



# Enhancing Governance in Local Government



Western Cape  
Chief Financial Officers' Meeting

8 September 2011

# Agenda

## 1. Where are we?

- The current state of Local Government in the Western Cape

## 2. Where do we need to go?

- Defining the destination – what is the “ideal municipality”?
- What elements need to be addressed?

## 3. How will we get there?

- Some quick wins
- Governance, compliance and service delivery

## 4. Is help available?

- How Deloitte can assist

What is the  
context of this  
discussion?

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*...the current state of  
local government in the  
Western Cape*



# The State of Local Government

## 10 Transversal challenges for municipalities in South Africa

- 1 Municipalities did not address all of their **findings i.r.o. prior year** in order for their current financial statements to be financially unqualified
- 2 There are transversal **material misstatements** in the municipalities' annual financial statements owing to a **lack of reviewing by management**
- 3 There is a high degree of dependence on consultants by municipalities countrywide, precisely because of a **lack of technical expertise/lack of capacity** from their staff
- 4 Generally, **non-compliance with regulatory requirements** is a serious challenge for most municipalities, including **predetermined objectives**
- 5 Many municipalities **do not have audit committees or proper internal audit structures**; even those few municipalities that have these committees struggle with making them fully functional

# The State of Local Government

## 10 Transversal challenges for municipalities in South Africa

- 6 **Irregular and wasteful expenditure** is prevalent in many municipalities owing to **fraud** and sometimes **political interferences** with the administration – Irregular expenditure of R529m across 93% of municipalities in the Western Cape.
- 7 **Lack of proper IT governance** is responsible for **loss of data** and the back-up thereof, whenever there is an upgrade or change in the IT system – At least 13 different IT systems are used by Municipalities in the Western Cape
- 8 **Lack of oversight** responsibility from those charged with governance
- 9 Most municipalities do not have **proper record keeping of documents**
- 10 **Weak IT systems control** is also a main concern in municipalities as financial and other important information is recorded in the IT system of the municipality, so unauthorised access or any other related IT weakness can have disastrous effects on the municipalities

# The State of Local Government

The AG's key focus areas in FY2010 were the following:

## AG Focus Areas

Supply Chain Management

Predetermined objectives

Financial Management

Turnaround plans

IT controls

Human Resource Management

Use of Consultants

Under administration

Governance Structures

# The State of Local Government

## Commitments made by key role players:

Key role players	Commitments
Provincial CoGTA	Implement holistic local government turnaround strategy with a focus on, among other, human resource capacity-building, in line with operation clean audit over multi-terms
	Direct hands-on support, mainly through the Development Bank of Southern Africa
	Establish a municipal professional support programme and a pool of experts.
Provincial treasury	Provincial treasury coordinated the implementation of the local government financial management improvement plan (Provincial treasury and CoGTA joint efforts) – see below.
Joint coordinating effort (Provincial CoGTA and Provincial treasury: Operation clean audit)	Implement local government financial management improvement plan in line with the multi-term operation clean audit programme, focusing on:
	* GRAP training (financial management)
	* Predetermined objective training
	* Supply chain management training
	* Evaluate the state of risk management, audit committees and internal audit and implement measures to strengthen these governance structures
	Provincial treasury to monitor and evaluate the effectiveness of the services rendered by consultants with reference to the audit outcomes and transfer of skills
Provincial leadership (Premier, MEC Local Government and MEC Finance)	Monitor the implementation of the local government financial management improvement plan, as per the operation clean audit programme
	Monitor implementation of the local government turnaround strategy and the financial management improvement plan through quarterly Premier Coordinating Forums.
Provincial oversight (Speakers Forum and MPACs)	Provincial SCOPA to extend their oversight to include all municipalities.
	Establishment of effective MPACs.

# The State of Local Government

## Status of commitments made by key role players:

Role players	Assessment of monitoring capacity and effectiveness								
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures
Provincial CoGTA	N.A - refer joint effort	N.A - refer joint effort	N.A - refer joint effort		N.A - refer joint effort		N.A - refer joint effort	N.A - no municipality under administration in Western Cape	N.A - refer joint effort
Provincial treasury								N.A - no municipality under administration in Western Cape	
Joint coordinating effort (Provincial CoGTA and Provincial treasury: Operation clean audit)								N.A - no municipality under administration in Western Cape	
Provincial leadership (Premier, MEC Local Government and MEC Finance)								N.A - no municipality under administration in Western Cape	
Provincial oversight (Speakers Forum and MPACs)								N.A - no municipality under administration in Western Cape	



