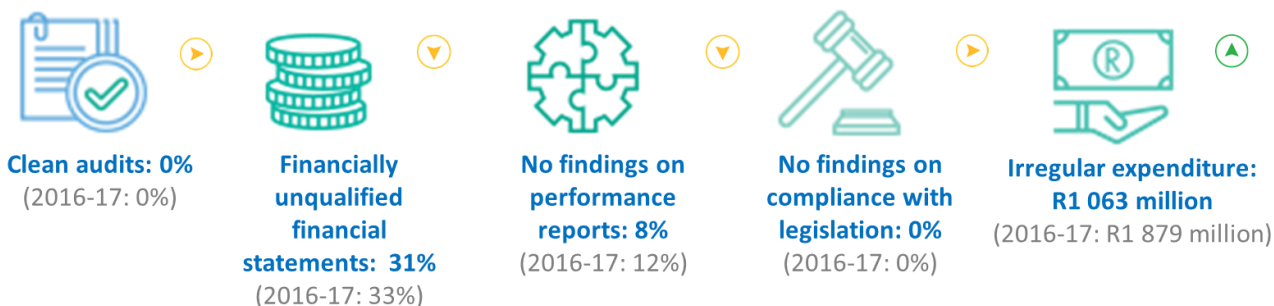
## Limpopo

Municipalities in Limpopo registered a slight improvement in the overall audit outcomes in 2017-18 with a net improvement of two municipalities. However, this improvement was consultant-driven rather than as a result of a concerted effort by the leadership to address internal control deficiencies.

“Following the improved audit outcomes in 2015-16, which was also consultant-driven, we warned against the over-reliance on consultants that put the sustainability of improved audit outcomes at risk. Our warnings were not taken seriously and consequently in 2016-17 this improvement was not sustainable, as the overall audit outcomes regressed.

“We once again encourage the leadership in the province to ensure that a culture of accountability is cultivated and that all levels of management and leadership accept responsibility for improving audit outcomes. It is critical that the municipal public accounts committees and municipal councils are adequately capacitated, especially in the area of compliance, to exercise their oversight roles effectively to prevent a situation where municipalities incur unnecessary financial losses, such as making unlawful investments. The tone has to be set at the top (by senior managers, municipal managers and mayors) that there is zero tolerance for poor performance and transgressions. This will not only improve audit outcomes but will have a positive impact on service delivery as well.”

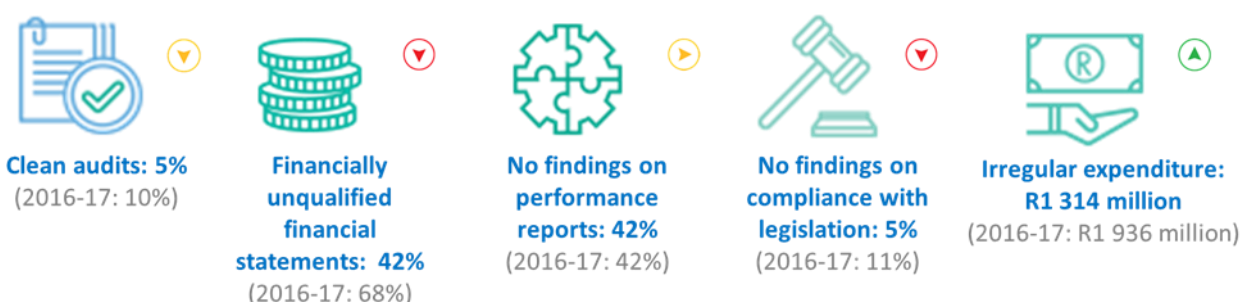




## Mpumalanga

Mpumalanga was unable to sustain the improved audit outcomes from 2016-17 and instead experienced a significant net regression in 2017-18. Only one municipality improved its audit outcome from unqualified with findings to a clean audit. Nine municipalities regressed from the prior year. The main driver of the regression was the lack of sufficient and effective institutionalised internal controls, which resulted in an unstable control environment.

