

REPORT

OF THE

AUDITOR-GENERAL

ON A

PERFORMANCE AUDIT COMPLETED

AT THE

SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION

MAY 2006

PUBLISHED BY AUTHORITY

RP 93/2006
ISBN 0-621-36605-6

TABLE OF CONTENTS

	TITLE	PAGE
1.	Purpose and content of the report	1
2.	Auditing concepts and approach	1
3.	Appreciation	3
4.	Performance audit completed at the South African Local Government Association	5

REPORT OF THE AUDITOR-GENERAL ON A PERFORMANCE AUDIT COMPLETED AT THE SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION

1. PURPOSE AND CONTENT OF THE REPORT

- 1.1 The purpose of this report is to facilitate public accountability by bringing to the attention of Parliament findings of the performance audit conducted at the South African Local Government Association (SALGA).
- 1.2 The content of the report is based mainly on the requirements of sections 5(3), 15 and 20(3) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the Auditor-General Directive No. 1 of 2005 issued in terms of section 13 of the PAA.
- 1.3 Sufficient audit work was performed to provide substantiating evidence for the findings set out herein. The findings documented in this report are supported by examples of the consequences of deficient management measures and should not be regarded as comprehensive. Where deemed appropriate, comments received from the respective accounting officers were reflected in the text.
- 1.4 It is hoped that this report would give rise to corrective steps, which would contribute constructively to the establishment and implementation of proper management measures and controls and, consequently, to improved value for money.

2. AUDITING CONCEPTS AND APPROACH

2.1 BACKGROUND:

- 2.1.1 The auditing of government institutions is based on the premise that it is the responsibility of the accounting officer to institute measures to-
 - (a) procure resources of the right quality in the right quantities at the right time and place at the lowest possible cost (economy);
 - (b) achieve the optimal relationship between the output of goods, services or other results and the resources used to produce them (efficiency); and
 - (c) achieve policy objectives, operational goals and other intended effects (effectiveness).
- 2.1.2 The promotion of economy, efficiency and effectiveness depends on adequate management measures for the planning, budgeting, authorisation, control and evaluation of the procurement and utilisation of resources. The responsibility to institute these management measures rests with management. The primary objective of performance auditing is to confirm independently that these

measures do exist and are effective and to provide management, Parliament and other legislative bodies with information, by means of a structured reporting process, on shortcomings in management measures and examples of the effects thereof.

2.1.3 Although the methodology of performance auditing focuses on highlighting shortcomings in management measures, this does not mean that poor or no value for money is received throughout the entity audited.

2.1.4 It is not the Auditor-General's function to question policy. It is, however, his responsibility to investigate the effect of policy and the management measures that lead to policy decisions.

2.2 MODUS OPERANDI: Performance audits are conducted in accordance with the internal guidelines for the planning, execution, reporting and follow-up of performance audits conducted in the public sector. In view of the complexity of the institutions audited, each performance audit focuses on a limited segment of the activities of a particular institution. Preference is given to the more important aspects. The *modus operandi* adopted makes provision for, *inter alia*, the following:

2.2.1 **Steering committees:** When the initial arrangements are made for a performance audit, the management of the institution concerned is informed in detail of the objectives of the audit and the *modus operandi* that will be followed during the audit. Arrangements are also made for the establishment of a steering committee. The main purpose of the steering committee, which consists of the audit team and senior staff members of the institution, is to secure and maintain cooperation between all parties involved. During the meetings of the steering committee efforts are made to reach consensus on matters such as audit criteria, findings and conclusions so that the eventual report will not contain any undeliberated issues and to afford the department an opportunity to make timely inputs. This approach should also lead to early corrective steps where weaknesses have been noticed. It is, however, in no way the intention or practice of the steering committee to provide the institution with a veto right in respect of the nature and scope of the performance audit or the reporting thereon. A steering committee is a consultative consensus-seeking forum, but the relevant statutory powers remain vested in the Auditor-General.

