



# OPERATION CLEAN AUDIT 2014

WHY IT FAILED AND WHAT CAN BE LEARNED

By DM Powell, M O'Donovan, Z Ayele, and T Chigwata

# OPERATION CLEAN AUDIT 2014

## WHY IT FAILED AND WHAT CAN BE LEARNED

By DM Powell, M O'Donovan, Z Ayele, and T Chigwata

© Copyright DM Powell, M O'Donovan, Z Ayele, and T Chigwata – 2014 *Operation Clean Audit 2014: Why it failed and what can be learned*- CAPE TOWN: MLGI – [www.mlgi.org.za](http://www.mlgi.org.za)

This Project was made possible with the assistance of the Ford Foundation and the Charles Stewart Mott Foundation.



**FORDFOUNDATION**

*Working with Visionaries on the  
Frontlines of Social Change Worldwide*



CHARLES STEWART  
MOTT FOUNDATION

## Contents

Background to Operation Clean Audit.....	1
The role of the Auditor-General in promoting accountable local government.....	2
Table 1: Six categories of audit outcome and key audit terminology .....	4
Clean audits in all municipalities and provincial departments by 2014 .....	5
Table 2: Comparing the various targets and indicators in the documents.....	8
Implementing OCA 2014.....	9
Table 3: Implementation measures and performance indicators .....	9
Inconsistencies between targets, indicators, implementation actions .....	10
Multiple operational plans.....	10
Different plans had different often conflicting objectives.....	11
Inconsistency in the implementation actions in the different documents .....	11
Targets were extended to provincial departments with no assessment done .....	12
No correlation between the targets and implementation actions.....	12
Competing definitions of clean audit used .....	13
Progress: What the data shows .....	13
Two main targets .....	13
Table 4: Municipal audit outcomes (2006/07-2011/12).....	14
The number of ADFs declined but the 2011 target was missed .....	15
Fig 1: Trends in actual results compared to the 2011 target of no ADFs .....	15
Achieving the 2014 target for clean audits is improbable.....	16
Fig 2 Trends in actual results compared to the 2014 clean audit target .....	16
On current trends, the 2014 clean audit target will only be reached in 2022/23 .....	16
Fig 3 Clean audits by 2022/23 on current trends.....	17
Learning lessons from OCA 2014 .....	17
Conclusion.....	20

---

## **Background to Operation Clean Audit**

In 2009 the new Minister for Cooperative Governance and Traditional Affairs (COGTA), Sicelo Shiceka, launched Operation Clean Audit 2014 (OCA 2014). It was the signature intervention in the incoming Zuma government's plan to "turnaround" local government. The objective of OCA 2014 was that all 283 municipalities (now 278) and provincial departments should achieve a clean audit on their financial statements by 2014.

Unless a miracle happens, it seems highly probable that the majority of municipalities will not achieve the 2014 target. According to COGTA's own definition of a clean audit, which includes an unqualified opinion with findings (the Auditor-General uses the narrow definition of unqualified without findings) - only 44 percent of municipalities received clean audits in the 2011/12 financial year. Assuming that none of those municipalities regress, in the target year (2014/15) an improvement in the order of 278 percent will be required if OCA 2014 is to meet its objective. That is unlikely to happen, and it is safe to say that, by its own measures of success, national government's OCA 2014 has failed in its objective. According to the AG's definition of clean audit on present trends it will take 120 years for all municipalities to achieve a clean audit.

This report analyses the experience of OCA 2014 only in relation to the situation in local government. The purpose of the research was to determine what went wrong and what lessons can be drawn from the failure. This report publishes the findings of that research, and is one of several reports that will be published on OCA 2014 in the coming months, as part of a broader project to use the OCA 2014 as a case study of policy-making in South Africa's complex three-sphere system of government. The broader focus for research is needed because the quality of local governance is not only a function of local government, but a function of how all three spheres of government (national, provincial and local) perform their respective responsibilities to ensure good local governance.

It is important to understand what went wrong and why, for two reasons. The first reason is accountability. The current national government promised clean audits in local government before its term of office comes to an end in May 2014. This is an election year and therefore the time for voters to call government on that promise.

The second reason is to learn from the experience so that hopefully the lessons can be applied in future policy-making processes of this kind. It is necessary to keep in mind the fact that the state is a complex system of interacting parts. As such, its operations are never entirely under the control of national decision-makers. Information is always imperfect. Policy choices never escape the law of unintended consequences. The best that policy-makers can do under the circumstances is to try as far as possible to make policy decisions according to the best possible analysis of the facts available to them, and to adjust their strategies to changing circumstances.

The failure of OCA 2014 thus presents an opportunity to examine the facts upon which the intervention was based to determine why it failed, the miscalculations that were made, and what might have been done differently. Academic research should look beyond the immediate concerns of politicians to the deeper, underlying issues at play, in order to put relevant facts and analysis into public debate in as balanced a way as possible with a view to long-term institution-building.

### **The role of the Auditor-General in promoting accountable local government**

Every year the Auditor-General (AG) publishes an annual report on the outcomes of audits conducted in the country's 278 municipalities (including the 60 municipal entities) in the preceding financial year. The report examines the extent to which municipalities have complied with national standards for municipal financial management and performed against predetermined objectives for service delivery. It identifies key trends and risks and makes specific recommendations about how major problems should be addressed by an appropriate level of government.

