



**Western Cape  
Government**

Local Government

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## **NCOP Local Government Week**

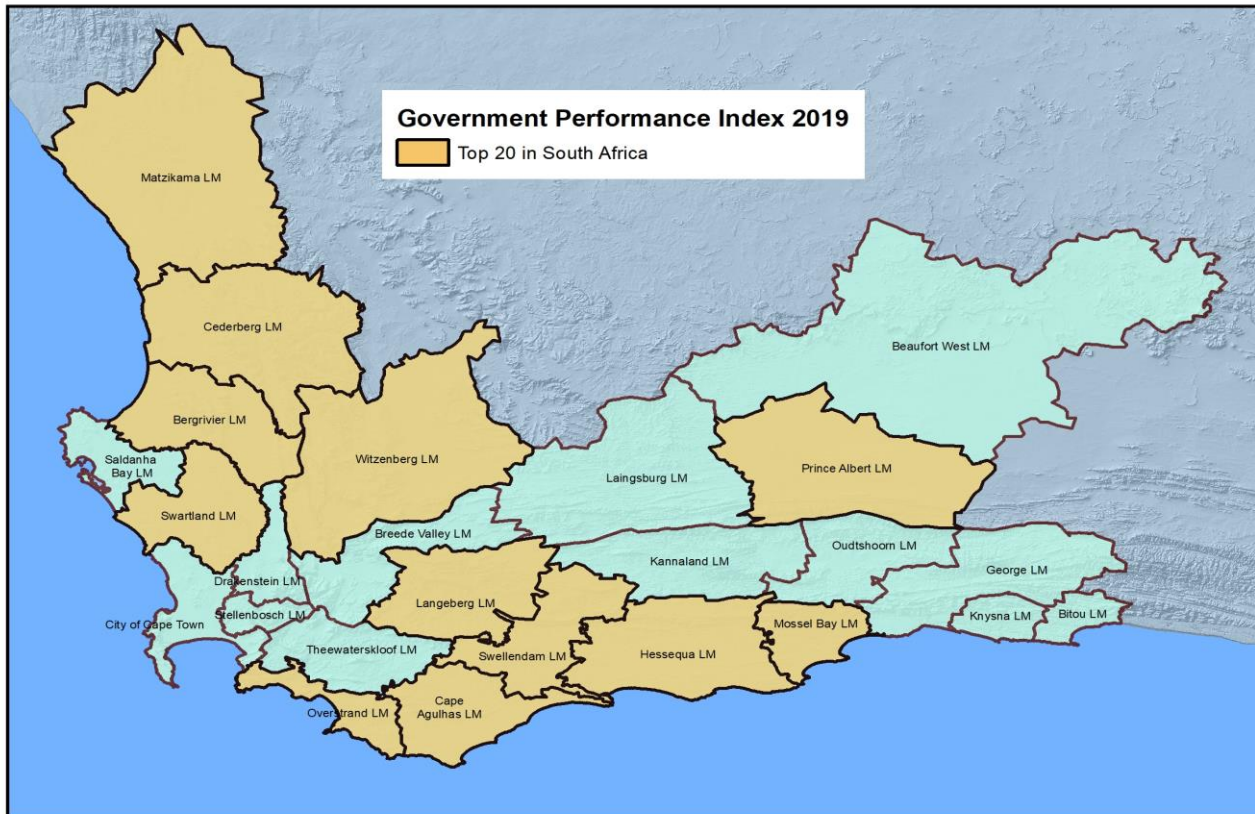
**“Provincial Implementation Plans  
to strengthen Local Government Audit outcomes  
and Financial State of Municipalities.”**