2.2.2 **Management reports:** Once consensus has been reached at meetings of the steering committee on the factual correctness of the findings, they are brought to the attention of the accounting officer concerned in the form of a management report. He or she is then given a reasonable time to respond. Comments on the reports should focus on the proposed actions to ensure that appropriate measures are implemented in time. After such comments have been received from the accounting officer and analysed, the results of the performance audit are reported on in terms of section 20(3) of the PAA.

3. APPRECIATION

The assistance rendered during the audits by the staff of SALGA is sincerely appreciated.

Shauket Fakie
—

S A Fakie
Auditor-General

Pretoria
19 May 2006

TABLE OF CONTENTS

TITLE	PAGE
1. Scope	5
2. Overview	5
3. Key findings, possible areas for improvement as well as comments of the accounting officer: 3.1 Business plan 3.2 Management of outstanding debt 3.3 Debt collection system 3.4 Record keeping and management information 3.5 Budgetary process 3.6 Human resources policies and procedures 3.7 Staff 3.8 Performance management system 3.9 Lack of training and development programmes	6 6 7 8 9 10 11 11 12 13
4. Glossary	14

Performance audit completed at the South African Local Government Association

1. SCOPE

1.1 This audit was conducted as local government plays a pivotal role in service delivery in South Africa. The South African Local Government Association's (SALGA) key roles are to act as representative, support and advise local government. These roles are performed through various programmes and working groups. The performance audit focused on the overall management measures of the organisation, with the following sub-focus areas:

- Strategic planning
- Internal debt collection
- Financial management information
- Budgetary control
- Human resource strategy

1.2 The audit focused on the 2004-05 and 2005-06 financial years up to June 2005, unless stated otherwise.

1.3 The findings and possible areas for improvement were brought to the attention of the accounting officer in the form of a management report on 12 December 2005. Comments were received on 31 January 2006.

2. OVERVIEW

2.1 SALGA's mandate is derived from the Constitution of the Republic of South Africa (Act 108 of 1996), the Organised Local Government Act (Act 52 of 1997), the White Paper on Local Government, SALGA's Constitution, the Local Government: Municipal Structures Act (Act 117 of 1998) and the Local Government: Municipal Systems Act (Act 32 of 2000). These mandates generally define SALGA as a representative of and resource for local government on national, regional and international level.

2.2 The vision of SALGA is:

To be an association of municipalities that is at the cutting edge of quality and sustainable services.

2.3 SALGA's mission is:

To be consultative, informed, mandated, credible and accountable to our membership, and provide value for money.

2.4 Financial overview

The financial data below provides a brief summary of SALGA's income and expenditure for the last two financial years as from 2004.

Description	* Final 2005 R	Audited 2004 R
Gross revenue	111 463 120	97 389 336
Operating expenses	104 971 923	99 864 313
Operating income/(deficit)	6 491 197	(2 474 977)
Interest received	906 154	1 164 841
Net surplus/(deficit) for the year	7 397 351	(1 310 136)

* Audit opinion disclaimed

The above figures were taken from the group annual financial statements for the year ended 30 June 2005.

3. KEY FINDINGS, POSSIBLE AREAS FOR IMPROVEMENT AS WELL AS COMMENTS OF THE ACCOUNTING OFFICER

3.1 BUSINESS PLAN

3.1.1 SALGA did not ensure that its business plans had measurable objectives against which a proper monitoring and evaluation of identified key actions could take place.

3.1.2 An analysis of the business plans for the periods 2002-05 and 2005-07 indicated that, *inter alia*, the business plans were high level and were not broken down into set objectives for each directorate and the plan did not contain the costs, time frames and responsibilities associated with key actions. Although the business plan covered more than one year, no annual milestones were indicated. The following key actions illustrate:

- Develop systems that increase the predictability, efficiency, accountability and cost effectiveness of processes and procedures, particularly documentation of processes and procedures
- Develop procedures and clear lines of responsibility for functions
- Develop a performance management system that will enhance monitoring, evaluation and performance delivery

3.1.3 SALGA indicated that the organisation was in the process of developing and implementing a new performance management system based on the balanced scorecard approach. As at 31 July 2005, these scorecards had not yet been implemented.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) Prioritised measurable objectives should be developed, linked to appropriate time frames and incorporated into business plans.
- (b) Objectives set should be monitored and evaluated on a regular basis.

