

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1689 [NW2079E]

1689. Mrs G Opperman (DA) to ask the Minister of Finance:

- (1) What measures has the National Treasury put in place to assist municipalities to curb irregular expenditure, which amounted to almost half of the appropriation received by local government in the 2018-19 municipal financial year;
- (2) whether he has found that the high amounts of irregular expenditure incurred by municipalities was as a result of (a) capacity problems and/or (b) a general disregard of internal controls?

NW2079E

REPLY:

- (1) The Honourable member to note that the numbers quoted also contain historical amounts that have not been dealt with effectively by Municipal Councils as prescribed. The irregular expenditure for the 2018/19 financial year was R21.5 billion and is concerning. Our analysis points to the main cause for irregular expenditure being non-compliance with Supply Chain Management (SCM) processes and procedures. The National Treasury has issued MFMA Circular 81, which introduced the Central Suppliers Database that requires all suppliers to be registered on the database. The database interfaces with the South African Revenue Services, the Companies and Intellectual Property Commission and government's payroll system. The system verifies supplier's tax and BEE status, and enable public sector officials doing business with the state to be identified. Thus, if used correctly, these proactive measures will contribute to the reduction of incidences of irregular expenditure.

Moreover, the National Treasury in conjunction with the Department of Cooperative Governance developed the Municipal Public Accounts Committee (MPAC) Guideline and Toolkit which aim is to amongst others, assist MPACs to perform their oversight responsibilities in relation to irregular expenditure and make appropriate recommendations to the municipal council for resolution either to write-off or recover such expenditure, based on investigations.

This guide was supported by MFMA Circular 92 which assists in effective functioning and decision-making by councillors serving on MPAC. This will assist municipalities to correctly address the irregular expenditure consistent with section 32 of the MFMA. In addition to this, the National Treasury also issued MFMA Circular 68 which further seeks to guide MPACs on the procedural aspect in relation to processing irregular expenditure.

- (2) (a) It has become apparent that some municipalities did not have the appropriate capacity, process or procedures to attend to the requirement as regulated. Some did not properly constitute its bid adjudication committee (BAC) as required in terms of regulation 29 of the Municipal SCM Regulations, which contributed to the root causes, besides internal control weaknesses. In other instances, municipalities' organisational structures were not appropriately established. After considerable engagements, a ministerial exemption was granted to municipalities that allowed for the co-opting of officials from neighbouring municipalities to assist with the composition of the BAC. This measure will contribute to reducing the irregular expenditure in the coming financial years.

In recognising the capacity challenges, the National Treasury is currently finalising a project on the standard operating procedures for SCM which will provide step-by-step assistance to SCM officials to perform recurring activities through execution of specific tasks.

- (b) The National Treasury and provincial treasuries will continue to support and capacitate municipalities in improving its internal control measures; however, it is the responsibility of municipalities to prevent and thus curb irregular expenditure by implementing corrective actions.