

**NATIONAL COUNCIL OF PROVINCES**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 849 [CW960E]**

**849. Mr D R Ryder (Gauteng: DA) to ask the Minister of Finance:**

(1) What is the deadline for compliance with the municipal Standard Chart of Accounts (mSCOA);

(2) whether all municipalities have successfully implemented the mSCOA; if not, (a) which municipalities have yet to implement it, (b) what is being done to ensure compliance and (c) when will all municipalities be compliant; if so, what are the relevant details?

CW960E

**REPLY:**

- 1) The *mSCOA* Regulations, which prescribes the standard recording and classification of municipal financial information, became effective from 1 July 2017. In terms of *mSCOA*, municipalities must submit the reports required in terms of the Municipal Budget and Reporting Regulations (MBRR) in the form of a *mSCOA* data string (which constitutes the standard classification framework). The reporting timeframes of the MBRR applies. Amendments required to the *mSCOA* chart as a result of new legislations, Regulations and GRAP standards are issued once a year between October and December and municipalities and their system vendors must effect the chart changes by the new financial year in the following year.
- 2) All municipalities have implemented *mSCOA* but the level of implementation differs. Ninety-five per cent of the budget and section 71 data strings are being submitted, but the credibility of the data strings need further attention. 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). 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.
- Municipalities are dependent on the system vendors and do not take ownership of their system/the data captured on it.
- 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.

The COVID-19 pandemic that resulted in municipal officials working from home has also impacted on *mSCOA* reporting as some officials did not have access to the municipal financial system from home or experienced connectivity challenges.

(a) All municipalities have implemented the *mSCOA* Regulations by now. However, the following municipalities are persistently experiencing *mSCOA* related implementation challenges for the reasons stated below:

Eastern Cape:

- Nelson Mandela Bay Metro: In-house system is not *mSCOA* enabling and requires additional development. A road map has been submitted to the National Treasury.
- Amathole 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, 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 budget constraints the municipality has not upgraded their IC hardware to enable them to upgrade to an integrated system solution.

Consequently, the credibility of the data strings submitted from the legacy system is poor.

- Mafube Municipality: Due to budgetary constraints the municipality has not migrated to EMS version of the system solution. Consequently, the credibility of the data strings submitted from the legacy system is poor.
- Mohokare Municipality: The municipality is not transacting in the financial system and therefore the capturing of transactions on the system is often delayed and data strings are submitted after the legislated time frames. Furthermore, 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.
- Phumelela Municipality did not budget according to the *mSCOA* chart despite the recommendations by the provincial treasury in the previous year and data strings are not submitted within the MBRR timeframes.
- Mantsopa Municipality: Due to governance issues and unresolved issues between the system vendor and the municipality, the municipality is not submitting data strings.
- Masilonyana Municipality: Despite interventions by the provincial treasury and the system vendor for the past three years, the credibility of the data strings submitted are poor.

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 customization in the financial system to accommodate all the business processes of this large Metro, the system development has not been concluded as yet.
- City of Tshwane: Due to the required level of customization in the financial system to accommodate all the business processes of this large Metro, 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.
- 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.

North West:

- 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 the municipality has decided to change to another system and will migrate to a new financial system from 01 July 2021.
- Kai Gariep and Tsantsabane Municipalities are not complying with the legislative timeframes for reporting due to a lack of internal control in the Budget and Treasury Office.
- Siyathemba Municipality has not being complying with the legislated reporting requirements since November 2019 due disputes with their system vender that are not managed properly (no consequent management is applied).

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

(b) Compliance with the submission of data strings as per the timeframes of the MBRR are monitored by the National and Provincial Treasuries. Technical support is provided by the respective treasuries to resolve submission challenges. The respective treasuries are also analysing the credibility of the data strings that were submitted and the required corrections are communicated to municipalities. Municipalities that are persistently non-compliant in terms of the submission and the corrections of data strings errors are issued with non-compliance letters and treasuries are also meeting with them and their system vendors to resolve these issues. Also, in terms of MFMA Circular No 98 that was issued on 6 December 2019, municipalities are required to submit a detailed action plan/roadmap to the National and respective provincial treasury to indicate how the municipality will be become *mSCOA* compliant if the minimum level of *mSCOA* implementation has not been achieved as yet.

(c) As indicated above, all municipalities have implemented *m*SCOA but the level of implementation differs. The timeframes provided in the action plans/road maps of the persistently non-complying municipalities also differs depending on the complexity and financial maturity of the organization. It should also be noted that compliance with *m*SCOA cannot be restricted to a specific date in the future as *m*SCOA chart version changes are linked to new developments (legislation, Regulations and GRAP standard changes) in the local government reform agenda which happens on a continuous basis.