COMMENTS OF THE ACCOUNTING OFFICER

- (a) The business plan is now linked directly to the Performance Management System through the use of scorecards.
- (b) The scorecard of the Chief Executive Officer (CEO) becomes an operational plan for the whole organisation and the Executive Directors' scorecards become the operational plan of the directorate.
- (c) These documents are now complete, but the rollout will be delayed due to a risk assessment being conducted.

3.2 MANAGEMENT OF OUTSTANDING DEBT

- 3.2.1 SALGA operations are funded from three sources, namely government grants, donor funding and levies from members. The majority of the income is from levies raised against its members. SALGA manages a debtors book value amounting to R191,8 million. SALGA did not ensure that debts raised were collected timeously. A summary provided by SALGA of the outstanding levies per province as at 30 June 2005 indicated that an amount of R135,3 million (71 per cent) of the total levies raised for the 2004-05 financial year had not been collected.
- 3.2.2 SALGA indicated that the approved formula used for the determination of levies due by municipalities was not fair and that the metros had contested their accounts.
- 3.2.3 Membership levies constituted 71 per cent of SALGA's revenue from which its operations were funded. The fact that R135,3 million was outstanding as at 30 June 2005 would have impacted negatively on the organisation's ability to fulfil its goals and objectives that had been set.
- 3.2.4 The approved revenue and debtors management policy requires any municipality that is unable to pay the full SALGA levy by the due date to apply to the CEO: SALGA National Office for alternative payment options. From a sample of 26 outstanding debtors it was established that only 27 per cent had correspondence relating to outstanding fees. Of the correspondence found, only three were addressed to the CEO. No correspondence could be found where the CEO agreed to exemption from payment.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) An effective debt collection system that ensures debt collection in the shortest period possible should be implemented.
- (b) The requirements of the approved revenue and debtors management policy should be implemented correctly.

COMMENTS OF THE ACCOUNTING OFFICER

- (a) The management of outstanding debt has improved tremendously since the introduction of the new formula and the strategies the new management introduced in the financial year 2005-06.
- (b) In the first quarter to September 2005, 85,2 per cent of the budgeted membership levies were already collected and by December 2005, 95 per cent of the budgeted membership levies were collected.

3.3 DEBT COLLECTION SYSTEM

- 3.3.1 Although SALGA manages a debtors book value amounting to R191,8 million, it did not ensure that its debt collection system was adequate to produce reliable management information for its management to take informed decisions.
- 3.3.2 The approved revenue and debtors management policy states that *“Statements with regard to outstanding levies will be issued monthly to municipalities by SALGA National to Provincial Associations, which will pursue municipalities/metros of outstanding debts”*. SALGA’s practice to only forward monthly statements to those debtors who had problems paying their levies was in contravention of this policy.
- 3.3.3 Scrutiny of the Excel spreadsheets that were used to manage the debt collection management system indicated that amounts on statements were replaced every month once they had been printed. No backup was made, except for the backups that were made automatically by the server for all files on the SALGA-shared drive.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) A comprehensive debt collection system from which accurate and timely management information can be generated should be implemented.
- (b) The requirements of the approved revenue and debtors management policy should be implemented properly.

COMMENT OF THE ACCOUNTING OFFICER

SALGA is currently in a process of finalising a workflow exercise that will culminate in the purchase of an integrated system that will incorporate all areas of performance within the organisation. The cost of this project is estimated to be R10 million. SALGA is currently liaising with the Office of the Accountant-General in finding some innovative way to finance the project, as well as investigating other innovative ways of dealing with the situation.

