

NATIONAL ASSEMBLY
QUESTION FOR ORAL REPLY
QUESTION NUMBER: 203 [NO1685E]
DATE OF PUBLICATION: 9 SEPTEMBER 2014

★203. Mr N F Shivambu (EFF) to ask the Minister of Finance:

In view of the fact that Chapter 13 of the Constitution of the Republic of South Africa, 1996, mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public funds and that most municipalities across the country continue to receive qualified audits, are there any monitoring mechanisms by the National Treasury for the implementation of municipal budgets; if not, why not; if so, what are the relevant details of the monitoring mechanisms?

NO1684E

REPLY:

The National Treasury is currently implementing the Municipal Budget and Reporting Regulations (Government Gazette 32141, 17 April 2009), read together with the MFMA Budget Formats Guide (January 2014) which applies to all municipalities. These regulations provide the prescribed format and content required for the compilation of municipal budgets. Together with the Provincial Treasuries, the National Treasury embarks annually on the Municipal Budget and Benchmarking Engagements in respect of the tabled Medium-term Revenue and Expenditure Framework (MTREF) and the outcome of the analysis determines the extent to which the tabled budgets were credible, sustainable, funded and relevant to the municipalities' strategic priorities over the medium term.

During the year, National Treasury publishes local government's revenue and expenditure as well as spending on conditional grants on quarterly basis. This report is part of the In-Year Management, Monitoring and Reporting System for Local Government (IYM) which enables provincial and national government to exercise oversight over municipalities, and identify possible problems in implementing municipal budgets and conditional grants. In-Year reporting is now well institutionalised with most municipalities consistently producing quarterly financial reports. The reporting facilitates transparency, better in-year management as well as the oversight of budgets, making these reports management tools.

There has been a slight improvement in the audit findings over the years and the National Treasury together with other stakeholders like Office of the Auditor-General, Department of Cooperative Governance and Traditional Affairs, South African Local Government Association (SALGA) and municipalities themselves will continue to address shortcomings and improve the current situation. In terms of the 2012/13 audit outcomes, the Office of the Auditor-General identified the following key areas of which needed immediate attention:

| Identified area | National Treasury's response |
|-----------------------------------|--|
| 1. Supply Chain Management | Statutory and regulatory requirements exist to prevent the abuse of the supply chain management by government officials and any other role player. However, the challenge is the non-compliance with these statutory and regulatory requirements by accounting officers and authorities. Accounting officers and accounting authorities have an obligation to put measures in place to prevent the abuse of the supply chain management system. National Treasury is conducting ongoing monitoring to ensure that government institutions are implementing measures to prevent the abuse of the supply chain management system. Remedial actions include subjecting the affected officials to disciplinary hearings, termination of contracts, claiming of damages and restricting suppliers from doing business with government. Effective implementations of remedial actions may serve as deterrence and prevent others from undertaking similar actions. |
| 2. Quality of performance reports | The National Treasury undertakes annual mid-year review performance visit of the 17 non delegated municipalities. The objective of these engagements is to independently and objectively analyse and assess the half yearly performance by the municipalities with the implementation of their adopted budgets prior to them undertaken adjustments to their MTREF budgets. The Provincial Treasury takes care of the delegated municipalities. Furthermore National Treasury has introduced performance reporting and the objective of this initiative is to measure and monitor non-financial performance of the municipalities |
| 3. Human resources management | The Municipal Regulations on Minimum Competency Levels, Gazette 29967 of June 2007 have been issued with a 5½ year implementation plan lapsing on 1 January 2013. The same regulations have been formally extended through an Exemption Notice, Gazette of 15 March 2014 with a deadline of 30 September 2015 for full compliance. These regulations are meant to strengthen professionalisation and institutionalization of good HR practices of recruitment, retention, training and development across all municipalities and municipal entities. A finance graduate recruitment programme has now been institutionalised across municipalities also funded through the Division of Revenue Act, Financial Management Grants Framework conditions. This is meant to build skilled capacity by utilizing previously unemployed graduates in Accounting, Economics, Internal Auditing and Finance. The graduates are trained over 24 to 36 months and retained at the end of the training period. |

| Identified area | National Treasury's response |
|------------------------------------|--|
| 4. Information technology controls | The National Treasury is currently embarking on a project called Business processes and system specifications – The objective of this initiative is to provide for a blue print for a unified system solution for local government incorporating leading business processes; |
| 5. Financial Health | <p>The key issues related to the financial health and sustainability of the municipalities is revenue management. National Treasury is undertaking pilot projects with identified municipalities with focus on</p> <p>(i) Revenue value chain – The objective of this initiative is to improve on the ability of municipalities to generate their own revenue; and</p> <p>(ii) Costing and tariff setting – The objective of this initiative is to improve on the ability of municipalities to effectively cost services and subsequently compile appropriate tariffs for the main trading services being water, electricity, sanitation and refuse removal.</p> |

The national and provincial treasuries, working together with Departments of Cooperative Government and SALGA, convene regional Chief Financial Officer (CFO) forums that are represented by municipal CFOs to monitor and address financial management implementation reforms and challenges. There is a range of financial management disciplines addressed during these sessions, including budgeting, reporting, audit findings, interpretation of standards and policies.