



SPEAKING NOTES

for

**Tsakani Maluleke
Auditor-General**

delivered at the

2022 Local Government Week

**Advancing our collective effort to enhance oversight and accountability in the local sphere
of government**

Session details

Enhancing oversight and accountability to address financial and audit pitfalls in the local
sphere of government

Tuesday, 13 September 2022

11:00 – 11:30

Cape Town City Centre

Western Cape

Chairperson of the National Council of Provinces, Honourable Masondo

Minister of Cooperative Governance and Traditional Affairs, Minister Nkosazana Dlamini-Zuma

Honourable members

Distinguished guests

Ladies and gentlemen,

I am delighted for this opportunity to engage with all of you today on the important topic of Enhancing oversight and accountability to address financial and audit pitfalls in the local sphere of government.

Local government, as we all know, plays the very important role of delivering services directly to citizens. It is the first point of call for direct citizen interaction with government. It is the sphere of government where citizens expect delivery of basic services and where they direct their concerns, frustrations and – equally – their aspirations.

We also know that the challenges in local government have been in the public domain for some time. This is partly due to what we see from the lived experiences of citizens from a service delivery perspective; and then, on a macro level, what we are seeing in terms of governance failures, financial instability, and a lack of accountability at many local authorities.

President Cyril Ramaphosa, recently in his address to the Conference hosted by the South African Human Rights Commission, reiterated the importance of the local government sphere, saying:

“Local government is in many ways the most important sphere of government, because it operates where our people live, it operates where businesses invest and it operates in a sphere where the basic human rights of our people need to be actualised.”

In other words, local government touches each of us, irrespective of where we live. Even if we are financially more secure and can introduce into our homes things like alternative forms of energy, we still need a functioning and well-run local government that reasonably delivers services without fail. And if local government is delivering and is financially viable and stable, we will all win. If the reverse is true, we will all lose.



Further augmenting this message, the President says:

“When local government works; when basic services – like water, sanitation, education, electrification and healthcare – are distributed efficiently and equitably, people's quality of life is improved, businesses thrive and economies grow and the dignity of our people is assured.

When local government delivery fails, the impact is direct and devastating and it immediately has a negative impact on the lives of people.”

We therefore have to strive to put citizens first. It is an important task and one that can be achieved only when we have municipalities that are financially stable, are accountable, and consistently deliver services to communities.

In June 2022, we reported – as part of the 2020-21 Municipal Finance Management Act (MFMA) audit outcomes – that the financial health of 84% of our municipalities and municipal entities was of concern and required intervention, with the financial health of 28% being so dire that there is significant doubt that they will continue operating as a going concern. In addition, only 41 municipalities received clean audits.

These outcomes indicate that we have much work ahead of us if we are to realise our democratic goal of delivering on the hopes and aspirations of our people.

The 41 municipalities with clean audits represent less than a fifth of the local government budget of an estimated R509 billion. Put into context, this means that just over R100 billion of the estimated budget was used effectively and accounted for in a proper manner.

The funds that are not accounted for extend beyond rands and cents. They represent the lives, faces and lived realities of ordinary people who are not receiving the services and goods that public institutions are mandated to deliver.

Some of the reasons for the poor audit outcomes are:



- Continued weaknesses in financial reporting, significant financial health challenges affecting the viability of municipalities, and the inability of municipalities to plan, monitor and report on their performance, which leads to continued service delivery shortfalls.
- Instability in both the political and administrative leadership, poor oversight by councils, and the absence of interventions to address systemic issues.
- Lack of preventative controls and consequence management.

By understanding the root causes contributing to the poor audit outcomes, we can do things differently. The challenges are well known and well documented; it is now time to focus on the solutions.

In most cases, small, incremental changes can lead to big shifts that will enable us to account for public resources, meet performance targets, deliver services and ensure that, as public officials, we really do deliver on our constitutional mandates.

I would like to highlight a few things we could be doing differently to help us to move from poor audit outcomes and service delivery, to better outcomes and – in this way – eventually shift the system of local government towards better performance.

1. Strengthening the accountability ecosystem

A quick win will be to strengthen what we call 'the accountability ecosystem'. The accountability ecosystem is made up of many role players: from those municipal officials responsible for supply chain and financial management, right up to municipal managers, audit committees, mayors, councils, municipal public accounts committees, provincial and national leadership, and ultimately Parliament.

Sometimes when we audit, we have to ask how certain errors and instances of maladministration find themselves continually being replicated, when there are all these layers in the accountability ecosystem.

We identify these challenges and make recommendations on how they can be addressed to realise improvements. In addition, we provide guides – such as the preventative control

guides - to assist accounting officers and authorities in implementing controls that will prevent adverse audit findings in the future.

As mentioned earlier, we must begin to do things differently if we are to improve audit outcomes.

All role players within the ecosystem must be vigilant. They must be responsible in how we use and oversee public resources. Through this, we can move the needle towards better governance, transparency and accountability, and away from wasteful and irregular expenditure and the inefficient use of public resources.

2. Setting the right tone at the top

When we performed the 2020-21 MFMA audits, we saw the impact of the right tone and posture from leadership in the municipality and at the provincial level. An example that comes to mind is the province of Limpopo, which has managed to turn the corner in audit outcomes, through interventions that were led by the premier and the MECs of finance and local govt . Our observation is that Change is possible if we are committed and focused.

If we are looking for inspiration to show up and do the right thing, we have to look no further than our communities – perhaps even family members affected by poor service delivery and are reliant on the provision of goods such as medication from a public hospital.