3.4 RECORD KEEPING AND MANAGEMENT INFORMATION

- 3.4.1 Record keeping of financial transactions was not adequate to produce meaningful financial management information regularly. Accounting records were maintained on Microsoft Excel and were not updated regularly.
- 3.4.2 Monthly bank reconciliations and debtors reconciliations were not prepared. It was also indicated that creditors and debtors control accounts did not exist. This practice was in contravention of section 51(1)(a)(i) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) which states that *“An accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control”*.
- 3.4.3 Structured financial management information was also not produced regularly to assist management in its decision-making processes. Financial information was made available to senior management on request only and included cash flow projections and a graphical representation of membership levies received.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) An effective, efficient and transparent system of financial management information should be implemented and maintained.
- (b) Financial management information generated should be monitored and evaluated regularly to ensure accuracy, timeliness and reliability.
- (c) The requirements of the PFMA should be adhered to.
- (d) A comprehensive financial management system should be implemented from which structured financial management information is generated regularly. Senior management should monitor and evaluate the information on a regular basis.

COMMENTS OF THE ACCOUNTING OFFICER

- (a) In addition to the planned integrated system mentioned in 3.3 above, the capacity in the finance section has been improved tremendously. A chartered accountant as head of finance,

an experienced financial accountant as well as a very capable supply chain management specialist, were appointed.

- (b) The system of reporting is now set up to ensure that reports are presented in all management meetings.

3.5 BUDGETARY PROCESS

- 3.5.1 An approved process was not followed when compiling its annual and Medium Term Expenditure Framework (MTEF) budgets. Not all directorates and provincial offices met the requirements as stated in the budget guideline.
- 3.5.2 The approved MTEF budget for the period 2005-06 to 2007-08, confirmed that zero-based budgeting principles had not been applied for the provincial budgets and that funds had been equally divided and allocated amongst most of the provinces.
- 3.5.3 The budgeted amounts were not linked to specific objectives that had been set for the period budgeted. As a result SALGA would not have been in a position to monitor and control expenditure for specific goals and objectives that had been set.
- 3.5.4 It was established that no cash flow projections for the 2005-06 financial year had been prepared at the time of the audit. An analysis of the 2004-05 projections for municipal levies confirmed large variances between actual and projected figures, which indicate that cash flow planning was inadequate.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) Alignment of the organisation's strategy and objectives with the annual budget should be ensured.
- (b) Budget items should be clearly defined and prioritised, and responsibilities should be appropriately allocated.
- (c) Senior management should monitor management information with regard to expenditure incurred against budgets per predetermined objectives on a regular basis.
- (d) Variances between budgeted and actual expenditure should be monitored and reasons for such variances motivated.

COMMENT OF THE ACCOUNTING OFFICER

Management took a conscious decision to capacitate the provinces and hence certain provinces were allocated the same budget. There are specific programmes that the provinces are required to roll out on behalf of national office directorates, and therefore that necessitated those allocations. Due to similar

size of certain provinces and challenges they face, we devised a formula for those conditional type grants forming part of their budgets.

3.6 HUMAN RESOURCES POLICIES AND PROCEDURES

3.6.1 A comprehensive human resource strategy was not in place in order to assist the organisation in meeting the objectives that had been set.

3.6.2 Although certain policies were in place, it was determined that SALGA did not have the following policies in place:

- Management development
- Manpower planning

3.6.3 Some policies were not applied as intended. The remuneration and benefits policy was analysed and from a sample of 40 employees selected, it was determined that in many instances salaries paid to employees were not in line with the approved salary framework scales. Twenty-five (62,5 per cent) of the 40 employees tested were being remunerated outside the approved salary framework.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) A comprehensive human resource strategy should be developed and implemented.
- (b) The human resource policies and procedures should be correctly approved before implementation. Approved policies and procedures should be correctly applied.

COMMENTS OF THE ACCOUNTING OFFICER

- (a) There is an ongoing process that we have since established within the organisation to continuously review policies and procedures. Our internal auditors are also very useful in this process, as we have now outsourced the internal audit function.
- (b) With regard to salary benchmarking, we have completed a new salary benchmarking exercise, as our analysis indicated the same findings as in your report. We have already implemented this report, and you will appreciate the historical issues will still be with us for a while. The Labour Relations Act does not allow us to reduce salaries, but we can rectify the situation over a period of time. For those that were found to be underpaid the situation was rectified.