**9 September 2020**

# Top Performing Municipalities in South Africa

According to Good Governance Africa: **Government Performance Index 2019**

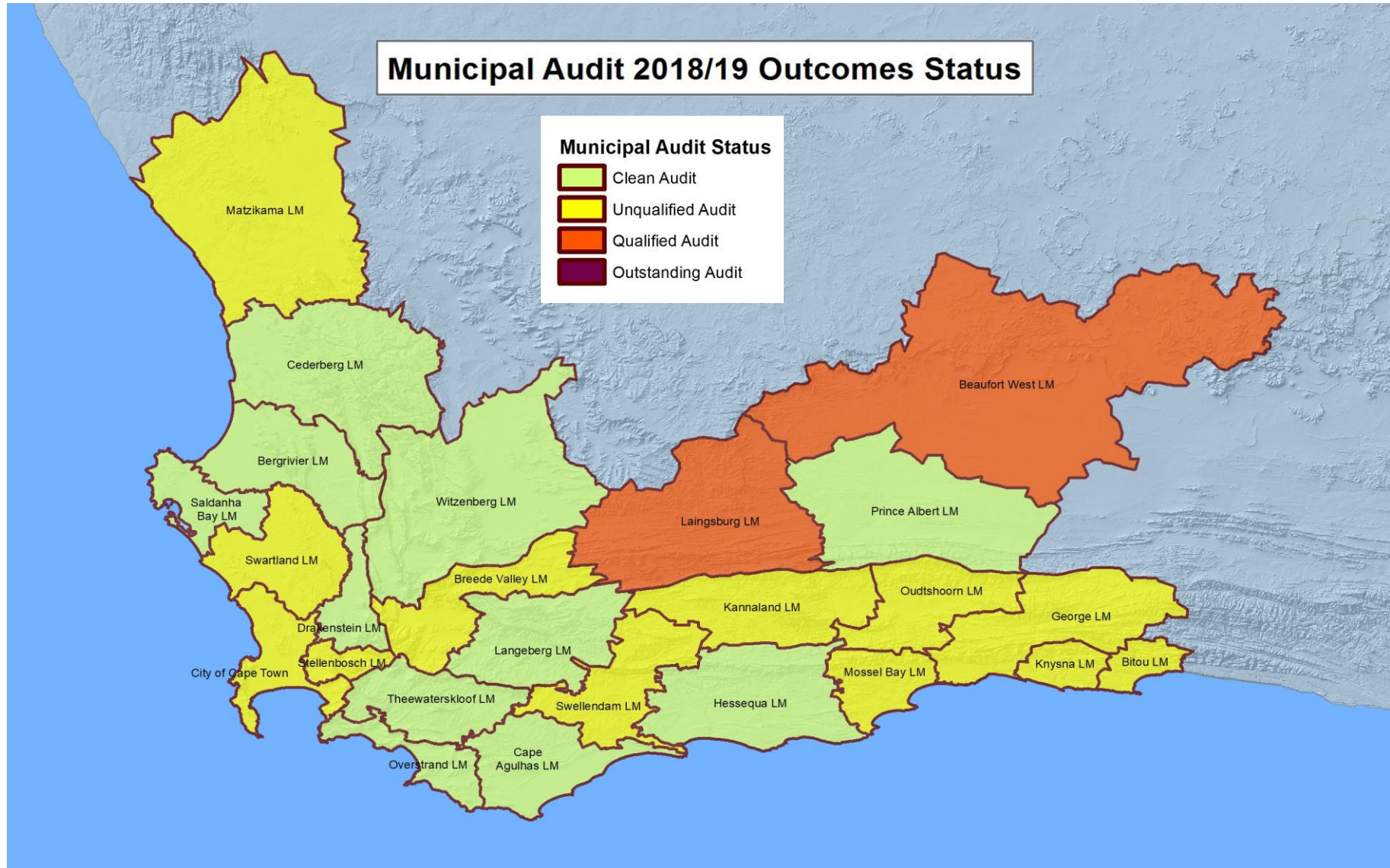
- **Western Cape has 12 out of the top 20 performing municipalities in South Africa**
  - Mossel Bay LM – Top Performing Municipality



**GOVERNMENT PERFORMANCE INDEX 2019**

TOP 20			
Ranking	Municipality	Province	Party
1	Mossel Bay	WC	DA
2	Senqu	EC	ANC
3	Swartland	WC	DA
4	Sol Plaatje	NC	ANC
5	Greater Kolkstad	KZN	ANC
6	Midvaal	GP	DA
7	Kha-Ma Local	NC	ANC
8	Bergrivier	WC	DA
9	Cape Agulhas	WC	DA
10	Prince Albert	WC	DA/KGP
11	Swellendam	WC	DA
12	Cederberg	WC	DA
13	Matzikama	WC	DA
14	Overstrand	WC	DA
15	Witzenberg	WC	DA
16	Koukamma	EC	ANC
17	Hantam	NC	ANC
18	Nama Khoi	NC	ANC/KSR
19	Hessequa	WC	DA
20	Langeberg	WC	DA

