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?

...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:

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<tr>
<th>AG Focus Areas</th>
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<tr>
<td>Supply Chain Management</td>
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<td>Predetermined objectives</td>
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<tr>
<td>Financial Management</td>
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<tr>
<td>Turnaround plans</td>
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<tr>
<td>IT controls</td>
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<td>Human Resource Management</td>
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<td>Use of Consultants</td>
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<td>Under administration</td>
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<td>Governance Structures</td>
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Source: General Report on audit outcomes of Limpopo Local Government 2010
# The State of Local Government

## Commitments made by key role players:

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<th>Key role players</th>
<th>Commitments</th>
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| 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:**

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<tr>
<th>Role players</th>
<th>Supply chain management</th>
<th>Predetermined objectives</th>
<th>Financial management</th>
<th>Turnaround plans</th>
<th>IT Controls</th>
<th>Human resource management</th>
<th>Use of consultants</th>
<th>Municipalities under administration</th>
<th>Governance structures</th>
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<tr>
<td>Provincial oversight (Speakers Forum and MPACs)</td>
<td>N.A - refer joint effort</td>
<td>N.A - refer joint effort</td>
<td>N.A - refer joint effort</td>
<td>N.A - refer joint effort</td>
<td>N.A - refer joint effort</td>
<td>N.A - no municipality under administration in Western Cape</td>
<td>N.A - refer joint effort</td>
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</table>
What do we want to achieve?

…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?

...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?

....how Deloitte can assist
<table>
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<tr>
<th>Services</th>
<th>Centre of Expertise</th>
<th>Municipal Academy</th>
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<tr>
<td>• Assistance is available within all the following services:</td>
<td>• Some of our expertise include:</td>
<td>• Focus Areas</td>
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<tr>
<td>• IDP and Strategy development</td>
<td>• Forensic Accountants</td>
<td>• Leadership</td>
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<tr>
<td>• Predetermined objectives</td>
<td>• Data Analytics</td>
<td>• Management and planning</td>
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<tr>
<td>• SCM (technical expertise &amp; declaration of interest)</td>
<td>• Tax Experts</td>
<td>• Project management and execution</td>
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<td>• Internal Audit</td>
<td>• Compliance Experts</td>
<td>• Financial management</td>
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<tr>
<td>• Governance and Risk Management Services</td>
<td>• Civil Engineers</td>
<td>• Technical: infrastructure asset management</td>
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<tr>
<td>• Financial Management &amp; Reporting (incl. AFS)</td>
<td>• Town Planners</td>
<td>• Municipal Operations</td>
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<tr>
<td>• Data Analytics</td>
<td>• Funding Experts</td>
<td>• Include councilors to improve role clarification and oversight</td>
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<tr>
<td>• Performance Auditing</td>
<td>• Human Capital Experts</td>
<td>• Multiple Channels</td>
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<tr>
<td>• IT Governance</td>
<td>• Actuaries</td>
<td>• Current channels</td>
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<tr>
<td>• Proactive and investigative forensics</td>
<td>• These can be procured on a project basis or on a retainer for bucket of hours basis.</td>
<td>• Mentorship, coaching and shadowing</td>
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<td>• New recruits (and current): DGA</td>
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<td>• Combine classroom, e-learning and experiential learning: focused, outcomes based</td>
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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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<th>Position</th>
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