The annual audit of local government is a vital cog in the regulatory regime that governs financial management, budgeting, accounting, and reporting in local

government. The audit gives practical meaning to the constitutional rights of citizens to expect clean, transparent, accountable local government by exposing practices of municipal management to scrutiny, oversight and possible sanction. Without an independent audit of how municipalities manage public funds and the publication of those results wrongdoing will not come to the surface, wrongdoers will have shadows to hide in, and the public will have no idea what is going on in municipalities, the rule of law will be trumped by the rules the wrongdoers decide in their own interests, and the public will be unaware of what is really going on. If we are unaware of what is going on because there is no reliable source of information, we cannot exercise an informed vote to call local representatives to account in elections.

The AG uses six categories to classify municipalities according to their level of compliance and performance in the financial year that is under review. These are shown in Table 1 on the next page.

**Table 1: Six categories of audit outcome and key audit terminology**

	<b>Category of audit outcome</b>	<b>What it means</b>	<b>Other descriptions used for the classification</b>	
1	Unqualified with no findings	No material misstatements were found in the financial statements  There were no material findings on (a) reporting on performance objectives or (b) non-compliance with legislation	A clean audit	Unqualified financial statements
2	Unqualified with findings	Financially unqualified, however, there were findings on (a) and/or (b) above	Financially unqualified	
3	Qualified with findings	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for AG to conclude that specific amounts included in the financial statements are not materially misstated.	Modified opinion	Outstanding audits and qualified financial statements
4	Adverse opinion with findings	There were material misstatements that substantially affected the credibility of the financial statements		
5	Disclaimer of opinion with findings	Insufficient evidence was provided upon which to base an audit opinion		
6	Outstanding audits	Failure to submit financial statements for audit		
	<b>Material misstatement</b>	A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.		
	<b>Misstatement</b>	Incorrect or omitted information in the financial statements or annual performance report.		

Source: Compiled by authors from glossary to AG report

## Clean audits in all municipalities and provincial departments by 2014

On the 23<sup>rd</sup> of June 2009 the Minister of Cooperative Governance, Sicelo Shiceka, outlined the incoming Zuma government's "strategic priorities and posture" for local government policy.<sup>1</sup> Among these were several ambitious targets ostensibly driven by "the urgent imperative of turning local government around":

- "By 2011 there would be a significant reduction in the number of complaints by people about local government.
- By 2014, outstanding municipal consumer debt, which stood at R41 billion, would be reduced by half.
- By 2014, all municipalities should have a clean audit.
- By 2011, fraud and corruption should be reduced to a minimum.
- A significant reduction in the number of service delivery protests (no date was specified, but the pattern in respect of the other targets suggests that it was either 2011 or 2014)."

These became the priorities in COGTA's Local Government Turnaround Strategy (called LGTAS), which COGTA launched in 2009 following a rapid assessment of the state of local government.<sup>2</sup> That assessment had found that local government was effectively "in distress," due to wide-ranging systemic problems, including massive service delivery backlog, a breakdown in governance, corruption, fraud, and rampant service delivery protests. <sup>3</sup> Poor financial management lay at the heart of the

---

<sup>1</sup> Department of Cooperative Governance and Traditional Affairs (COGTA) (2009a) Address by the Minister for Cooperative Governance and Traditional Affairs, honourable Sicelo Shiceka, on the occasion of the budget vote in Parliament National Assembly Cape Town (23 June).

<sup>2</sup>COGTA (2009b). *Local government turnaround strategy: Working together, turning the tide in local government* Pretoria.

<sup>3</sup> COGTA (2009a). Shiceka laid a large part of the blame for the problems in local government squarely at the door of the former Department of Provincial and Local Government:

It is our understanding that the Department of Provincial and Local Government is no more. This old Department focused more on local government to the neglect of provincial government and traditional leadership. (Shiceka continued) We also need to be self-critical as the Choir Conductor. Our assessment is that the former Department of Provincial and Local Government failed to appropriately position itself to play the "Choir Conductor" role. The Department primarily confined itself to a narrow focus on Local Government and did not effectively address the causal systemic and accountability problems in this sphere. Furthermore, it did not resolve the fractures in inter-sphere relations as they relate to



problems in local government. To justify the need for a national intervention, Minister Shiceka drew on the annual reports by the Auditor-General that showed a consistently poor record of municipal audit outcomes.<sup>4</sup>

COGTA launched Operation Clean Audit 2014 on the 16<sup>th</sup> of July 2009 in order to address the financial management problems in municipalities,<sup>5</sup>

In his speech at the launch, Minister Shiceka expanded on the commitments he had made in his budget speech a month earlier. Importantly, the 2014 clean audit target was now extended to provincial departments as well, and several new interim targets were spelled out:

- “By 2009-10, all accounting officers, both in municipalities and provincial departments must sign performance contracts on audit management (internal and external audits), integrated risk management, function of audit committees and internal audit units.
- By 2011, all municipalities and provincial departments must have dealt (sic) or cleaned disclaimers and adverse opinions.
- By 2014, all 283 municipalities (since reduced in number to 278) and all provincial departments in the 9 provinces in South Africa will have achieved clean audits on their financial statements, and they will also be maintaining

---

achieving cohesion and integrated development in municipal areas. The result has been a discordant choir producing dreadful music and not fulfilling the needs of its audience.