# Municipal Audit Outcomes – 2018/19



# Summary of Audit Outcomes: 2018/19

**Findings in the respective areas across municipalities can be summarized as follows:**

- **Financial Statement qualification areas: 6**
  - Non Current Assets & Current Assets
  - Other Disclosure Items
  - Revenue & Expenditure
- **Findings on Pre determined objectives: 9**
  - Reported Information: not useful, not reliable
- **Findings on non-compliance: 55**
  - Material mis statement or limitations in submitted AFS
  - Unauthorized, irregular as well as fruitless and wasteful expenditure
  - AFS and Annual Report
  - Asset management, Liability Management, Expenditure Management, Consequence Management & Revenue Management
  - Strategic Planning and PMS
  - Transfers and Grants
  - Procurement Management and HR Management

# Summary of Audit Outcomes: 2018/19 (2)

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**Findings in the respective areas across municipalities can be summarized as follows: (2)**

- **Findings on specific risk areas: 83**
  - Quality of Performance Reports
  - SCM
  - Financial Health
  - HR Management
  - ICT
- **Unauthorized, irregular expenditure: 48**
  - Unauthorized Expenditure
  - Irregular Expenditure
  - Fruitless and Wasteful Expenditure





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**Provincial Implementation Plans  
to Strengthen  
Local Government Audit Outcomes**

# Legislative Framework

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- In terms of Section 131(1) and 131(2)(a)(b) of the MFMA, a municipality must address any issues raised by the Auditor-General in an audit report.
- The mayor of a municipality must ensure compliance by the municipality with this subsection.
- The MEC for Local Government in the province must—
  - ✓ assess all annual financial statements of municipalities in the province, the audit reports on such statements and any responses of municipalities to such audit reports, and determine whether municipalities have adequately addressed any issues raised by the Auditor-General in audit reports; and
  - ✓ report to the provincial legislature any omission by a municipality to adequately address those issues within 60 days.

# The Response... Municipal Audit Action Plans

- Following the issuing of the final audit report by the AG, every municipality prepares a **Audit Action Plan**.
  - This plan is adopted by the Audit Committee and progress reports submitted accordingly
  - Copies provided to DLG and PT
- Each Plan is tailor made to address the findings of the AG in a given year. The plan is detailed as follows;
  - The exact finding is highlighted, root cause for each finding unpacked and any recommendations by the AG detailed, where applicable.
  - A responsible official is assigned to address the finding
  - Controls are identified to be put in place by management
  - A target date is assigned



# Municipal Audit Action Plans (2)

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- DLG and PT identifies specific matters highlighted in these plans where hands-on or other support can be rendered.
  - Provincial Support packages tailored accordingly
- Province uses an automated system to track the progress made by the municipalities to address these issues.
  - Slow progress made by municipalities to address these matters are monitored by Province and addressed directly with slow performing municipalities.
- Quarterly reports submitted to the Provincial Executive to reflect progress per municipality.

