

Department of Urban Planning, Cooperative Governance and Traditional Affairs

NCOP Local Government Week

Provincial implementation plans to strengthen
Local Government Audit Outcomes, Revenue
Management support and Financial State of
Municipalities



GAUTENG
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

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PURPOSE

Present the provincial implementation plans to strengthen Local Government Audit Outcomes, Revenue Management Support and Financial State of Municipalities

SUPPORT IN TERMS OF SECTION 154

Methodology of Support is as follows:

Hands-on Support: Provision of direct support to municipalities through the deployment of highly specialized capacity to assist with core technical skills in the areas of Finance, HRD&M and other technical skills in Engineering and Planning.

Capacity building: This entails formal accredited and competence classroom based training, mentoring and coaching, as well as action learning.

Financial Support: This entails the transfer of funds to municipalities to address challenges in the areas of service delivery, finance and HRD&M.

SUPPORT IN TERMS OF SECTION 154

The Finance Support is implemented through the following modalities:

Implementation of an integrated solution that addresses the back- and front-end of the Revenue Management Value Chain. This is based on the assumptions that the streams within the Revenue Value chain are interconnected and inter-dependent, which means that the weaknesses in a single factor will invariably affect the other.

Fostering prudent financial management and audit support initiatives: this entails the provision of direct support in the municipal workplace to strengthen financial management and improve audit outcomes.

SUPPORT IN TERMS OF SECTION 154

The Governance and Institutional Support is implemented through the following modalities:

Strengthening Leadership and Professionalisation of Local Government: This includes the provision of structured and accredited Local Government Leadership and Middle Managers Development Programmes, Skills Development, Accredited Training Programmes and Competency Assessments, Mentoring and Coaching Programmes for S57 managers and councillors.

Programme-Based Short-term Support: Provision of once-off skills and competence-focused training activities and events to strengthen existing skills and introduce new delivery programmes.

Strengthening coordination of capacity building initiatives: This involves co-ordinating, leveraging and directing capacity building initiatives in a targeted manner and to include Provincial and National sector departments in a streamlined effort.

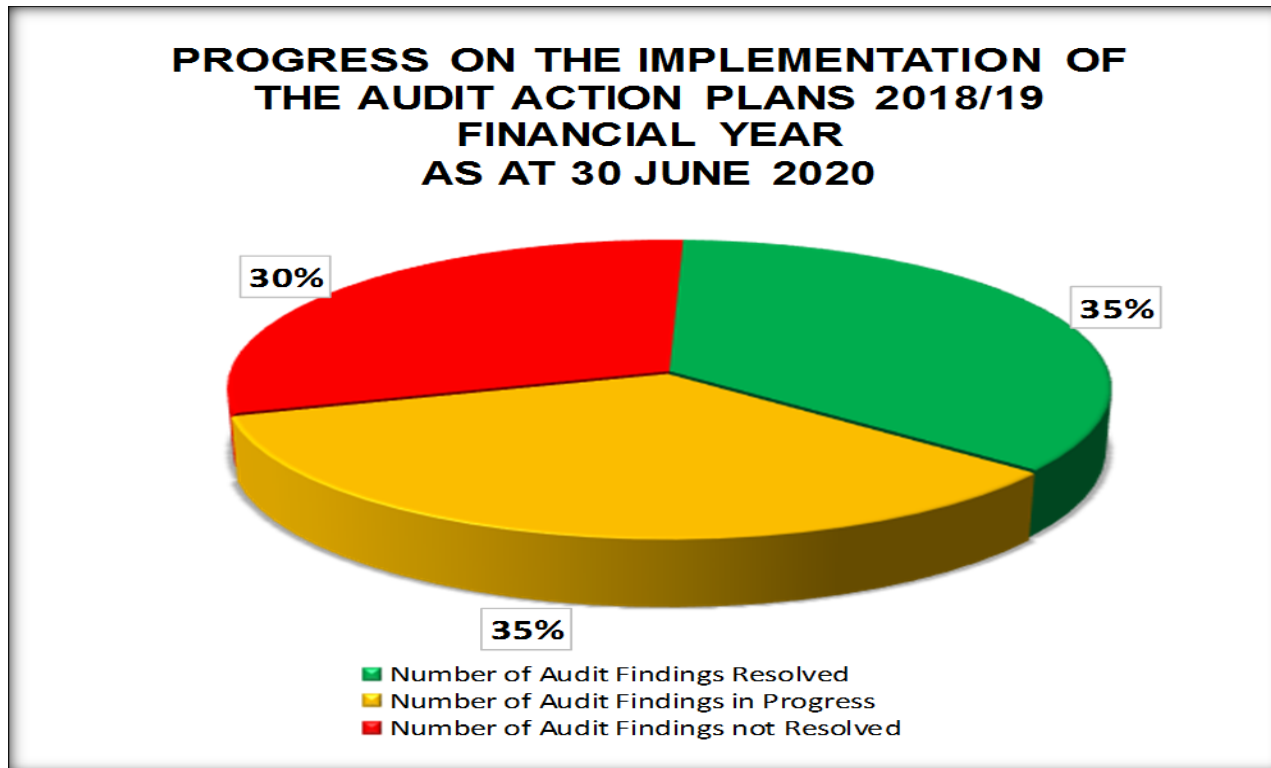
Mobilisation of resources through fostering strategic partnerships to maximize the implementation of infrastructure projects.

