

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1683 [NW2073E]

1683. Mr C Brink (DA) to ask the Minister of Finance:

With reference to his reply to question 56 on 2 July 2020, (a) which municipalities are not budgeting, transacting and reporting directly on their core financial systems, but instead are working on Excel spread sheets as referred to in paragraph 2(b)(i) of the reply, (b) what are reasons that each specified municipality has given for the failure to use the core financial systems and (c) which municipalities have persistently not complied with the Municipal Regulations on Standard Chart of Accounts as mentioned in paragraph (2) of the reply?

NW2073E

REPLY:

- (a) The National and Provincial Treasuries have conducted a module use verification in October and November 2019 to assess if municipalities are using the IDP, budget, billing and receipts, general ledger, SCM, asset management and inventory, payroll, debtors, creditors and reporting modules available in their core financial systems. The findings were that most municipalities have access to these modules on the core financial system or via 3rd party sub-systems. Despite this finding, a number of municipalities are still budgeting, transacting and reporting outside of the core systems in excel spreadsheets and then capture the information on the system at a later stage. Municipalities do not openly admit to these poor practices, but it is evident when the financial performance reported to Council differ from the information that is submitted to National and Provincial Treasuries and the high levels of unauthorized expenditure reported by the Auditor-General (when budgeting, transacting and reporting are done outside of the system and captured at a later stage, the built-in controls in the core system to prevent unauthorised expenditure are not triggered).
- (b) The reasons why municipalities are not fully using their core financial systems include:
- Lack in capacity of municipal officials to use the financial system, use the *mSCOA* chart correctly, apply basic accounting principles and do balance sheet budgeting.
 - Unwillingness of municipalities to lock the budget on the system before transactions take place and to properly close off month-end processes as changes cannot be made to the figures on the system once the budget and month-end has been locked.
 - Resistance to change previous financial management practices and adopt *mSCOA* and its transparency.
 - Deliberate circumvention of the internal controls built-in on the systems to dodge unauthorised expenditure and commit acts of fraud and corruption.

- Budgetary constraints to upgrade and maintain the ICT environment (servers, hardware, software, updated modules and versions of the system, and licenses).
- Connectivity problems at rural municipalities impact on the use of web-based systems and the submission of data strings to the Local Government upload portal.
- The level of customisation in the system functionality required by Metros and large secondary cities delay system development.
- Some municipalities are dependent on the system vendors and do not take ownership of their system/the data captured on it.
- Some municipalities do not perform the responsibilities required from them (i.e. data cleansing, user testing, transaction capturing, etc.) when migrating to a new system, resulting in delays to implement the core system.
- Non-payment of system vendors due to contractual disagreements result in vendors suspending support.

(c) In terms of MFMA Circular No 98 that was issued on 6 December 2019, municipalities are required to submit a roadmap to the National and respective provincial treasury to indicate how the municipality will become *m*SCOA compliant if the minimum level of *m*SCOA implementation has not been achieved as yet. The following municipalities have persistently not complied with *m*SCOA for the reasons stated:

Eastern Cape:

- Nelson Mandela Bay Metro: In-house system is not *m*SCOA enabling and requires additional development. A road map has been submitted to the National Treasury.
- Amathole Municipality: Huge investments were made to purchase a *m*SCOA enabling system but the previous implementing agent of the financial system did not conclude the development work, citing a lack of cooperation from the municipality to conclude user testing when required as the reason for not being able to conclude the work. The municipality has taken legal action against the previous implementing agent and appointed a new agent. A road map has not been submitted to the Provincial Treasury.

Free State:

- Kopanong Municipality: Due to server and connectivity challenges the legacy system (FMS) which is not *m*SCOA enabling is being used.
- Mafube Municipality: Due to budgetary constraints the municipality has server challenges and cannot migrate to EMS version of the system.
- Mohokare Municipality: Due to non-payment of the system vendor, the support to the system is suspended at times and this impacts on reporting.
- Nala Municipality is highly dependent on the system vendor to such an extent that the vendor and not officials are capturing the information on the system.
- Tokologo Municipality is highly dependent on the system vendor to operate the system and as a result officials revert to using the legacy system (FMS) which are not *m*SCOA enabling.

No road maps have been submitted by any of the Free State non-complying municipalities and the Provincial Treasury is following up on this.

Gauteng:

- City of Johannesburg: Due to the required level of customisation, the system development has not been concluded as yet.
- City of Tshwane: Due to required level of customisation, the system development has not been concluded as yet.

Road maps have been submitted to the National Treasury.

KwaZulu-Natal:

- Msunduzi Municipality: Huge investments were made to purchase a *mSCOA* enabling system but the previous implementing agent of the financial system did not conclude the development work. The municipality has taken legal action against the previous implementing agent and appointed a new agent. A road map has not been submitted to the National Treasury. Legal action is being taken against the vendor.
- uPhongolo Municipality: Changed their financial system due to contractual disagreements and currently in process of migrating to a new system. A road map will be submitted to the Provincial Treasury once a system vendor has been appointed.

Limpopo:

- Lepelle-Nkumpi Municipality: Changed their financial system due to contractual disagreements and currently in process of migrating to a new system. A road map has been submitted to the Provincial Treasury.

Mpumalanga:

- Gert Sibande and Pixley Ka Seme Municipalities both lack internal capacity and are dependent on the system vendor to assist them to upload the data strings. No roadmaps have been submitted to the provincial treasury.

North West:

- Rustenburg, Ditsobotla, Dr Ruth Segomotsi Mompati, and Greater Taung Municipalities all changed their systems and are still busy with the migration to the new system, which impacts on reporting and credibility of information.
- Mamusa – political and administration leadership challenges (municipality was recently dissolved and went to had a by-election and the CFO and MM are both suspended) and a lack of capacity in finance department impact on the implementation of *mSCOA*.
- Ngaka Modiri Molema Municipality is highly dependent on the system vendor to such an extent that the vendor and not officials are capturing the information on the system and generating the data strings.

No road maps have been submitted by any of the North West non-complying municipalities and the Provincial Treasury is following up on this.

Northern Cape:

- Richtersveld Municipality: Due to capacity constraints, a lack of knowledge on *mSCOA* and their own financial system, the budget and reports are prepared out of the system and then given to the system vendor to import on the system.
- David Kuiper Municipality: Due to system related challenges and a lack of knowledge on *mSCOA* and their own system, the municipality has decided to change to another system and is busy with the Section 33 process in this regard.

No road maps have been submitted by these non-complying municipalities.