# Provincial Response... Examples (PT)

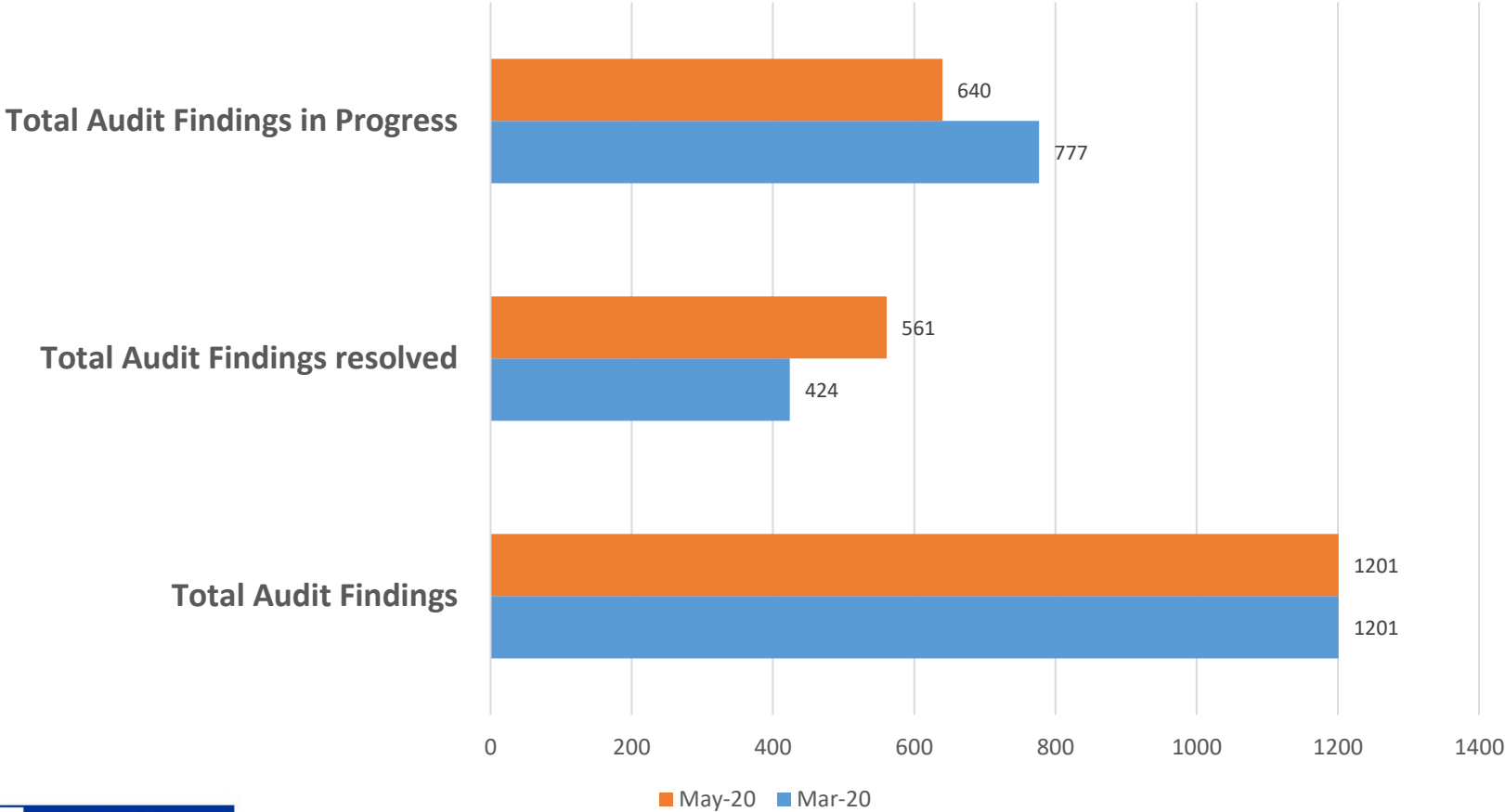
AG Finding	Provincial Support Rendered
SCM	<p>SCM Regulation 32: Latching on contracts secured by other organs of state.</p> <p>SCM Regulation 36: Deviations from, and ratification of minor breaches of procurement processes</p> <p>SCM Regulation 29 (2): Composition of the Bid Adjudication Committee</p> <p>Preferential Procurement Regulation 8: local production and content</p> <p>Central Supplier Database to verify persons in service of the state</p> <p>SIPDM and CIDB requirements as it relates to contingencies</p> <p>Expansion of contracts: Section 116 (3) of MFMA</p> <p>SCM Regulation 16 (c) and 17 (c)</p>