The DPLG was established in 1999 by the second President, Thabo Mbeki. From 1999 to 2008 it had been led by Minister Fholisani Sydney Mufamadi.

<sup>4</sup> COGTA 2009a. The Minister quoted figures from the reports: In the 2006/07 financial year, only 253 of the 283 municipalities’ audits had been finalized, and of those, only 56 municipalities received unqualified audit opinions. Referring to these figures, Shiceka called the situation “a crisis in local government, which we needed to attend to swiftly.”

<sup>5</sup> COGTA (2009c) *Address by the Minister for Cooperative Governance and Traditional Affairs, Honourable Sicelo Shiceka, on the launch of the 2014 Clean Audit Project, Birchwood Hotel, OR Tambo Conference Centre, Boksburg*. There was a strong ceremonial element to the launch. Shiceka opened his address at the launch with the statement that the “day will be recorded in history books as an archive of ideas, proposals and suggestions.” The launch was attended by politicians and senior officials from all three spheres. Among these were officials “who had turned their municipalities around,” whom Shiceka styled “Ministerial Audit Ambassadors.” As part of the launch, Shiceka, the Minister of Finance, the nine provincial premiers, the Auditor-General, the Accountant-General, and the Chairperson of the Association of Public Accounts Committees then signed a commitment pledge to achieve the vision of Operation Clean Audit. Testimony to the seriousness of the intent, the pledge was written in an elaborate script.

systems for sustaining quality financial statements and management information.”

To underscore the seriousness of national government’s resolve to turn things around, Minister Shiceka issued a warning to officials “with no sense of accountability,” that COGTA would be monitoring progress against these targets “very closely.”

The objectives and targets set for OCA 2014 were elaborated in three separate operational documents between July 2009 and September 2010:

- **The booklet that explained the objectives for OCA 2014 (16 July 2009)**, which was published at the launch. This booklet contained a detailed work programme for OCA that had specific milestones, indicators and means of verifying progress.<sup>6</sup>
- **COGTA’s Annual Strategic Plan (2009)**, the formal plan tabled in Parliament that explained how COGTA intended to spend the budget that Parliament had voted to the Department in that financial year. In this plan OCA 2014 was included under *Priority 2: Strengthening accountability and clean government*, and various targets and outputs were specified.<sup>7</sup>
- **The Delivery Agreement for Outcome 9 (September 30 2010): *A responsive, accountable, effective and efficient local government.*** Delivery Agreements were an innovation introduced by the newly established Ministry of Performance Monitoring and Evaluation in the Zuma Presidency. These agreements are signed by the Minister of a sector and his/her provincial and local counterparts. OCA 2014 was included as *sub-output 1 (Improved audit outcomes of municipalities) under Output 6 (Improve Municipal Financial and Administrative Capability)* in the Agreement for Outcome 9.<sup>8</sup>

---

<sup>6</sup> COGTA (2009d) *The cog that makes government work: Operation Clean Audit Programme 2009-2014.*

<sup>7</sup> COGTA (2009e) *Strategic plan 2009-2014.*

<sup>8</sup> COGTA (2010) *Delivery agreement for outcome 9: A responsive, accountable, effective and efficient local government system (30 September).*

Table 2 below presents the various formulations of the targets, as well as the indicators used to measure progress in the Minister’s launch speech and the three operational documents (the OCA 2014 booklet, the COGTA strategic plan, and Outcome 9).

**Table 2: Comparing the various targets and indicators in the documents**

Target	Shiceka launch speech 2009	OCA booklet 2009	COGTA Strategic plan 2009	Outcome 9 2010
2011	By 2011, all municipalities and provincial departments must have dealt (sic) or cleaned disclaimers and adverse opinions	Between 2010 and 2011, no municipality and provincial departments achieving Adverse and Disclaimer Audit opinions		55 % of municipalities with unqualified audit opinion by 2010/11
2012		At least 60% of provincial departments and the 283 municipalities achieving unqualified audit opinion by 2012		60 % of municipalities with unqualified audit opinion by 2011/12
2013		At least an increase in provincial departments and municipalities achieving unqualified audit percentage to 75% by 2013		75 % of municipalities with unqualified audit opinion by 2012/13
2014	All 283 municipalities and all provincial departments in the 9	All provinces and municipalities	Unqualified audits for provincial and	100% of municipalities with

	provinces will have achieved clean audits on their financial statements.	achieving unqualified audit opinion	local governments	unqualified audit opinion by 2013/14
--	--	-------------------------------------	-------------------	--------------------------------------

Source: Compiled by the authors from COGTA 2009c, 2009d, 2009e, and 2010

## Implementing OCA 2014

The three operational documents prescribed the actions that were required to meet the clean audit targets. The actions were not specific to COGTA's own responsibilities. Many applied to responsibilities of other organs in all three spheres of government. Table 3 shows 10 of the most important implementation measures and their accompanying indicators of progress.

