

## 2.16 Implementation of the Municipal Regulations on Standard Chart of Accounts (mSCOA)

### Implementation of the Municipal Regulations on Standard Chart of Accounts (mSCOA)

The Minister of Finance promulgated Government Gazette No. 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), on 22 April 2014. All municipalities and related municipal entities were required to transact in compliance with the mSCOA Regulations from 01 July 2017.

Provincial Treasury continued with the implementation of mSCOA in the province during the first quarter of the municipal financial year by means of providing onsite support and engagements with municipalities and municipal entities.

### A Schedule Validation of the Council Approved Draft Budget to the mSCOA Tabled Budget data submission (2019/2020)

Circular No. 93 of the MFMA highlighted that “It is imperative that all municipalities *prepare their 2019/20 MTREF budgets in their financial systems and that the Schedule A1 be produced directly* from their financial system. Vendors have recently demonstrated their budget modules to the National Treasury and provincial treasuries. All financial systems have this functionality to assist and prepare budgets and to generate the prescribed Schedule A1 directly from the financial system. Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module provided and must ensure that they produce their Schedule A1 directly out of the budget module”.

Further to this, **Circular No. 94 indicated that from 2019/20 onwards**, municipalities will **no longer be required to continue with the use of the Budget Reform Returns** to upload budget and monthly expenditure to the National Treasury Local Government Database for publication purposes. National Treasury will use only the mSCOA data strings required for submission as prescribed and all publications will use the data collected from the mSCOA data strings.

On 15 August 2019, National Treasury issued further communication indicating that the Council approved budget must agree to the electronic form and the mSCOA data strings. If the mSCOA data strings do not reconcile to the legally binding Council approved budget, municipalities are requested to abide by the following:

- No Changes may be made to the Council approved budget. Changes may only be executed in terms of Section 28 of the MFMA (Adjustment Budget process);
- Changes may be made to the mSCOA data strings or electronic document depending on what the changes are. Changes may not be made to the project, function and funding segments. Changes to these segments may only be made in the Adjustment Budget; and
- The submission of the adopted budgeted mSCOA data string (ORGB) will be evaluated for the correct format (Stage 1) and posting levels as well as the 16-point segment validation testing (Stage 2).

National Treasury intends publishing the two supplementary schedules indicated below which will be submitted to Parliament and the Auditor-General of South Africa:

- All municipalities that have not submitted a complete set of 2019/2020 MTREF budget information; and
- All municipalities where the A1 Schedule adopted by Council did not reconcile to the electronic Schedule A1 submitted and/or the data string (ORGB) submitted.

Based on the reconciliations that were prepared in the last quarter, the uPhongolo Local Municipality did not submit the adopted budget mSCOA data string (ORGB) and there were only 8 municipalities where Tables A2, A4 and A5 reconciled to the mSCOA data strings. These are listed in Table 17 below:

**Table 17: Status of submission of data file or string for the 2019/20 Approved Budget**

No	Name	A2	A4	A5
1	King Cetshwayo	Yes	Yes	Yes
2	uMdoni	Yes	Yes	Yes
3	Ray Nkonyeni	Yes	Yes	Yes
4	uMngeni	Yes	Yes	Yes
5	Alfred Duma	Yes	Yes	Yes
6	Ndwedwe	Yes	Yes	Yes
7	uMzimkhulu	Yes	Yes	Yes
8	Dr. Nkosazana Dlamini Zuma	Yes	Yes	Yes

Source: KwaZulu-Natal Provincial Treasury Reporting

The Zululand District Municipality was the only municipality that reconciled Table A6 between the Council approved budget and mSCOA data string and there were no municipalities that reconciled Table A7 within the province. All errors were referred to the municipalities for correction. The deadline for submission of the corrected information was 30 September 2019. As at 30 September 2019, there were no municipalities that submitted revised mSCOA data strings. Municipalities will therefore only be able to correct the mSCOA data string through the Adjustments Budget process. Formal communication in this regard was received from the following municipalities:

- iMpendle Local Municipality;
- iLembe District Municipality;
- Ndwedwe Local Municipality; and
- Maphumulo Local Municipality

As at 30 June 2019, the eThekweni Metro, the Msunduzi, Mpofana and uPhongolo Local Municipalities had not submitted or submitted with errors the ORGB mSCOA data strings. The Project Details Original Budget (PROR) was also required to be submitted. During quarter 1 of 2019/2020 financial year, three of the four municipalities corrected their non-compliance. Furthermore, the Mpofana Local Municipality submitted the PROR. The eThekweni Metro and the Msunduzi Local Municipality remained outstanding. Table 18 lists the municipalities that submitted the ORGB and PROR data strings late.