PLANS TO STRENGTHEN LOCAL GOVERNMENT AUDIT OUTCOMES

BACKGROUND: 2018/19 AUDIT OUTCOMES AND PROGRESS ON AUDIT ACTION PLAN

IMPLEMENTATION OF THE AUDIT ACTION PLANS								
Municipality	Audit Opinion 2018/19	Number of audit findings by the AG	Number of resolved findings		Number of audit findings in progress		Number of audit findings not resolved	
Ekurhuleni Metro	Unqualified	68	22	32%	45	66%	1	2%
City of Tshwane Metro	Unqualified	177	37	21%	73	41%	67	38%
City of Johannesburg Metro	Unqualified	143	18	12%	0	0%	125	87%
Sedibeng District	Unqualified	80	46	57%	22	27%	12	15%
Midvaal Local	Clean audit	45	24	53%	16	35%	5	11%
Lesedi Local	Unqualified	52	10	19%	36	69%	6	11%
Emfuleni Local	Audit Report not issued							
West Rand District	Unqualified	27	23	85%	4	15%	0	0%
Mogale City Local	Unqualified	61	22	36%	27	44%	12	20%
Merafong City Local	Unqualified	48	19	39%	27	56%	2	4%
Rand West City Local	Unqualified	64	49	76%	15	23%	0	0%
TOTAL		765	270		265		230	
PERCENTAGE		100%	35%		35%		30%	

BACKGROUND: 2018/19 PROGRESS ON AUDIT ACTION PLAN



Municipalities implemented some corrective measures and the independent verification of the reported progress was performed and confirmed by municipal Internal Auditors who provide assurance to the OPCA PCC.

BACKGROUND: OPCA CHALLENGES

Financial Statements –
Material Misstatements at
both assertion levels and
financial statements level

Compliance with laws and
regulations - SCM, MFMA
etc.

Pre-determined Objectives
– Reliability and Usefulness
of information (Poor
document management
systems – POEs)

Financial Viability and
going concern issues.

Increase in Unauthorized,
Irregular, Fruitless and
wasteful expenditure.

**CURRENT AND ON-GOING SUPPORT
TO STRENGTHEN LOCAL GOVERNMENT AUDIT
OUTCOMES**

ADVISORY SUPPORT ON AUDIT OUTCOMES

The OPCA Provincial Coordinating Committee (OPCA-PCC) and Municipal OPCA steering committees are committees established to coordinate, monitor and support Municipalities towards achieving positive audit outcomes. The Municipal OPCA Steering Committees sit on a monthly basis while the Provincial OPCA PCC sits on a quarterly basis. The Provincial OPCA PCC consists of both government and other professional bodies in the finance space across Gauteng.