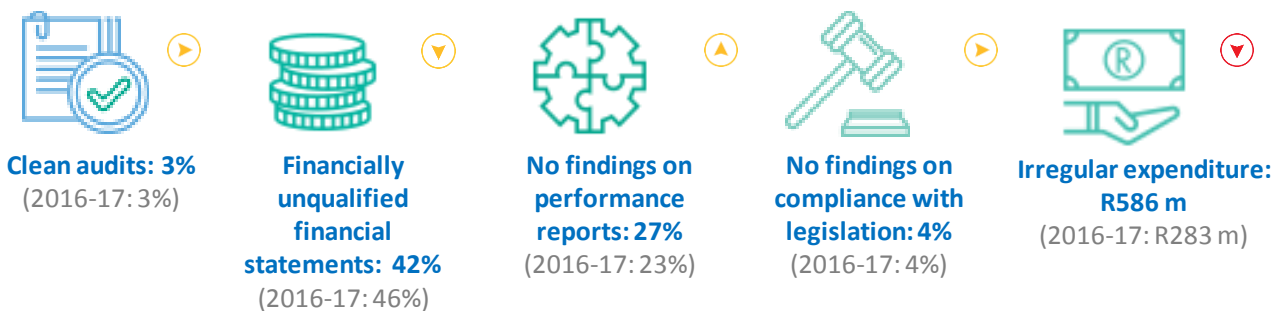
“Despite our strong message in the previous years, calling on both the local government and the provincial leadership to deal decisively with the accountability failures by stabilising local government (i.e. filling vacancies and capacitating local government) and implementing consequences for those who transgress governance laws, the province did not heed this message, resulting in these regressed audit results,” notes the AG.



## Northern Cape

The audit outcomes regressed, with three municipalities moving from an unqualified audit opinion to a qualified audit opinion, and two municipalities moving from a qualified audit opinion to a disclaimed audit opinion.

The overall regression confirms that the AGSA's message of accountability that has been conveyed consistently to the province during the past two years has not been heeded yet. This message entailed, amongst others, mayors, municipal managers and senior managers holding each other and their subordinates accountable. "As this did not happen, similar findings are reported year after year in many instances, confirming that accountability for financial and performance management continues to deteriorate."



## North West

The province's downward spiral continued with another significant regression in audit outcomes. Not a single municipality attained a clean audit opinion, while the number of financially unqualified opinions decreased from two to only one and the number of disclaimed opinions increased from eight to 13. The audit outcomes of seven municipalities regressed, with only two municipalities improving.

"These audit results, the worst since 2012-13, are a clear indication of the deteriorating accountability, a blatant disregard of our messages and recommendations, complacency and a lack of commitment to decisively address key areas of concern as well as a lack of political will to effect consequences. Despite the commitments made by the leadership to address root causes and control deficiencies, they did not respond with the required urgency to our messages about addressing risks and improving internal controls. The political instability in the province and the tone of those charged with governance have created an environment that is not conducive to accountability, good governance and the effecting of consequences."



**Clean audits: 0%**  
(2016-17: 0%)



**Financially unqualified financial statements: 5%**  
(2016-17: 10%)



**No findings on performance reports: 14%**  
(2016-17: 10%)



**No findings on compliance with legislation: 0%**  
(2016-17: 0%)



**Irregular expenditure: R3 236 million**  
(2016-17: R3 310 million)

## Western Cape

While the province still has the largest concentration of municipalities with clean audits at 40%, its latest results reflect a significant regression compared to 2016-17 (70%). We have observed that the lapses in controls in certain municipalities in this province were largely non-adherence to statutory submission dates of financial statements for audit, non-adherence to supply chain requirements in confined areas already identified and actioned by management only after the audit. For these reasons we do not believe that these lapses or control deviations are indicative of a systematic breakdown in the systems of internal control, however, the report had to reflect the occurrences to prevent management complacency.



**Clean audits: 40%**  
(2016-17: 70%)



**Financially unqualified financial statements: 89%**  
(2016-17: 93%)



**No findings on performance reports: 86%**  
(2016-17: 89%)



**No findings on compliance with legislation: 43%**  
(2016-17: 79%)



**Irregular expenditure: R667 million**  
(2016-17: R165 million)

Former Cooperative Governance and Traditional Affairs (Cogta) Minister Dr Zweli Mkhize had echoed the AG's central message of declining accountability in local government. He told an audit indaba on local government held in Durban that "municipalities have not learnt anything from past negative audit outcomes" as they continue to be plagued by the same system failures that the AG has constantly flagged with them, including making recommendations on how to remedy these shortcomings. The AG says he is encouraged by these pronouncements that are part of financial management interventions designed to assist poorly performing municipalities.

Makwetu says his office fully supports any initiative aimed at improving governance systems at municipalities “to arrest the reversal in audit outcomes we are currently witnessing”.