3.7 STAFF

3.7.1 Sufficient staff were not in place to meet the objectives set in the business plan. It was determined that as at 30 June 2005, only 181 (61 per cent) of the approved 295 positions were filled. The majority of vacancies were at provincial level.

3.7.2 Salary budgets for the 2004-05 and 2005-06 financial years increased from R39 million to R49,4 million on a year-on-year basis. This represented an increase of R10,4 million (27 per cent), 6 per cent of which represented the annual salary benchmark adjustment, which left an amount of approximately R8 million available for vacant positions. No information was obtained as to which vacant positions had been identified as priority.

3.7.3 Certain positions did not have job descriptions. Only some job descriptions had competency requirements and knowledge requirements that were aligned with the job profile and all job descriptions were not updated to be aligned with the new organisational structure.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) Approved positions should be filled in the shortest possible time.
- (b) SALGA should develop and implement approved competency matrices and job descriptions to ensure that properly qualified and skilled staff are employed to enable the organisation to achieve the objectives as set.
- (c) Current job descriptions must be updated and aligned with the new organisational structure.

COMMENTS OF THE ACCOUNTING OFFICER

- (a) An organisation requires resources to fill its organogram. During the time of the management reporting we were starting to have access to those resources in line with that budget, consequently we have made tremendous progress in reducing the number of vacancies since then.
- (b) Most of the positions on the organogram were new, and therefore it was important to complete a salary benchmarking exercise for these positions. After the exercise was completed it was established that not all positions could be filled within the 2005-06 financial period due to lack of proper resources.

3.8 PERFORMANCE MANAGEMENT SYSTEM

From a selected sample of 30 employees, none had signed performance contracts in place. The lack of an approved performance management system resulted in the organisation not being able to identify performing staff and in turn reward them accordingly. Non-performers were also not identified.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) A comprehensive performance management system should be implemented, including performance contracts that are signed and agreed to by both the employer and employee.

- (b) Performance contracts should be monitored and evaluated on a regular basis.
- (c) Policies and guidelines on performance measurement should be properly implemented.

COMMENTS OF THE ACCOUNTING OFFICER

- (a) SALGA's business plan will be linked directly with the Performance Management System through the use of balanced scorecards.
- (b) These scorecards are now complete, but the rollout will be delayed due to a risk assessment being conducted.

3.9 LACK OF TRAINING AND DEVELOPMENT PROGRAMMES

- 3.9.1 An approved training and development policy to ensure that adequate training was provided to staff to enable them to execute their tasks effectively, was not in place. Although a skills audit was conducted to determine the training and development needs of SALGA staff and a training plan was developed for the 2004-05 financial year, the link between the training plan and individual employees was not clearly indicated. It was also not established whether any employee attended any training for the skills requirement, as identified during the skills audit.
- 3.9.2 Although an amount of R508 004 was budgeted for training and development for the 2004-05 financial year, only R90 325 (17,8 per cent) was spent (unaudited financial information). Furthermore, the actual expenditure incurred was not related to the needs as identified in the skills audit.

POSSIBLE AREAS FOR IMPROVEMENT

- (a) A training and development strategy and policy should be developed and implemented as soon as possible.
- (b) Training plans and a development programme should be properly funded, monitored and evaluated regularly.

COMMENT OF THE ACCOUNTING OFFICER

Linked to the performance management system is the personal development plan which addresses individual career paths. SALGA has an education scheme policy and has approved a number of applications for tertiary education assistance to staff, provided that they prove amongst other things that those qualifications will enhance their contribution to the organisation.

4. GLOSSARY

CEO	Chief Executive Officer
MTEF	Medium Term Expenditure Framework
PAA	Public Audit Act (Act No. 25 of 2004)
PFMA	Public Finance Management Act (Act No. 1 of 1999)
SALGA	South African Local Government Association