As a result of the engagements, there has been consistent and significant improvement in the audit outcomes in the past five financial years with all Gauteng municipalities receiving positive audit outcomes (1 municipality received a clean audit outcome and ten (10) municipalities received unqualified audit outcomes



The Committees are responsible for the following:

- **Assessing the soundness** of the audit response plans to **address issues raised by the AG**;
- Assisting with **strengthening the audit response plans**;
- **Monitoring progress made in implementing the audit response plans** as well as progress made towards achieving clean audits;
- **Providing advisory support** on the implementation of the audit response plans; and
- **Streamlining and aligning support** to Municipalities from various Stakeholders.

ASSET MANAGEMENT SUPPORT: INTRODUCTION

Due to numerous audit findings in the Property, Plant and Equipment (assets) area, the Department is providing Asset Management support to municipalities to ensure that Asset Registers are compliant with the required GRAP Standards.

The project assisted Lesedi, Emfuleni, Rand West City and Merafong City Local Municipalities with additional capacity to compile a GRAP 17 compliant Infrastructure Fixed Asset Registers.

As a result of the initiative, the supported municipalities have not had a negative finding relating to Property, Plant and Equipment in the last three years.

In addition, the importance of maintaining an updated asset management system (asset register) which is GRAP compliant, is that it assists a municipality to have a system of complete and accurate records of assets. This enables the municipality to identify when it should maintain, refurbish or replace fixed assets as their values depreciates over year. This exercise assists in improving the effective, efficient and economical way in which services are delivered to the communities and therefore improving service delivery.

ASSET MANAGEMENT SUPPORT

The following is the detail of work undertaken in the updating and maintenance of asset registers:

- The Fixed Asset Management (AM) Policies were updated to include latest GRAP standards and best practice in Asset Management, and movable assets combined with immovable assets;
- Review and updating of the Asset Management Procedures Manuals in line with GRAP standards requirements;
- The Work-in-progress (WIP) registers were updated for the General Ledger (GL) movements up to the end of June each year, and transactions verified to available invoices;
- Review of fair value for immovable, moveable and intangible assets;
- Updating of asset movements for the year, i.e. additions, de-recognitions, donations and transfers;
- Completeness and accuracy of Geographical coordinates (GPS) of all assets;
- Statutory annual review of impairments, reversal of impairments, losses useful life, residual value of assets and depreciation methods;

ASSET MANAGEMENT SUPPORT

- Review of appropriate expenditure allocation and classification.
- The asset registers were checked for gaps and improvements and corrections were made where required in terms of the AM policy;
- Components with remaining useful lives RUL falling in the band of assets with RUL lower than 10% of EUL, or where the RUL was less than 3 years were identified in order to determine appropriate accounting treatment and make correction to align with the AM Policy;
- Impairments, de-recognitions, transfers, and regarding the condition of assets with low RUL as well as feed-back on the assets and asset register per sector;
- Information on municipal property disposed and acquired, as well as capitalisation certificates were obtained and differences between the asset register, the municipal list and the valuation roll were analysed and corrected; and
- Reclassification of capital spares from inventory to PPE.

STRENGTHEN LEADERSHIP AND PROFESSIONALISATION OF LOCAL GOVERNMENT

Institutionalise **Performance Management System (PMS)** and cascading to levels below Senior Managers.

Capacity Building on amongst others : Audit of Predetermined Objective (AOPO), Municipal Finance Management Program (MFMP), contract management, finance, and project management and governance, Lean Six Sigma, Councilor MPAC NQF L3, 4 & 5, road to registrations which was aimed at assisting 40 Gauteng municipalities' engineers' officials to register with South African Council of Engineers (ECSA).

Monitoring the implementation of the **Scare and Critical Skills strategy** that was developed to ensure the increase in the pool of skills within the local government sector; and allow upward mobility of municipal officials within the specific skills areas, based on both competence as well as the required qualifications.