**Table 18: Late submission of ORGB data strings**

No	Name	Date submitted the ORGB datastring	PROR
1	Mpofana	10/07/2019	Yes
2	Msunduzi	29/07/2019	No
3	eThekwini	30/06/2019	No

Source: KwaZulu-Natal Provincial Treasury

With regards to the Stage 2 validation, both the eThekwini Metro and the Msunduzi Local Municipality contained segment errors on the ORGB data string submission. The segment error was as a result of the following errors:

- The eThekwini Metro's Trial Balance did not balance; and
- The Msunduzi Local Municipality incorrectly linked project default to Item expenditure and Item assets. Expenditure can only have Project capital or Project operational. The Cost of free basic services was incorrectly linked to Item current assets instead of Revenue or Expenditure.

Based on the all ORGB and PROR submissions received, Provincial Treasury conducted an analysis of the use of segments beyond the 16-point validation of the portal. The analysis was completed by the end of July 2019 for all delegated municipalities and feedback was provided to municipalities for correction either through the virement processes or through the Adjustments Budget depending on which segment contained the errors. Common findings across the municipalities included the following:

- The incorrect use of the Region segment;
- The function selection between core and non-core was not aligned to the municipality's mandate;
- The funding source was not balanced and in addition was linked to incorrect sources of funding;
- The revenue source and funding source did not match;
- Accounting for the funding sources through the business process from initiation to end was not consistent. The double entry principle of accounting was not applied; and
- Costing, which is applicable to all municipalities providing services such as water, electricity, waste management, and waste water management, was not been applied by municipalities with the exception of eThekwini Metro.
- With regards to the Item segment:
  - Municipalities provided for transactions on the opening balance of Globally Unique Identifiers (GUIDs);
  - Transactions did not reflect the business process flow. This was evident as there were no liabilities, debtors and/or VAT raised on transactions;
  - There was no double entry principle applied by some municipalities including proper movement accounting;
  - The item and project and/or funding segment did not align (over and above the 16 standard validation rules);
  - No elimination of intercompany transactions on consolidation;

- District Municipalities did not account for water as inventory; and
- Conditional grant accounting was not correctly accounted for.
- With regards to the Project segment:
  - The Item and Project segment did not align (over and above the 16 standard validation rules);
  - Project capital segment description did not agree to the item segment description for assets;
  - There were no Cost of free basic services, Property rebates and Revenue Cost of free basic services used in certain instances;
  - Items such as Travel and subsistence and Catering incorrectly linked to Municipal running costs;
  - Maintenance costs were incorrectly linked to Municipal running costs instead of Project maintenance; and
  - Project segment incorrectly aligned between strategic initiatives and operational costs to running the municipality.

### Reporting in terms of Section 71 of the MFMA for the 2018/19 financial year

The Accounting Officer of a municipality is required to, by no later than 10 working days after the end of each month, submit to the mayor of the municipality and the relevant Provincial Treasury in the prescribed format the statutory monthly reporting for the municipality, which includes the electronic monthly mSCOA transactional information submissions and the year to date submissions, including M12.

#### Stage 1 Validation: Submission of Monthly Data strings:

With regards to Stage 1 Validation, municipalities must have submitted the file in the correct format within the required reporting time of 10 days after month end. For the period of 01 July 2018 to 30 June 2019, the list of municipalities as detailed in Table 19 did not submit the required mSCOA data strings or submitted the data strings with errors.

**Table 19: List of municipalities with cumulative outstanding returns for the 2018/19 financial year**

No	Name	Status	Month/s Outstanding
1	eThekwini	Submitted with Errors	M09-M12
2	uPhongolo	Outstanding	M05-M12

Source: National Treasury LG Database

#### Stage 2 Validation: Segment Validation of the Monthly data strings

Subsequent to the mSCOA data string successfully passing Stage 1, the mSCOA data string proceeds to Stage 2 where it is assessed against the 16 validation rules of the LG Database as built in. Table 20 shows the summary status of segment validation errors for Months 01 to Month 12.