He points out that: “As we have maintained for years now, most of the municipal problems we continue to highlight every year can be turned around through strong, ethical and courageous leadership in the administration and council, with the support of provincial government.

“Also, those charged with local governance and oversight should ensure that the basic principles of accountability, built around strong internal control and good governance, are in place. When these fundamentals are institutionalised, municipalities should be well geared to live up to the expectations of the communities that they serve.”

## Conclusion

The tabling of this report takes place in the context of three interrelated developments which include the role of leadership in addressing weakening accountability; the expanding mandate of the office of the AG and the intended impacts of these amendments in local government.

### **The role of leadership in addressing the deteriorating accountability in municipalities**

Makwetu unequivocally asserted that the current governance relapses besetting local government could only be turned around if the leadership was to take the lead in the drive towards wholesale clean administration in the public sector.

“The leadership sets the tone at the top at any organisation. If an organisation's leaders are unethical; have a 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. Inevitably, a culture of poor discipline, impunity and non-delivery will develop, leading to the collapse of the organisation.

“The leaders in local government should therefore steer their municipalities to success. They should take responsibility for the deteriorating accountability in municipalities and it is their duty to turn the situation around.”

The AG says local government leadership includes the municipal managers and their senior managers who are responsible for the administration and service delivery of the municipality; the political leadership (the mayor and council members) who oversees the functioning of the municipality and takes key decisions; and the provincial leadership (premier, members of the executive council, and heads of provincial departments that support local government). The provincial legislature, he adds, also has a leadership role to play as part of its oversight function.

Makwetu is confident that if the leadership at all three of these levels were to focus on the following key matters, the current state of governance at municipalities could be turned around:

- Tone at the top – ethical leadership, good governance and accountability
- Capacitate and stabilise administration – free from political interference
- Enable and insist on robust financial and performance management systems
- Consistent, appropriate and swift consequences for irregularities

### **AG’s expanded mandate to help improve accountability in the public sector**

Makwetu says his office, as the country's supreme audit institution, has always understood that it has an important role to play in the public sector accountability chain, and that the new powers given to his office by parliament will ensure that they continue to contribute to the drive towards wholesale clean administration.

“The accountability mechanisms in local government are not working as they should, and there have been continued calls for more to be done – particularly by the audit office. Through the support of our parliamentary oversight committee, the Public Audit Act was amended to provide us with more power to improve accountability in the public sector.

“The intent of the amendments is not to take over the functions of the municipal manager, the mayor or the council, as their accountability responsibilities are clear in municipal legislation. It is rather to step in where those responsibilities are not fulfilled in spite of us alerting leadership of material irregularities that need to be investigated and dealt with.”

### **How the amendments will help improve accountability in local government**

The AG says the amendments provide his office with an expanded mandate, which includes the power to refer material irregularities to appropriate public bodies to investigate; as well as with the power to issue binding remedial actions to ensure that material irregularities are addressed, including the recovery of money lost as a result of the irregularities.

“We have been engaging with mayors, municipal managers and council members on the amendments and its impact as part of our roadshows. We have highlighted that the introduction of the concept of material irregularities was not an attempt to bring in another punitive measure but rather a complementary mechanism for strengthening financial and performance management, which in turn will contribute to improved accountability in the public sector.

“We also shared with them that by identifying material irregularities, we will support municipal managers by bringing to their attention the irregularities that could have a significant impact on municipal finances, resources and delivery as well as empowering them to take the appropriate steps timeously in terms of legislation. This will lessen the negative impact of such irregularities on municipalities, set the right tone for accountability, and highlight the need for consequences. We will report the material irregularities in the audit report, which will also enable councils to perform their oversight function – focusing on the most material matters affecting municipalities.”

If the municipal managers, supported by their political leadership, adhere to their legislated responsibilities and commit to taking swift action when we notify them of a material irregularity, there will be no need for us to use our remedial and referral powers. Municipal managers also need to respond to the initiatives we have implemented to

assist them in preventing material irregularities. They should act on our recommendations for strengthening their internal controls and the early warning signals we share with them as part of the status of records review.

“The extension of our mandate will assist in restoring public confidence, solidifying accountability, and entrenching the ethical behaviour that is expected of entrusted officials and elected representatives. It will also mean that our reports will be taken seriously – we could start to see an improvement in the audit outcomes and a definite shift towards municipalities living up to the expectations of the communities they serve,” concluded the AG.

**End**

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**Media note:** The *Consolidated general report on the audit outcomes of local government* is available on [www.agsa.co.za](http://www.agsa.co.za).

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