**PLANNED SUPPORT TO STRENGTHEN LOCAL
GOVERNMENT AUDIT OUTCOMES**

UIF&W SUPPORT & PLANNED SUPPORT

BACKGROUND AND OBJECTIVE OF THE INITIATIVE

- The Auditor-General has highlighted an escalating trend in unauthorised, irregular, fruitless and wasteful expenditure in municipalities over recent years, evident in audit opinions and summarised in the annual general reports on local government.
- There has also been a sense of uncertainty amongst municipalities on the understanding of how irregular expenditure should be treated and who has the legislative power to deal with irregular expenditure.
- The uncertainty relates mainly to how municipalities should conclusively deal with such matters, the process to be followed and the manner in which such matters should be recorded and disclosed.
- The objective of this project is to support the identified municipalities with additional capacity to curb the growth of unauthorised, irregular as well as fruitless and wasteful expenditure by putting in place internal controls that will prevent the occurrence of UIF&W.

UIF&W EXPENDITURE PLANNED SUPPORT

Provision of Professional Services to Gauteng Municipalities to resolve Unauthorised, Irregular, Fruitless and Wasteful (UI&W) Expenditure will undertake the following activities:

- Assess and analyse the processes in place to identify, prevent, reduce and report identified unauthorised, irregular, fruitless and wasteful expenditure. Make recommendations towards improving the environment;
- Assess and analyse the Municipal Audit Outcomes in order to address material findings in the area of unauthorised, irregular, fruitless and wasteful expenditure in order to improve the areas of qualification raised by the Auditor General;
- Assess and analyse the process of recording (registers) and reporting (Council and MEC) on UIF&W to ensure completeness, accuracy and fair presentation (monthly, quarterly and annually);
- Assess and analyse municipal policies and make recommendations for policies to have controls in place for the prevention, identification and investigation of unauthorised, irregular, fruitless and wasteful expenditure in line with the National Treasury Circular 68 and the MFMA;
- Support and strengthen the municipal capability to develop effective and innovative controls in dealing with irregular Supply Chain Management contracts in order to address irregular expenditure;
- Support and strengthen the municipal capability to have controls in place for the utilisation of the approved budget in order to eliminate unauthorised expenditure;
- Support and strengthen the municipal capability to develop effective and innovative controls in dealing with fruitless and wasteful expenditure;

REVENUE AND DEBTORS MANAGEMENT SUPPORT TO STRENGTHEN FINANCIAL STATE OF MUNICIPALITIES

INTRODUCTION

The support below is both planned, current and on-going support. The current support will also include progress to date.

It is to be noted that the current support will continue into the MTEF as it is targeted at municipalities that are in distress as per the state of municipalities' reports first.

**CURRENT AND ON-GOING SUPPORT TO
STRENGTHEN FINANCIAL STATE OF MUNICIPALITIES**

REVENUE ENHANCEMENT AND DEBTOR MANAGEMENT SUPPORT

1. IMPLEMENTATION OF THE SIMPLIFIED REVENUE PLANS IN IDENTIFIED MUNICIPALITIES

The initiative starts with an in-depth assessment of the Revenue value Chain to identify gaps that will need to be addresses; and agreeing with the municipalities on areas to be supported by the Province.

To date the focus of the initiative in the identified municipalities was as follows :

- Provision of ID numbers for customers without ID numbers for the municipalities to update on the municipal financial system;
- Provision of Company Registrations for the municipality to update on the municipal financial system;
- Provision of correct, complete customer data (Addresses, contact details and spouse details);
- Provision of accurate indigent data;
- Transactional audits
- Tariff alignment;
- Resolution of debt owed by municipal vendors/service providers; and
- Resolution of debt owed by Municipal officials;

INTEGRATED REVENUE ENHANCEMENT AND DEBTOR MANAGEMENT SUPPORT

2. IMPLEMENTATION OF INTEGRATED REVENUE ENHANCEMENT AND DEBTOR MANAGEMENT THROUGH THE DEPLOYMENT OF REVENUE EXPERTS

PURPOSE:

The objective of the initiative is to improve revenue management; reduce municipal consumer debt and to protect and enhance the municipalities` revenue collection potential.