**Table 20: List of municipalities where segment errors were noted cumulatively for M01 – M12**

No	Name	Status	No	Name	Status
1	Big Five Hlabisa	Contained segment errors	3	Msunduzi	Contained segment errors
2	Mpofana	Contained segment errors	4	Nquthu	Contained segment errors

Source: National Treasury LG Database

### Stage 3 Validation: Reconciliation of the mSCOA data string to the Monthly MFMA Section 71 Reports

The process of verifying the alignment of the MFMA Section 71 returns and the monthly mSCOA data strings was undertaken by Provincial Treasury and feedback was sent to all delegated municipalities on a monthly basis. Municipalities were required to investigate the variances and rectify the errors to ensure accurate reporting in all reporting platforms. Ideally, the figures as per the MFMA Section 71 returns and the monthly mSCOA data strings should be perfectly aligned. However, there were variances noted for all delegated municipalities from Month 01 to Month 12.

### Stage 4: Use of Segments Analysis for the 12 months ended 30 June 2019

Stage 4 refers to an analysis beyond the validation rules of the LG database, which entails detailed reviews of the appropriate application of the segments for which the portal does not currently test. The monthly analysis was performed for M01-M12 in preparation for year end and was communicated to all municipalities. This also included an analysis of the opening balances of the 2018/2019 financial year alignment to the audited Annual Financial Statements (AFS) for the 2017/2018 financial year (AUDA). The following findings were evident in the analysis:

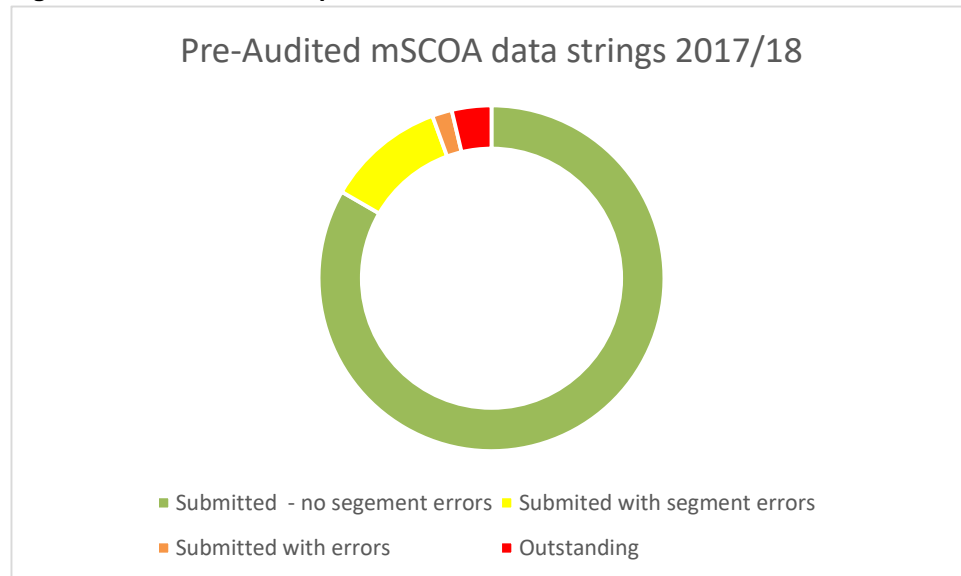
- Opening balances for the 2018/19 financial year did not agree to the Audited 2017/18 AFS. This implied that the journals processed in AFS were not also processed on the financial system to ensure alignment between the two;
- There were incorrect use of segments including but not limited to:
  - Region segments incorrectly used;
  - Costing not applied;
  - Function split between core and non-core not aligned to mandate;
  - Funding segment incorrectly used;
  - Item segment inappropriately used between movement accounting and classification of items; and
  - Project segment not appropriately used nor aligned between Project capital, Operational and Default.
- As the financial statements are derived from the Item segment, municipalities were requested to review the opening balances and the use of the Item segment to ensure that transactions are correctly presented and disclosed in the AFS for the year end 2018/19.

## Submission of the Pre-Audited Annual Financial Statements mSCOA data strings for the 2017/18 financial year

In terms of Section 74(1) of the MFMA, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring to fulfil the mandate in terms of Section 5(4) of the MFMA. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required.