**Table 3: Implementation measures and performance indicators**

	Organization/measure	OCA Booklet	COGTA Strat Plan	Outcome 9
1	Implement remedial plan for issues in AG reports (09-11)		Clean audits	
2	Support provinces and municipalities to maintain clean audits (11-14)	% improvement in audit outcomes	Clean audits	
3	Development of provincial audit remedial plans (09-11)	Comprehensive analysis of all municipalities and provincial departments	Provinces have clean audit programme	
4	Support provinces to improve financial management (09-11)	All 9 premier's offices have OCA programmes	Provinces have clean audit programme	
5	Monitor implementation of provincial remedial plans (11-14)	All 9 provinces have knowledge sharing mechanism	Provinces have clean audit programme	
6	Report on municipal performance to parliament	Provinces document best practices annually	Reports to parliament	
7	Support and monitor municipalities to establish good governance practices			% munis with

				unqualified report
8	Establish Anti-corruption inspectorate for provincial and local governments			% munis with unqualified report
9	Improving availability of supporting documentation for audit	100% submission rate		
10	Capacity building for clean audit	Continuous workshops with municipalities		
		By 2009/10 all s57 municipal managers trained in financial management		

Source: Compiled by the authors from COGTA 2009c, 2009d, 2009e, and 2010

### **Inconsistencies between targets, indicators, implementation actions**

Setting a target was the simple part. Much harder would be identifying the specific actions that were necessary to implement them over a five year time-horizon and coordinating the actions of the many individual agencies involved into a coherent national programme of action across government as a whole. To achieve the objectives of OCA thus required from the outset a clear mission with an achievable plan of action, and the selection of the right measures to deliver the plan. The success of the OCA would require much more than that, but a clear, achievable, practical plan was the essential first step. The key actions to implement OCA 2014 did not meet these criteria.

The table shows that there were several inconsistencies in how the implementation plan was conceived in the various operational documents.

### **Multiple operational plans**

First, the fact that there were three operational documents, each setting out a programme of implementation, would have increased the risk of confusion, duplication and error. Having three operational documents would have made it difficult for the managers leading OCA 2014 to maintain a clear view of the exact mission and objectives. Inevitably, the effect of multiple plans is uncertainty about how the various documents relate to each other and which one is the actual plan. Multiple plans also creates the risk of mission creep, in as much as new activities get added in later documents that were not included in earlier documents, by virtue of

the tendency for thinking to become more developed over time. The operational difficulties would have been compounded by managers coming into and leaving the OCA 2014 over the course of five years.

### **Different plans had different often conflicting objectives**

Second, there were inconsistencies in the way the key targets were formulated in the three documents. For example, in Minister Shiceka's speech at the launch, 2011 was established as the target by which no municipalities should receive an adverse opinion or disclaimer, or fail to submit its financial statements for auditing. The OCA 2014 booklet, however, used a different formulation of the target, which was "between 2010 and 2011." But no target dates were included in the COGTA strategic plan.

A second example was that in the launch speech 2014 was set as the target for all municipalities to achieve a clean audit. But it is unclear whether 2014 meant the 2014/15 local government financial year, the 2014 calendar year, or the 2014/15 national financial year. If the former was meant, then a measurement problem arose that was not factored into the operational documents. Whether or not OCA 2014 had reached its target would only have been known in 2016, when the AG report on the 2014/15 financial year was released.

Adding to the confusion about the exact target, the Outcome 9 Delivery Agreement, upon which the Minister's performance contract was based, set 2013/14 as the target for 100 percent unqualified opinions.

### **Inconsistency in the implementation actions in the different documents**

A third level of inconsistency was that the three operational documents did not always refer to the same implementation actions or to the same action consistently. For example, one of the implementation activities spelled out in the OCA 2014 booklet and the COGTA strategic plan was "supporting provinces to improve financial management." That activity does not appear in the Outcome 9 document at all.

A second example was the activity of "establishing an anti-corruption inspectorate for provincial and local governments," which is a measure identified in the Outcome 9 document, but which does not appear in the other two operational documents.

### **Targets were extended to provincial departments with no assessment done**

Fourth, different processes appeared to have been used in setting the targets for clean audits for local government and provincial departments respectively. The targets for local government emerged from the assessment of the state of local government undertaken by COGTA in 2009. The targets were subsequently extended to provincial departments. The factual basis upon which that decision was taken is unclear. There is no evidence to suggest that an assessment of provincial departments similar to the 2009 assessment of the state of local government was ever undertaken, or that COGTA's own capacity to step up the OCA 2014 to the provincial level of government had been taken into account. There appears to have been mission creep, with the OCA 2014 targets simply extended to provincial departments.

### **No correlation between the targets and implementation actions**

Fifth, it was not always clear what a particular implementation activity involved or how it was related to achieving the targets for OCA 2014. For example, measure seven in Table 2 above was to "support provinces to improve financial management." Exactly what that support involved was nowhere specified. It is not apparent how progress was to be measured if the nature of the activity involved was uncertain.

Other measures were so broad as to be impractical. For example, measure three required "the development of provincial audit remedial plans." One of the indicators was that a comprehensive analysis of all municipalities and provincial departments should be undertaken. Whether or not that analysis was ever done is unclear. What is clear is that such an undertaking would have been a huge and expensive task that would have taken many years to accomplish, if it was even feasible to do in the first place.