- Currently the deployed revenue experts have Developed Integrated Revenue Enhancement and Debtor Management strategies and plans specific to the identified municipalities and a Provincial wide strategy and plan which can be customised for Gauteng Municipalities;
- Implementation of the Municipal Specific Integrated Revenue Enhancement and Debtor management Plans is underway; and
- The experts are also tasked with the Coordination of Integrated Revenue Enhancement and Debtor Management processes within the municipalities to eliminate the silo functioning of functions responsible for ensuring revenue is realised by the municipalities.

Deployment of Multi-Disciplinary Team of Revenue Experts

The implementation of the Integrated Revenue Enhancement and Debtors Management Plan will entail the following activities which are intended at strengthening the processes, procedures and systems within the revenue value chain:

- Undertake a detailed verification of all debtors and develop current debtor's management practices, procedures and plan.
- Develop appropriate processes and procedures to support the effective operational management of credit control and debt collection.
- Support the Municipalities to ensure that all the activities within the municipal revenue value chain function optimally and are coordinated.
- Support the Municipalities to ensure accurate billing and effective distribution of statements.
- Support the Municipalities to ensure effective management and resolution of exception reports issues such as accounts not billed, accounts with no valuations, abnormal consumption and abnormal billing.
- Assist with the establishment and effective management of customer care services within the Revenue Management Unit to improve the interface between the Municipality and its Consumers.
- Support the Municipalities to update and Manage the Indigent Register.
- Supporting the Municipalities to ensure maximum efficiency in collecting outstanding debt.

IMPLEMENTATION OF THE GOVERNMENT DEBT REDUCTION STRATEGY

The Gauteng Department of Co-operative Governance and Traditional Affairs (COGTA), in conjunction with the Gauteng Provincial Treasury (GPT) established a Debt Management Committee (DMC) to facilitate a process of resolving Government debts as an Inter-Governmental Relations intervention between the Organs of State. This Committee meets quarterly with the Municipalities and the Government Departments to reach an agreement on payment of outstanding debt to Municipalities.

Additional to quarterly meetings, working sessions are held between affected Departments and individual Municipalities to implement resolutions of the Debt Management Committee engagements.

PROGRESS REPORT AND THE IMPACT:

- April 2015 to March 2016 amounted to **R 988 872 881.71,**
- April 2016 to March 2017 amounted to **R 1 986 997 016.87;**
- April 2017 to March 2018 amounted to **R 1 343 806 357;**
- April 2018 to March 2019 **R 1 381 022 710.50;**
- April 2019 to March 2020 **R 1 973 032 730.00**
- April 2020 to date **R 385 181 028.90**

PLANNED SUPPORT TO STRENGTHEN FINANCIAL STATE OF MUNICIPALITIES

AUDIT AND CORRECTION OF LARGE POWER AND WATER USERS BILLING DATA

The Department is in a process of procuring services from skilled professionals to assist the Municipality to conduct an audit and correction of Large Power and Water Users billing data. The objective of the project is to support the identified municipalities with additional capacity to ensure correct/accurate billing of the Large Power and Water Users. In addition, it is intended that the project will facilitate collection of revenue from Large Water and Power users.

The project will undertake the following but not limited to: the identification and correction of:

- Reading errors.
- Gaps in data and bills.
- Meter time change spikes.
- Communication errors.
- Incorrect Tariffs.
- Incorrect billing component.
- Bill transaction trend anomalies.
- Reading trend anomalies.
- Profile disturbances.

Envisaged Impact of support

The project, once implemented should result in improved revenue management and reduced municipal consumer debt in relation to the Large Power and Water Users. It is also anticipated that the project will result in protection of the municipal revenue collection potential.

STAY HOME, BE SAFE, WEAR A MASK, BE RESPONSIBLE

For more information on

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toll-free number**

0800 029 999

24 Hour Hotline