In light of the above, municipalities were requested to submit to the LG Portal, the Pre-Audited Annual Financial Statement data strings (PAUD). As at 30 September 2019, 51 municipalities uploaded the PAUD which related to the 2017/18 financial year which represents only 94.4 percent of municipalities within the province. The PAUD data strings were required to be submitted to the LG Portal 10 days after submission of the AFS to the Auditor-General of South Africa. There are a further 2 municipalities (the uMsinga and iNkosi Langalibalele Local Municipalities) that are outstanding (denoted in the red), one municipality (the eNdumeni Local Municipality) that submitted with errors (i.e. the data string did not pass the Stage 1 validation and is denoted in orange) and six municipalities whose submission contained Stage 2 validation errors as depicted in Figure 20 below.

**Figure 20: Status of municipalities that submitted the PAUD for the 2017/18 financial year end**

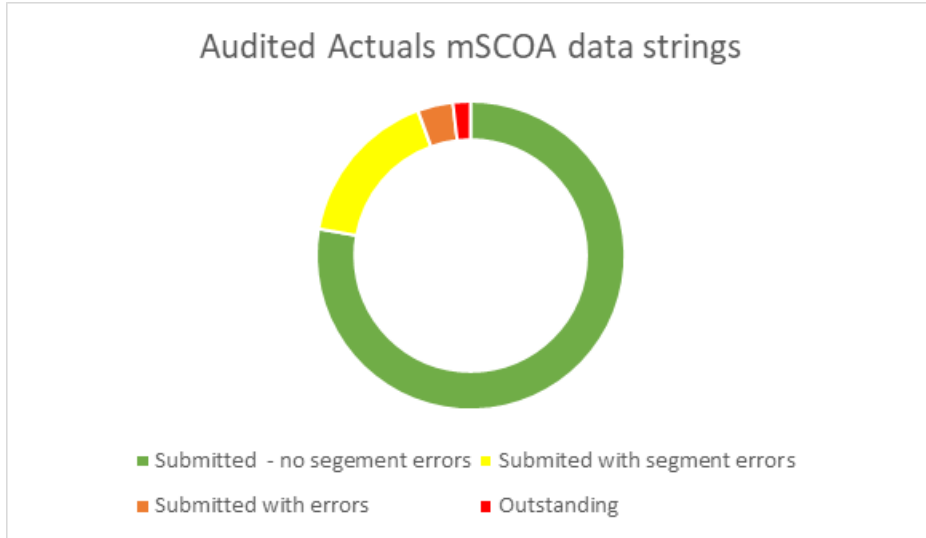


## Submission of the Audited Actuals mSCOA Data strings for the 2017/18 financial year

In terms of Section 74(1) of the MFMA, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required.

In light of the above, municipalities were requested to submit to the LG Portal, the Audited Annual Financial Statement data strings (AUDA). As at 30 September 2019, 43 municipalities uploaded the audited data strings (AUDA) for the 2017/18 financial year which represents only 79.6 percent of municipalities within the province. There is one municipality (the uPhongolo Local Municipality) that is outstanding (denoted in the red), two municipalities (the eNdumeni and uBuhlebezwe Local Municipalities) that submitted with errors (i.e. the data string did not pass the Stage 1 validation and is denoted in orange) and nine municipalities whose audited actual data strings contained Stage 2 validation errors. Figure 21 depicts the status of municipalities that submitted the audited actuals for the 2017/18 financial year.

**Figure 21: Status of municipalities that submitted the audited actuals for the 2017/18 financial year**



**Reporting in terms of Section 71 of the MFMA for the 2019/20 financial year**

The Accounting Officer of a municipality is required to, by no later than 10 working days after the end of each month, submit to the mayor of the municipality and the relevant Provincial Treasury in the prescribed format the statutory monthly reporting for the municipality, which includes the electronic monthly mSCOA transactional information submissions.

**Stage 1: Validation of the Monthly submissions for the 2019/20 financial year**

For the period of 1 July 2019 to 30 September 2019, the municipalities in Table 21 did not submit the required mSCOA data strings or submitted data strings with errors. M03 fell outside the reporting period ended 30 September 2019 and will be reported in next quarter.