In other cases, the indicator did not seem to be related to the measure. For example, measure eight was the establishment of an inspectorate-general for provincial and local governments. The plain language of the text required the establishment of this office as an operational agency. Intuitively, progress should have been measured against process indicators such as passing legislation, undertaking a work study, advertising and filling posts, developing a strategic plan

and budget for the new office, and so on. These are the sorts of inputs or process indicators relating to the establishment of a new institution. It can take many years to establish such a body. Yet the only indicator for this measure relates to the performance of municipalities themselves: “% municipalities with unqualified reports.” This indicator relates to the ultimate objective of OCA 2014 and has no relevance to the establishment of a national inspectorate.

### **Competing definitions of clean audit used**

Finally, it appears that COGTA used a different and much broader definition of clean audit to the one conventionally used by the AG. The latter defines a clean audit as an unqualified opinion with no findings. COGTA documents, however, refer to an “unqualified report,” which would include the broader category of unqualified with findings.

These inconsistencies in the conception of the OCA would have made it difficult to manage a programme already complex by virtue of the fact that it sought to be a multi-year intergovernmental plan of for all three spheres of government and lock multiple role-payers into a coordinated set of actions to achieve an ambitious result within a fixed time frame.

## **Progress: What the data shows**

### **Two main targets**

Operation Clean Audit (OCA) had two main targets:

- 1. By 2011, there should be no municipalities falling into the categories “adverse opinion, disclaimer or failed to submit” (ADFs)<sup>9</sup>**

The first target was that by 2011 no municipalities should be receiving adverse audit opinions, disclaimers, or failure to submit their financial reports (called ADFs). An “adverse audit opinion” is issued when the auditor finds that the financial statements

---

<sup>9</sup>COGTA (2009d).



contain material misstatements that are not confined to specific amounts, or that the misstatements represent a substantial portion of the financial statements. A “disclaimer opinion” is issued when the auditor is unable to express an opinion, and usually means there was insufficient information for auditors to audit the finances of a municipality.<sup>10</sup> Adverse audit reports and disclaimers are cause for concern because they indicate a high potential for illegal expenditure or attempts to hide illegal activities.

Progress against this target would be measured as a consistent declining trend in the number of municipalities in these categories, falling to zero by the 2011/12 financial years.

**2. By 2014, all municipalities and provinces should have a clean audit.**

The main target was to achieve clean audits in all municipalities by 2014. The target was applied to municipalities at first, but later extended to all provincial departments as well.

Table 4 below provides an overview of the audit outcomes for all municipalities from 2006/07 to 2011/12, showing the number of municipalities that fell under each of the categories of audit opinion in a particular financial year. The last three categories of audit opinion relate to the 2011 “no ADFs” target. The first two categories relate to the 2014 clean audit target. The first category is the definition of clean audit used by the AG. Using that definition, only 9 municipalities had clean audits in 2011/12. COGTA appeared to define clean audit to mean both the first and second categories, in which case there were 116 clean audits in 2011/12, substantially more than there would be using the stricter definition. We measure progress against the broader definition used by COGTA.

**Table 4: Municipal audit outcomes (2006/07-2011/12)**

Audit opinion	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
---------------	---------	---------	---------	---------	---------	---------

<sup>10</sup>Auditor General of South Africa (AGSA) *Audit terminologies (2014)*  
<http://www.agsa.co.za/Auditinformation/Auditterminology.aspx> (Accessed on 20/02/2014)

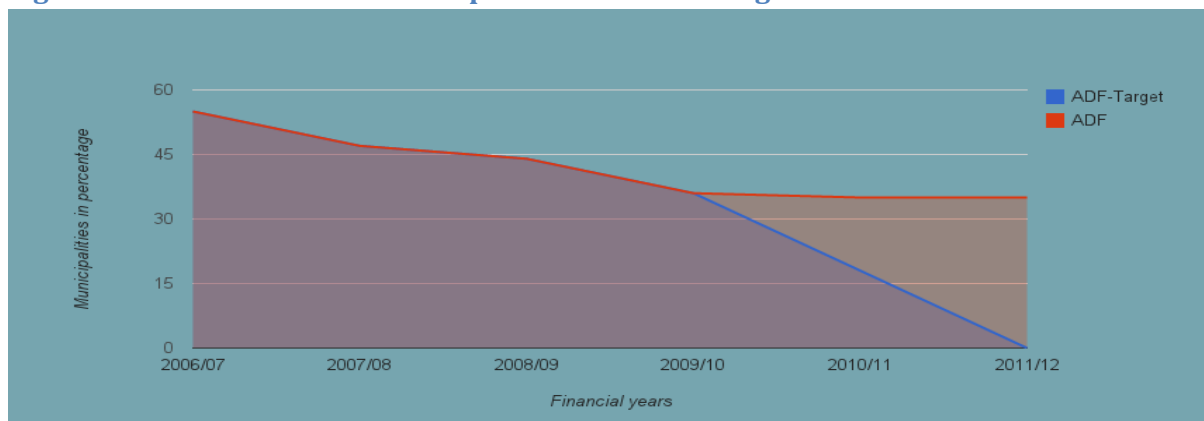
Unqualified with no findings	3	1	4	6	13	9
Unqualified with findings	53	92	105	122	117	107
Qualified	70	56	48	51	54	64
Adverse report	25	9	8	8	8	3
Disclaimer	117	86	80	56	57	75
Failed to submit report	12	36	35	38	34	20

Source: Auditor General Reports (2006-2012)