# Provincial Response... Examples (DLG)

AG Finding	Provincial Support Rendered
<b>Strengthening Leadership in Municipalities (Oversight)</b>	<ul style="list-style-type: none"> <li>• Dedicated training and capacity building sessions for Councilors and Officials</li> <li>• Ethical Training &amp; sessions on roles and responsibilities</li> <li>• Coaching and Mentoring programmes</li> </ul>
<b>HR Matters</b>	<ul style="list-style-type: none"> <li>• Organizational Redesign</li> <li>• Performance Management Systems</li> <li>• Oversight: appointment of senior officials</li> <li>• Legal clarity and Guidance</li> <li>• Position papers to strengthen municipal leadership: permanency in the appointment of section 57 managers</li> </ul>
<b>Basic Service Delivery</b>	<ul style="list-style-type: none"> <li>• DRAP</li> <li>• 3-year capital planning</li> <li>• Creating Funding opportunities for large catalytic projects</li> <li>• Engineering and project management support</li> </ul>
<b>ICT</b>	<ul style="list-style-type: none"> <li>• ICT audit action plans</li> <li>• Cooperative Governance of ICT Policies</li> </ul>

# Municipal Progress as at 31 May 2020 (2)

Monitoring of Total Audit Findings: As at 31 May 2020





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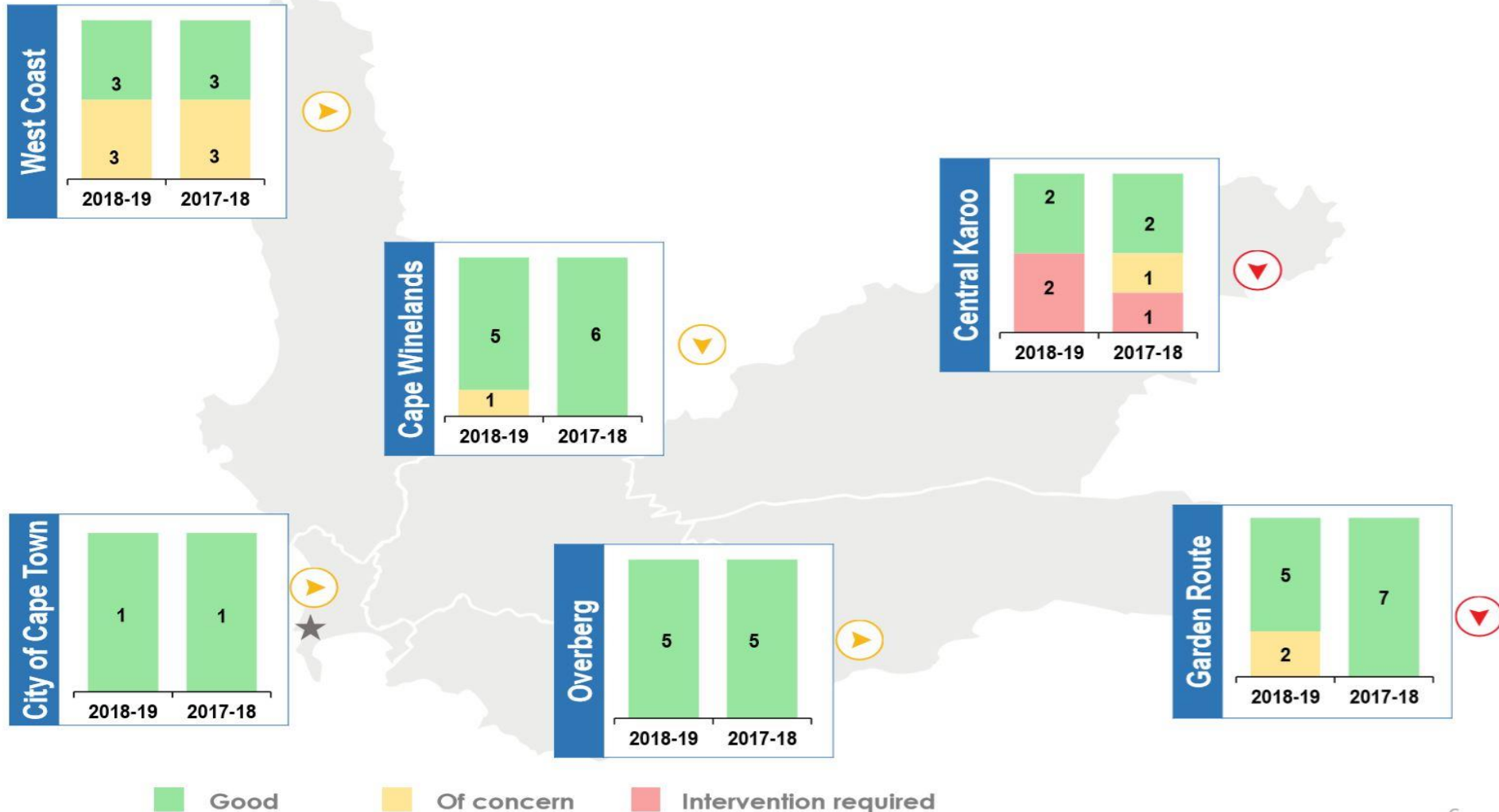
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**Financial State of Municipalities  
as at  
31 July 2020**