**Table 21: Cumulative status of submission for municipalities for the 2019/20 financial year**

No	Name	Status M01	Status M02	Status Cumulative
1	Amajuba	Submitted with errors	Outstanding	Outstanding
2	Mpofana	Submitted with segment errors	Submitted with errors	Submitted with errors
3	Msunduzi	Outstanding	Outstanding	Outstanding
4	Nquthu	Submitted with no segment Errors	Outstanding	Outstanding
5	uPhongolo	Outstanding	Outstanding	Outstanding

Source: National Treasury LG Database

Communication was sent on a regular basis to all municipalities that have not complied with the requirements of the MFMA.

**Stage 2: Segment Validation of the mSCOA monthly data strings for the 2019/2020 financial year**

The mSCOA data string submission for the in-year reporting was assessed against the 16 validation rules of the National Treasury portal. The following were noted as indicated in Table 22.

**Table 22: Municipalities that submitted with segment errors**

Status	M01	M02
Submitted Successfully and Contains NO Segment Errors	45	46
Submitted Successfully and contains Segment Errors	6	3
TOTAL	51	49

Source: National Treasury LG Database

The segment errors were communicated via email for correction in the next reporting period. The cumulative errors are in respect of the following municipalities as listed in Table 23.

**Table 23: Municipalities that monthly submissions contained segment errors for the 2019/20 financial year**

No	Name of the municipality	No	Name of the municipality	No	Name of the municipality	No	Name of the municipality
1	iMpendle	3	Mpofana	5	Richmond	7	uMdoni
2	KwaDukuza	4	uMsinga	6	Ugu	8	uMzimbhulu

Source: National Treasury LG Database

**Stage 3 Validation: Reconciliation of the mSCOA data string to the Monthly MFMA Section 71 Reports**

The process of verifying the alignment of the MFMA Section 71 returns and the monthly mSCOA data strings was undertaken by Provincial Treasury and feedback was sent to all delegated municipalities on a monthly basis. Municipalities were required to investigate the variances and rectify the errors to ensure accurate reporting in all reporting platforms. Ideally, the figures as per the MFMA Section 71 returns and the monthly mSCOA data strings should be perfectly aligned. However, there were variances noted for all delegated municipalities from Month 01 to Month 03.



#### **Stage 4: Analysis of the use of segments for the monthly submissions' of 2019/20 financial year**

The monthly analysis was performed for M01 and M02 during quarter 1. In addition to this, communication and onsite visits were completed for some municipalities to indicate the impact that the incorrect transactional information may have during the Adjustment Budget process. The analysis revealed the following:

- The Region segment was incorrectly transacted on. Further to this, some municipalities had new regions that were not on the initial ORGB mSCOA data strings;
- The Costing segment is Default. That is, costing has not been implemented for services such as electricity, waste, waste water management and water services;
- The transactions were not complete. That is, some municipalities did not have payroll information (payroll not posted prior to exporting the mSCOA data string);
- Capturing of information was delayed due to the roll-over from one financial year to another;
- Most segments continued to be used inappropriately (given that this would have been based on the approved ORGB data strings. This will only be corrected during the Adjustments Budget);
- Accounting for transactions in terms of Generally Recognised Accounting Practice is a problem;
- Double entry principles are not employed during the preparation of monthly accounts; and
- Validation rules are being by-passed and segment errors are still appearing.