### The number of ADFs declined but the 2011 target was missed

Figure 1 below compares the actual results (shown as a red line) against the target (shown as a blue line) for ADFs by 2011/12. Achieving that target would have required a sharp decline in the number of municipalities receiving ADFs from 2009/10 to zero in 2011/12. As shown by the red line, the percentage of municipalities with ADFs did in fact decrease over the six financial years, but never at the rate required to achieve the target. Some 55 percent of all municipalities were in the ADF category in the 2006/07 financial year, decreasing to 48 percent in 2007/08, 44 percent in 2008/09, and 36 percent in 2009/10. Notwithstanding the overall positive trend, the 2011/12 target of no ADFs was missed, with 35 percent of all municipalities still receiving ADFs. When the actual results for 2009/10 came out had COGTA recalibrated the 2011 target to the average rate of decline between 2006/07 and 2009/10 (an average of 24 fewer ADFs each year) it would have had to adjust the target year for no ADFs to 2017. However, as is evident from the graph, the tempo of progressive change was never maintained and the 2011 target remained fixed regardless of the actual audit results. As a consequence the gap between the actual and the target lines was always widening.

**Fig 1: Trends in actual results compared to the 2011 target of no ADFs**

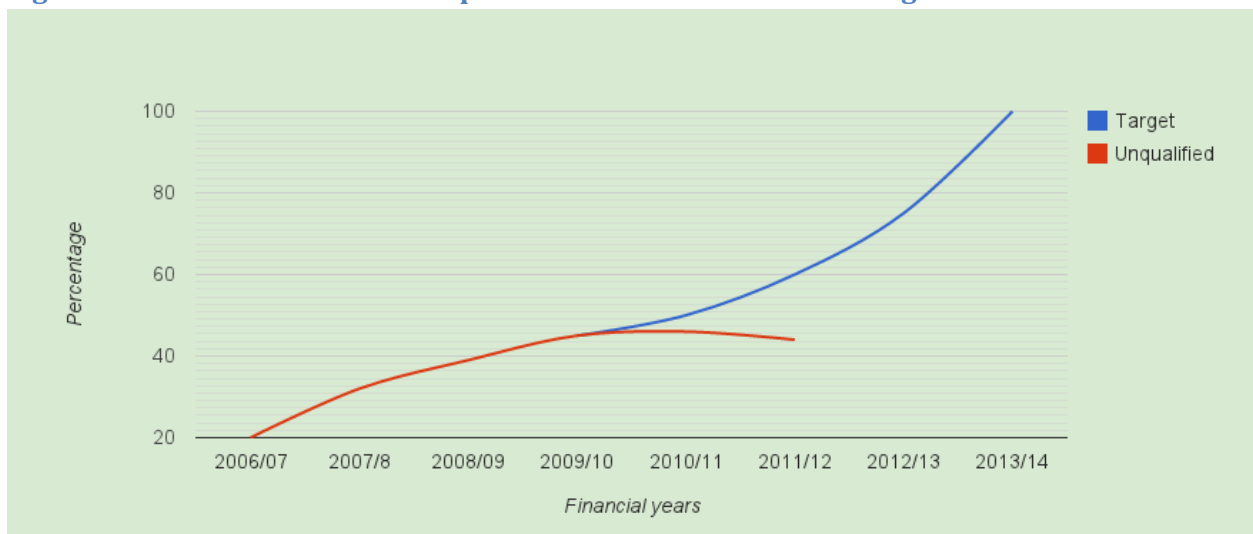


Source: Calculated from Auditor-General reports for 2006/07-2011/12

### Achieving the 2014 target for clean audits is improbable

The main target of OCA 2014 was that by 2014 a 100 percent of municipalities should achieve an unqualified audit (with or without findings). Only 45 percent of all municipalities had unqualified reports when OCA 2014 was launched in 2009/10. As the red line in Figure 2 below shows the number of municipalities receiving unqualified reports increased slightly to 46 percent in 2010/11 and then declined to 42 percent in the 2011/12 financial year. The widening gap between the blue and the red lines, however, indicates that it is highly improbable that the policy target will be achieved in 2014/15.

Fig 2 Trends in actual results compared to the 2014 clean audit target



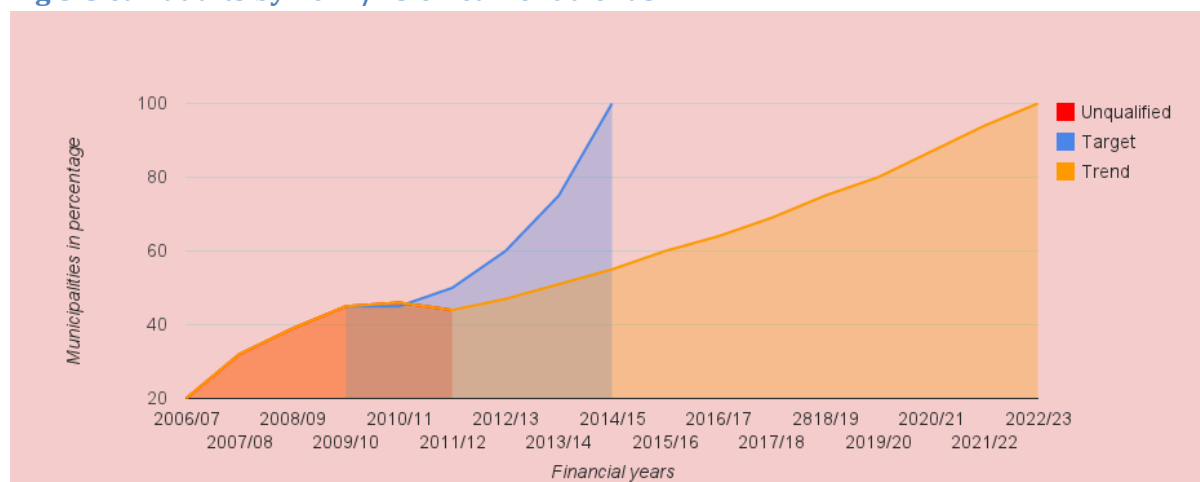
Source: Calculated from Auditor-General's reports 2006/07-2011/12