# AG report: Movement in Financial Health

## Financial health per district





# Municipal Performance as at 31 July 2020

## Total revenue collected for the period

R60.150b – 97.1%

## Total expenditure for the period

R58.556b – 89.6%

### Creditors

R622.18b

- 85.68% is current debt
- 8% exceeds 90 days

### Cash position

R17.999b

### Capital expenditure

R3.604b – 33.4%

### Debtors age analysis

R12.931b

- Organs of State debt – (R368.78m) 2.8%
- Commercial – (R2.663b) 20.6%
- Household debt – (R9.055b) 70.0%
- Other – (R844.70m) 6.5%

# Financial Performance – Highlights

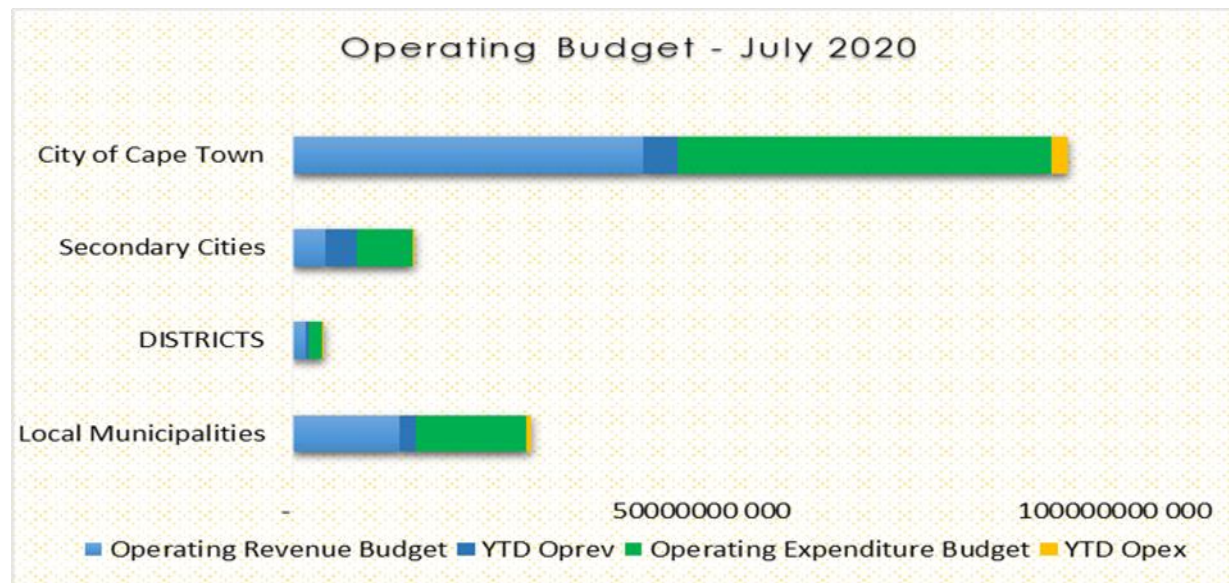
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- Most municipalities in the WC are in a reasonably good **financial position**
- Municipalities continue to have sufficient **cash flow** to fund their operations – smaller, more rural municipalities continue to experience challenges in this regard
- **Under spending of capital budgets** (including Grants for Capital projects) continue to be a challenge over a number of years
- Total outstanding **consumer debtors**, and the collection thereof, continue to be a challenge – year on year
- Limited number of municipalities not paying **creditors** within the 30-day period
- **Credibility of financial information:** MSCOA continue to present challenges relating to the quality and credibility