# What do we want to achieve?



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*...the ideal municipality is functional, responsive, accountable, efficient, effective and people-centred*

# The “*Ideal Municipality*”

## 5 Key priorities for creating an “*Ideal Municipality*”

- 1 Recruit, retain & develop the best possible talent & skills, including the best possible leadership (***Strategic HR & leadership***)
- 2 Create environment of responsiveness, high performance & clear accountability to achieve mandate (***Performance management***)
- 3 Establish people centred culture of service delivery and customer care - Batho Pele (***Culture***)
- 4 Ensure planning, governance structures, people, systems, processes, infrastructure & oversight mechanisms are aligned to mandate, as defined by IDP & applicable legislation (***Planning & governance***)
- 5 Ensure economic & financial viability & prosperity of the municipality (***Financial management & sustainability***)

*Any turnaround must recognise all these elements*



# How will we get there?

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*...local government  
turnaround*

# Local Government Turnaround Strategy

## Cabinet approved LGTAS

### Twin over-arching aim of LGTAS:

1. Restore the **confidence** of the majority of our people in our municipalities, as the primary delivery machine of the developmental state at a local level
2. Re-build and improve **the basic requirements** for a functional, responsive, accountable, effective, and efficient developmental local government

### Five strategic objectives of LGTAS:

1. Ensure that municipalities **meet basic needs** of communities
2. Build **clean, responsive and accountable** local government
3. Improve **functionality, performance and professionalism** in municipalities
4. Improve national and provincial **policy, support and oversight** to local government
5. Strengthen **partnerships** between local government, communities and civil society

# Local Government Turnaround Strategy

## Cabinet approved LGTAS

### Four of the immediate implementation priorities of LGTAS (pre-2011 Local Government Elections):

1. Address the immediate **financial and administrative problems** in municipalities
2. Promulgate regulations to stem **indiscriminate hiring and firing** in municipalities
3. Tighten & implement a transparent municipal **supply chain management** system
4. Ensure that Government programmes are reflected in **simplified, tailored municipal IDPs**

# Is help available?

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*...how Deloitte can assist*



# Execution of the Turnaround

## Regional Service Delivery Centre

### Services

- Assistance is available within all the following services:
  - IDP and Strategy development
  - Predetermined objectives
  - SCM (technical expertise & declaration of interest)
  - Internal Audit
  - Governance and Risk Management Services
  - Financial Management & Reporting (incl. AFS)
  - Data Analytics
  - Performance Auditing
  - IT Governance
  - Proactive and investigative forensics

### Centre of Expertise

- Some of our expertise include:
  - Forensic Accountants
  - Data Analytics
  - Tax Experts
  - Compliance Experts
  - Civil Engineers
  - Town Planners
  - Funding Experts
  - Human Capital Experts
  - Actuaries
- These can be procured on a project basis or on a retainer for bucket of hours basis.

### Municipal Academy

- Focus Areas
  - Leadership
  - Management and planning
  - Project management and execution
  - Financial management
  - Technical: infrastructure asset management
  - Municipal Operations
- Include councilors to improve role clarification and oversight
- Multiple Channels
  - Current channels
  - Mentorship, coaching and shadowing
  - New recruits (and current): DGA
  - Combine classroom, e-learning and experiential learning: focused, outcomes based

# Addressing the VAT risk

1. VAT compliance poses a significant risk.
2. Penalties, interest and the permanent loss of unclaimed input tax credits.
3. VAT administration is complex and cannot be addressed by data analytics alone.
4. Transaction based and requires careful consideration per transaction, i.e. commission payments.
5. Royal and Sun Alliance v Commrs of Excise (2001) STC: *“Beyond the everyday world, both counsel have explained to us, lies the world of VAT, a kind of fiscal theme park in which factual and legal realities are suspended or inverted.”*
6. VAT laws especially complex where apportionment is required.



# Addressing the VAT risk (Cont)

Municipal VAT issues:

- SARS may be approached for alternative apportionment methods – Recent MTN case.
  - The apportionment formula:
    - Interest
    - Grants – Received v utilised
    - The deduction of input tax in respect of expenditure that relates to the imposition of and collection of traffic fines.
    - Output tax on supplies subsidised by the equitable share
    - Housing grants
2. These issues not identified by data analytics alone, which needs to be combined with critical thinking and analysis.
  3. A fresh perspective called for.

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