### On current trends, the 2014 clean audit target will only be reached in 2022/23

As shown by the blue line in Figure 3 below, OCA 2014 aimed to achieve unqualified audits incrementally in all municipalities by 2014. Interim targets were set for each financial year leading to 2014/15. Targets of 60 percent in 2011/12, 75 percent in 2012/13, and 100 percent in 2013/14 were set in COGTA operational documents. As the brown line in Figure 3 shows, however, if the percentage of municipalities with unqualified reports continues to increase at the average rate (6 %) as in the past six years, the target of 100% unqualified audits will only be achieved around 2022/23. Two inferences can be drawn from this data. First, the 2014 policy target exceeded the actual rate of improvement, and was thus unrealistic to begin with. Second, the target was never recalibrated according to the actual trends in the audit data, indeed

the target remained fixed regardless of the actual audit results, and consequently failure was built into the OCA policy.

**Fig 3 Clean audits by 2022/23 on current trends**



Source: Calculated from Auditor-General’s reports 2006/07-2011/12

### Learning lessons from OCA 2014

As the data shows OCA 2014 failed as a national policy. The objectives of OCA 2014 overreached what could realistically be achieved based on the data and means available to national policy-makers at the time. And those objectives were never adjusted to factual circumstances as those changed between 2009 and the present. This happened because of four specific miscalculations, the result of which was a policy intervention that was flawed in both design and implementation. Policy-making is a complex practice and miscalculations of this kind are common. Being watchful for them is perhaps the most important lesson to come out of this experience.

### COGTA’s objectives and targets assumed adequate information about actual state of municipalities

The first miscalculation was COGTA’s initial assumption that it had adequate information about the actual conditions in municipalities upon which a broad multi-year national turnaround intervention could be based. The problem for COGTA was that it simply could not know what specific factors were behind poor financial management in every municipality and provincial department in the country. It could not know therefore whether all municipalities and provinces were actually in a

position to achieve a clean audit by the target date. There was asymmetry between the information COGTA had at its disposal, upon which OCA 2014 was based, and the real conditions on the ground.

Indeed the AG reports quoted by Minister Shiceka in his budget speech, which at that stage were the best indication of the actual state of provincial and municipal capacity, counselled that any hope of turning around the situation in just five years was misplaced. The pattern of poor audit outcomes that Minister Shiceka took to be a symptom of municipal distress necessitating national intervention was also the obstacle standing in the way of municipalities achieving the OCA 2014 targets. The facts showed that there was systematic mismanagement in local government, and that going on the trends in the quality of audit outcomes it would take much longer than five years to achieve universal clean audits. There was thus a very low probability that the poor quality of financial management evident in most of the municipalities in the country could be turned around in five years simply because the Minister had set a target for clean audits in five years.

If the factual basis for applying these particular OCA 2014 targets to local government was thin there was no factual basis at all for believing that the targets could be extended to provincial departments without further increasing the difficulty of an already demanding task by an order of magnitude that would defeat the intervention in detail.

### **The targets were rigid and never adjusted to changing circumstances**

**From the start there was no correlation between the targets and the actual audit results.** COGTA's approach was to set fixed percentage targets for clean audits for each year leading to the 100 percent target in 2014. The targets thus established the annual and overall rate of improvement that would be required between the 2009/10 and 2014/15 financial years if the target was to be met. That created a second problem. If these initial targets remained fixed, if they were not recalibrated according to the actual audit outcomes in the annual AG reports, a gap between the intended and actual rates of improvement would open almost immediately. And that is exactly what the data shows happened. The targets were never recalculated according to the actual results. They remained fixed regardless of the actual results.

A gap opened between the policy targets and the actual results from the start, and it widened every year. In effect, that gap rendered the targets arbitrary. By not recalibrating the targets, the OCA 2014 could only measure the increasing probability of not meeting the targets, and thus the extent of its failure as a policy.

This situation need not have arisen. There was always sufficient information available to COGTA for it to adjust the OCA 2014 targets to the facts, to set more realistic objectives for the programme. The lesson here is that straightforward, robust examination of the facts, leading to constant adjustments to one's strategy in light of those facts, lies at the heart of evidence-based policy-making, and is ultimately the best insurance against hubris and folly.

### **COGTA did not control the levers for change to make OCA work**

**The third miscalculation was that COGTA assumed it could prescribe the full range of activities necessary to implement the OCA.** All of the operational plans for OCA 2014 contained lists of required activities for implementing the intervention. The problem for COGTA was that it had no direct and effective control over municipalities and provincial departments, and therefore no way to exert influence on the political and managerial operations that determined the quality of audit outcomes. Without any direct influence COGTA had to rely on persuasion. But without direct control over the levers of change COGTA was also never in a position to deliver on the OCA 2014 targets.