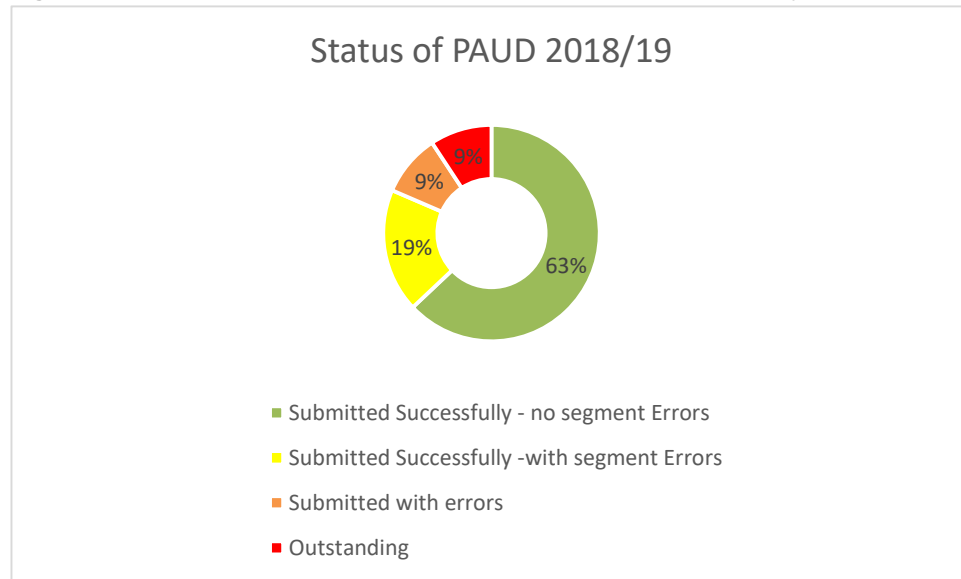
Feedback was given to municipalities for M01 and M02 for correction. Currently, due to there being no return forms, publishing of information would be based on the mSCOA data strings only and hence municipalities have been urged to ensure the accuracy, validity and completeness of information.

#### **Submission of the Pre-Audited Annual Financial Statements data string 2018/19**

In terms of section 74(1) of the MFMA, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring to fulfil the mandate in terms of Section 5(4) of the MFMA. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required

In light of the above, municipalities were requested to submit to the LG Portal the Pre-Audited Annual Financial Statement data strings (PAUD) for the financial year ended 30 June 2019. As at 30 September 2019, 44 municipalities uploaded the PAUD which represents only 81.5 percent of municipalities within the province. The PAUD data strings were required to be submitted to the LG Portal 10 days after submission of the AFS to the Auditor General of South Africa. There are a further five municipalities that are outstanding (denoted in the red), five municipalities that submitted with errors (i.e. the data string did not pass the Stage 1 validation and is denoted in orange) and 10 municipalities whose submission contained Stage 2 validation errors. Figure 22 depicts the status of municipalities that submitted the pre-audit actuals for the 2018/19 financial year.

**Figure 22: Status submissions of the PAUD for the 2018/19 financial year**



The municipalities that submitted with errors or whose submissions were outstanding as at 30 September 2019 are listed in Table 24 below.

**Table 24: Municipalities whose PAUD submission is outstanding or submitted with errors**

No	Name	No	Name	No	Name	No	Name
1	Amajuba	4	Msunduzi	7	Richmond	10	uPhongolo
2	eThekweni	5	uMngeni	8	uMdoni		
3	Mpofana	6	Nquthu	9	uMlalazi		

Source: National Treasury LG Database

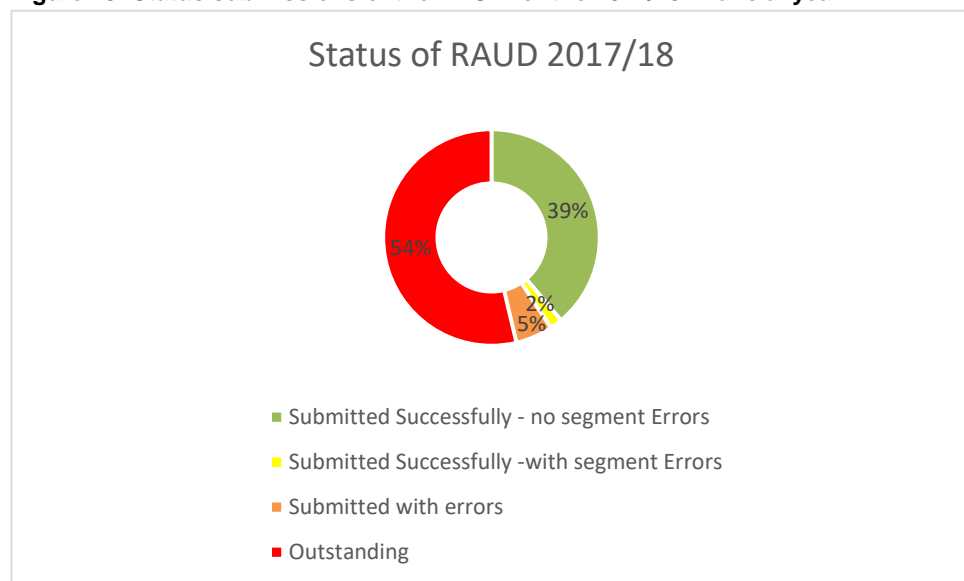
### Submission of the Re-stated Actuals for the 2017/18 financial year

In respect of Section 74(1) of the MFMA, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring to fulfil the mandate in terms of Section 5(4) of the MFMA. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required.