# Operating Revenue

## Operating Revenue as at 31 July 2020

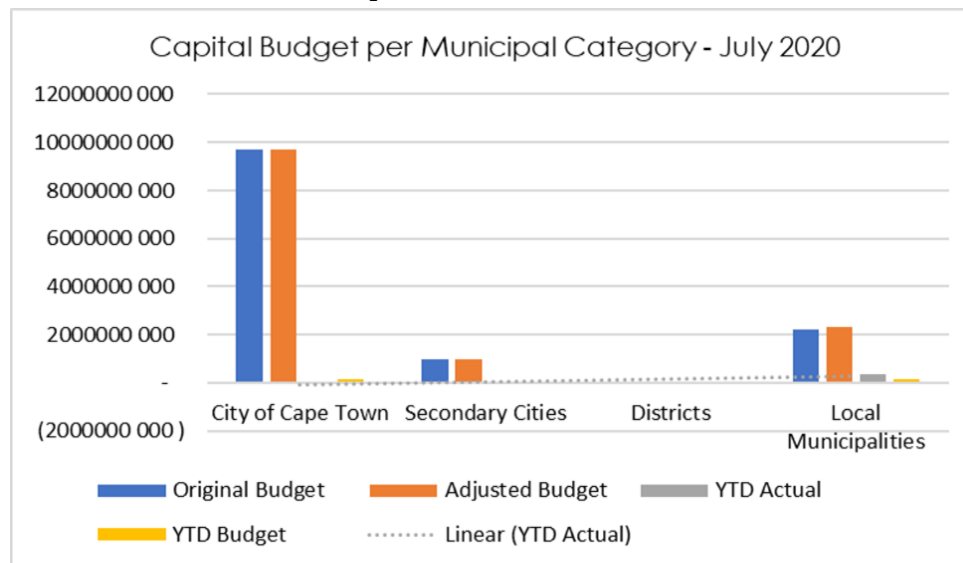
- Districts at 19.3%
- Local Municipalities at 16.2%,
- Secondary Cities 8.9%
- City of Cape Town at 10%



# Capital Expenditure

## Capital Budget and Expenditure as at 31 July 2020

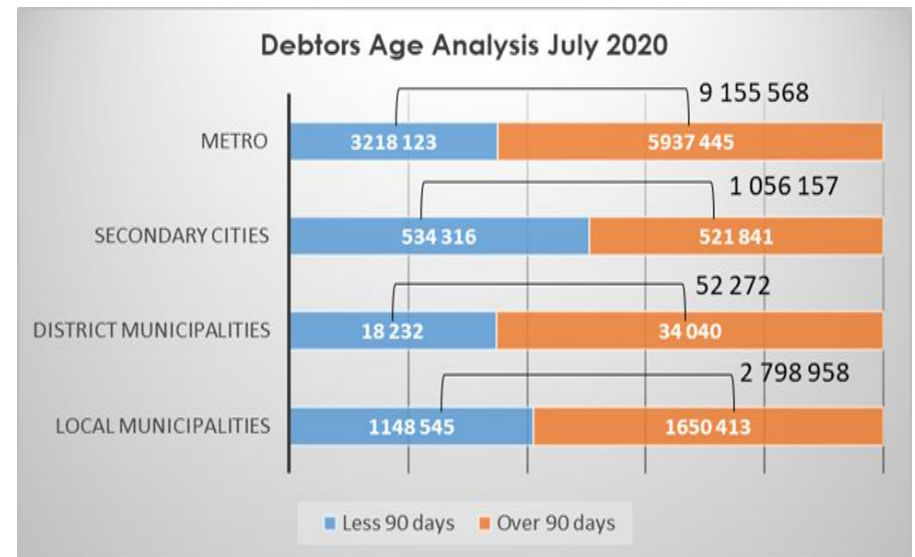
- COCT spend 0.0%
- Secondary Cities spend 0.4%
- District Municipalities spend 0.0%
- Local Municipalities spend 15.9%
- **Most projects - implementation phase will commence in the coming months (also affected by COVID-19 lock down)**