Indeed, the entire field of financial management in municipalities and provincial departments largely falls outside the scope of COGTA's own legislative mandate. It is the National Treasury that administers the legislation that governs public finance management in provincial and local governments, the audit process, and the functions of the Auditor-General. It should be emphasized, however, that even if the field of financial management was fully under COGTA's jurisdiction, supervision of "distinct" organs of state in the provincial and local spheres is inherently difficult. While the National Treasury may have more leverage over the levers with which to enforce compliance with audit standards, it too is faced with runaway municipalities and maverick provincial departments. If direct control over the levers of change is

necessary for policy reform, complex systems are never perfectly under the agency and control of national organs.

The fact remains that COGTA did not control the key municipal and provincial operations affecting audit outcomes or the legislation through which standards of financial management are enforced, and therefore it had to rely on inducing change across the entire system of government through coordination and steering efforts. This fact explains why activities related to supporting, monitoring, and coordinating were the dominant activities associated with implementing OCA 2014, in the operational documents. Even if these kinds of activities were necessary to the implementation of OCA 2014 they nonetheless represented forms of persuasive authority only, not direct authority, and were insufficient to achieve the targets. There was, in other words, no direct correlation between the targets and the activities that were prescribed to achieve them.

### **No sanction for failing to meet the OCA targets**

A fourth miscalculation was that nothing turned on municipalities and provincial departments not meeting the targets. The 2011 ADF target came and went without much notice. Indeed, there has been no mention of OCA 2014 in government communiques for many months. No sanction for failing to meet the targets was prescribed in the operational documents. The obvious sanction would have been section 139 of the Constitution, which requires provincial or national government to intervene in cases of persistent financial mismanagement. None of the operational documents made reference to the section 139 intervention powers. One possible enforcement measure would have been the planned inspectorate. But no such office has yet been created, nor does it seem that there are plans in the pipeline to do so. Without a sanction, COGTA had no means of enforcing compliance with the OCA 2014 targets.

### **Conclusion**

OCA 2014 was an ill-conceived intervention that from the outset had little chance of success. It is a case study of both the complexity that is inherent in designing and implementing national policy within a system of intergovernmental relations and the

consequences of not making policy on the basis of a thorough engagement with facts and available data.

There was simply no correlation between the targets that were set for OCA 2014 and the actual condition of municipalities and provincial departments. There was no factual basis for believing the targets could be met by municipalities, none for extending them to all provincial departments, and the targets were never adjusted to the actual results, as these became apparent. As a result there was always a gap between the targets and reality, which in time made the targets abstract.

COGTA introduced a policy it could not implement. Matters relating to financial management largely fell outside of its legislative mandate. It had no direct control over the political and managerial functions of municipalities and provincial departments. Without controlling the levers of change, COGTA had to rely on persuasion and indirect implementation. But focusing on improving coordination, support, and monitoring, areas that were to some extent within its functional control, was never enough to deliver the OCA 2014 targets. COGTA also lacked any means to enforce compliance. It wielded no sanction in the event that the targets were missed.

The most important lesson that emerges from this experience is that policy reforms with objectives such as OCA 2014 should be based on facts, not good intentions, and a clear sightedness about the limitations of information and control that are inherent to national policy-making in a complex state. Had COGTA merely utilized the data at its disposal more effectively it would have been in a position to adjust its strategy to changing circumstances, and perhaps claim smaller victories in 2014. Instead, COGTA stuck to the fixed targets regardless of changing circumstances, and in so doing set up OCA 2014 for failure.



## ABOUT THE AUTHORS



Derek Powell is the head of MLGI. He is a former Deputy Director-General in the SA government, where he served in senior positions from 1996 to 2009. His research focuses on issues of governance at the intersection of the law, the state, and development, particularly in fragile and conflict-affected countries, and the use of statistical analysis for evidence-based institutional reform.



Michael O'Donovan is an independent researcher with extensive experience in the field of applied social research in South Africa. His field of study encompasses a range of key socio-economic issues including: Crime and the criminal justice system, Service delivery, Voter behavior and Political trends. The binding theme of the topics is the use of large databases reflecting social and economic conditions and the need to present statistical results to an audience uncomfortable with quantitative methods.



Zemelak Ayele is a National Research Fund (NRF) Post-doctoral researcher in MLGI under the South African Research Chair (SARCHI) in Multilevel Government, Law and Policy. His researches focus on local governance, development and management of ethnic diversity.



Tinashe Carlton Chigwata is a doctoral researcher with the Multilevel Government Initiative of the Community Law Centre. He is interested in the development of resilient states that are capable of realising development, democracy and sustainable peace through responsive multilevel systems of government.

The Multilevel Government Initiative of the Community Law Centre based at the University of the Western Cape's Law Faculty, is a multi-disciplinary applied research project focusing on problems of governance at the intersection of Law, the State and Development. The MLGI is a research partnership with the South African Research Chair (SARCHI) in Multi-Level Government Law and Policy. Funding for the research was provided by the Ford Foundation and The Charles Stewart Mott Foundation.