From where we are standing, a starting point in turning the tide would be the metros where we should focus our greatest efforts to have the biggest impact. Given the right leadership attention, change will be evident immediately. Even the smallest changes will have a big impact on increasing citizen confidence, from where we can continue to build.

3. Professionalising public officials serving in the finance and supply chain management portfolios, amongst others

One the most important tasks at hand, is for us to collectively ensure the professionalisation of the public sector. To achieve better audit outcomes, the development of the right skills at the right level of capability, is critical.



All professional accountants should be obliged to comply with the ethical requirements instituted by relevant professional bodies, and the IFAC code of ethics, which applies to all professional accountants.

Professionals should draw on their personal and professional values and their ability to act with honesty, integrity, accountability and trustworthiness to demonstrate moral and ethical behaviour in the business context and to protect the public interest. This ethical resilience is needed, now more than ever before.

We therefore have to ensure management stability at municipalities, particularly in the critical positions of municipal manager, chief financial officer and head of supply chain management. These positions play a vital role in implementing the necessary controls, ensuring better management of resources, and realising value. These incumbents must be fit for purpose and be allowed to enjoy tenure while always being held accountable.

4. Planning and reporting

Although public institutions are required to plan and budget to deliver on service delivery targets, this does not always translate into credible performance plans and delivery that positively affect the lived experiences of citizens. Diligent long-term and short-term performance planning is crucial if municipalities are to deliver on their many responsibilities (ref Min Dlamini-Zuma).

Our audits each year reveal prevailing serious weakness in this area. The fact that 74% of auditees submit poor-quality performance reports for auditing, demonstrates that performance planning, monitoring, decision making and the ability to intervene are hampered.

The most common problem we identified through our MFMA audits, was that the achievements reported were not reliable, meaning that either they were incorrect or there was no evidence to support the achievement.

We also found that the indicators and targets against which the achievements are reported, were not useful. This meant that they could not be measured or relied on, or that they were not relevant to the original commitments made in the performance plans. Although we

reported these problems, not all auditees could correct them, which resulted in 131 of municipalities performance reports (54%) being published with significant flaws.

It is notable that only 25% of the metros got planning and reporting right. These institutions deliver services that directly affect the lives of millions of citizens, so they must be able to properly manage and credibly account for their performance to oversight bodies and the public.

Many of us in the accountability ecosystem are saying that something has to change (and change quickly).

I reiterate this message now. Collectively we have to do things differently so that citizens begin seeing an improvement in their lived experiences. It would not be too much of an exaggeration to say that the continued strength and resilience of our democracy depends on this.

5. Implementing preventative controls and consequence management

One of the key reasons for the lack of improvement in audit outcomes, is the absence of consequence management and preventative controls. If implemented successfully, these can go a long way towards ensuring the efficient use of resources in ways that truly deliver on the aspirations of our citizens.

In respect of municipalities, which are at the coal face of our people's lived experiences, we found that 51% of municipalities did not investigate the previous year's irregular expenditure, 42% did not look at unauthorised expenditure, and 41% failed to review and act on fruitless and wasteful expenditure.

In 2019-20, we reported on 128 possible incidents of fraud or improper conduct in supply chain management processes. We recommended that management further investigate these matters but found that only some of the cases were subsequently investigated.

In the 2020-21 year, 78 municipalities were dealing with allegations of financial and supply chain misconduct and fraud. We found that investigations into these matters took a long

time to complete or did not take place at all; when investigations were completed, recommended sanctions were not always applied i.

6. Implementing the material irregularity mechanism

We are now in year three of implementing the material irregularity (MI) mechanism established following the amendment of the PAA (effective 1 April 2019). By 15 April 2022, we had issued 185 material irregularities in local government. Through this intervention, we are hoping to force the changes that are so desperately needed. On a positive note, while the audit outcomes are not yet showing significant improvements, the cooperation from accounting officers and authorities fills us with hope that this mechanism can be used to shift the needle towards better outcomes.

Despite the many challenges, I am confident that if we stay the course, do little things correctly and consistently, invest in our human capital, implement our own processes for good governance, and serve our people with commitment, the situation can change.

To conclude honourable chairperson, I wish to call on the NCoP to take note of the following:

- Despite our consistent warnings about the deterioration of accountability in local government, we see little evidence of our messages receiving the earnest attention they require.
- Audit outcomes showed an overall regression over the period of the previous administration.
- We continue to see a deterioration in the financial health of municipalities and a lack of consequences.
- The poor state of financial and performance management indicates that our recommendations remain unheeded, in direct contrast to the concepts of public interest and accountability entrenched in our country's constitution and the legislation that governs local government.

Oversight must demand accountability; and more importantly, must be part of the solution to improve how municipalities are governed – ultimately improving services to citizens.



In the speech alluded to earlier, the President further said:

"Local government in our country needs a massive review. We need to ensure that those that are deployed there recommit themselves to the values of our constitution; and those involved in malfeasance and corruption are rooted out; and that local government accounts to the people of our country."

I want to echo this call and implore those in the local government accountability ecosystem to be part of shifting the narrative towards good governance, accountability and transparency.

Specifically, I would want to invite each of you to be part of doing some of the most rewarding work we can do, and that is to live a life of service – service to our people and our country.

Let us waste no more time; let us stand up, show up, step up. Let us be the cohort of public officials who shift the narrative! Time is not on our side.

I thank you.