# Debtors

## Debtors: Age Analysis

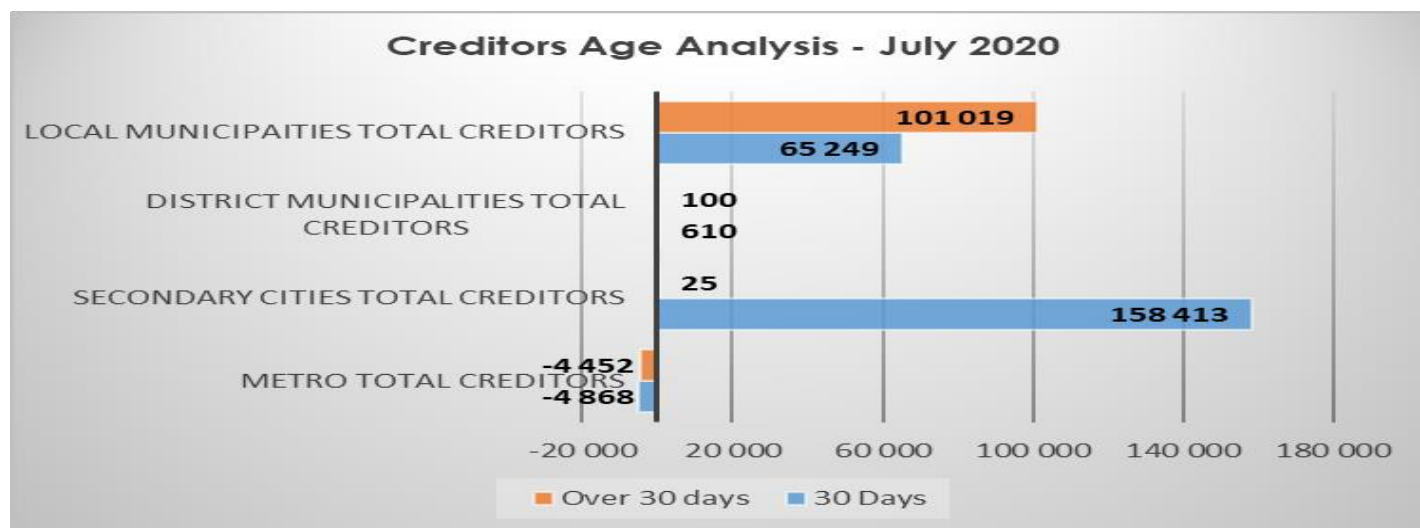
- Year on Year: total debtors decreased by 17%
- Debtors over 90 days' amounts to 61%
- Households largest contributor, 78% of the total debtors
- CoCT: over 90 days = 64.9%
- Secondary Cities: over 90 days = 49.4%
- Districts: over 90 days = 65.1%
- Locals: over 90 days = 59%



# Creditors

## Creditors Age Analysis

- CCT: -9.32 million total creditors
- Secondary Cities: No creditors older than 30 days
- District Municipalities: 3,5% creditors older than 30 days
- Local Municipalities: 60,8% creditors older than 30 days





# Impact of COVID-19 on Financial Viability

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- During the COVID-19 Lock-down, all municipal operations with the exception of basic services slowed down.
- The economy were also negatively affected and only started reopening as the lock down levels were relaxed.
  - **Impact on Municipal Revenue:** 40%-60% reduction in debtor payment by consumers
- The construction Industry came to a halt,
  - **Impacting on capital projects that already commenced** – Impacting on expenditure

# Support to improve financial performance/viability

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- Hands-on support during budget and AFS preparations
- Ongoing monitoring of financial, governance, oversight and service delivery performance
- Dedicated training to Councillors and Officials, i.e. Roles and Responsibilities, MPAC, Revenue Management...
- Long term financial plans, Capital expenditure Frameworks & Bulk Infrastructure Master Plans
- Project Identification and preparation with the view to secure other sources of funding (SIDAFF project)
- Post COVID-19 financial research programme to ensure longer term sustainability



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**The end.**