

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 56 [NW60E]
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56. Mr C Brink (DA) to ask the Minister of Finance:

- (1) Whether, with reference to the presentation made to the Standing Committee on Public Accounts on 3 December 2019, he has found that section 71 of the Municipal Financial Management Act, Act 56 of 2003, reports produced by some municipalities are inaccurate, be they overstated or understated;
- (2) (a) which municipalities have in the past six months produced section 71 reports that are inaccurate and (b) what is the (i) nature and (ii) extent of the inaccuracy in each case;
- (3) what correspondence has National Treasury, alone or in conjunction with other departments, had with the specified municipalities in respect of inaccurate section 71 reports?

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REPLY:

- (1) Yes, reporting through the section 71 reports have been inconsistent in the last months. There have been cases of overstatement and sometimes understatements but the former more prevalent. The newly regulated (1 July 2017) Municipal Standard Chart of Account (*mSCOA*) requires that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six *mSCOA* regulated segments. This is the first municipal financial year that the section 71 report is compiled by using the figures from the *mSCOA* data strings. Previously (prior to 01 July 2019) the National Treasury allowed parallel reporting and used data from return forms that was submitted to the Local Government Database to prepare the section 71 reports. The introduction of the *mSCOA* is intended to improve reporting to a substantially accurate level in the future, however, most municipalities are still getting used to the *mSCOA* requirement, therefore, inconsistencies in the current reporting are observed. Municipalities are making an effort to submit credible section 71 reports.
- (2)(a) In as far as the submission of credible data is concerned, the defaulting municipalities differ from month-to-month.
- (2)(b)(i) At the core (nature) of the problem is:
 - The incorrect use of the *mSCOA* chart and municipal accounting practices by municipal officials;

- Municipalities are not locking their adopted budgets or their financial systems at month-end to ensure prudent financial management;
- Poor or no ICT upgrades (servers, hardware and software) and maintenance, resulting in the ICT environment not being able to cope with the modern technology required to implement *mSCOA*; and
- Some municipalities are still not budgeting, transacting and reporting directly in or from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheets and then import the excel spreadsheets into the system. Often this manipulation of data lead to unauthorised, irregular, fruitful and wasteful (UIFW) expenditure as well as fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions go through that should not.

(2)(b)(ii) Before each quarterly Section 71 publication, the municipalities receive their submitted financial figures in the publication report format and are asked to verify the accuracy of the financial data. They are given 5 days to make any corrections. Publication reports are re-issued until the municipality is satisfied. The accuracy of section 71 information is then signed off by the respective Municipal Manager and Chief Financial Officer.

As the National Treasury has no access to municipal financial systems, inaccuracy of submissions compared to the figures carried within the financial systems cannot be determined. The signatures of the Municipal Manager and Chief Financial Officer indicate to the National Treasury that the municipality agrees with the representation of their figures in the Section 71 publication.

(3) The improvement of the credibility of the data strings is a priority for National and Provincial Treasuries and is analysed monthly upon successful submission of the data strings. The findings of the analysis are shared by the National and provincial treasuries with the respective municipalities. Municipalities are required to correct any errors in the data strings in the next month and non-compliance letters are sent to those municipalities that are persistently not complying with the *mSCOA* Regulations. Technical assistance to correct errors and training are also provided to ensure that municipalities submit credible information.