In light of the above, municipalities were requested to submit to the LG Portal the Restated Actuals data strings (RAUD) for the financial year ended 30 June 2018. As at 30 September 2019, 22 municipalities uploaded the restated actuals data strings which represents only 40.7 percent of municipalities within the province. The RAUD data strings were required to be submitted to the LG Portal 10 days after submission of the AFS for the 2018/19 financial year to the Auditor-General of South

Africa which is in respect of the restated amounts for the 2017/18 (comparative period). The data string is required even if the amounts have NOT been restated. Figure 23 depicts the status of submissions.

**Figure 23: Status submissions of the RAUD for the 2017/18 financial year**



The municipalities that have not submitted or submitted with errors the RAUD submission are listed in Table 25 below:

**Table 25: List of municipalities whose RAUD is outstanding or submitted with errors**

No	Name	No	Name	No	Name
1	AbaQulusi	12	KwaDukuza	23	Richmond
2	Alfred Duma	13	Mandeni	24	uBuhlebezwe
3	Amajuba DM	14	Maphumulo	25	uMdoni
4	Dannhauser	15	Mpofana	26	uMhlathuze
5	Dr. Nkosazana Dlamini Zuma	16	uMsinga	27	uMlalazi
6	eNdumeni	17	Msunduzi	28	uMngeni
7	eThekwini	18	Newcastle	29	uMuziwabantu
8	Greater Kokstad	19	Nquthu	30	uMzimkhulu
9	iLembe DM	20	Okhahlamba	31	uMzinyathi DM
10	iNkosi Langalibalele	21	Ray Nkonyeni	32	uPhongolo
11	uThukela DM	22	Zululand DM		

Source: National Treasury LG Database

## **Provincial Treasury Support to Municipalities and Entities**

Provincial Treasury has actively engaged municipalities and entities through various forums, training workshops, one on one sessions and district engagements. A summary of the support provided during quarter 1 is indicated below:

- CFO Forum 25 September 2019, the CFO forum addressed the following:
  - mSCOA Reporting; and
  - Analysis of Use of Segments
- mSCOA Fundamentals and mSCOA Reporting was provided at the following municipalities:
  - uMdoni Local Municipality - 18/19 July 2019;
  - Ray Nkonyeni Local Municipality - 15/16 August 2019; and
  - uMuziwabantu Local Municipality - 05 September 2019.

## **National Treasury Support**

National Treasury has conducted the following engagements with the attendance of all Provincial Treasuries:

- Vendor Engagements - The demonstration of Asset Management Module on 15-16 July 2019.

## **Way forward**

Provincial Treasury will continue to engage with the municipalities in addressing the outstanding issues via monthly site visits and frequent communication via email and telephonically as well as the various platforms such as CFO Forums and district engagements.

The focus areas of the mSCOA implementation team for the next quarter is planned as follows:

- Monitor and support municipalities in ensuring that the monthly data submissions are in compliance with National Treasury requirements and free from errors;
- Conduct CFO Forums to discuss trending matters such as Costing, Budgeting and Transacting in mSCOA and Alignment;
- Analyse and review the municipal data transactions to ensure the quality of the transactional data and provide feedback to municipalities;
- Conduct onsite assessments for municipalities against the ICT Due Diligence per MFMA Circular No. 80 issued on 8 March 2016;
- Provide guidance to municipalities on system implementation issues and governance matters including onsite engagements and assessments;
- Engagement with National Treasury on the demonstration of the Performance Management Modules;
- Attendance of training to be held by National Treasury on Budgeting and Transacting in mSCOA; and
- Review and provide guidance on the revised project plans to address the mSCOA implementation feedback provided.

## 2.17 Municipal Support and Oversight

Municipal Support and Oversight includes a summary of work performed by various Business Units within Provincial Treasury in the quarter under review in support to delegated municipalities in line with monitoring and supporting the municipalities as per chapter 2 of the MFMA. A full report from each Business Unit is available on request.

### Municipal Accounting and Reporting

#### Introduction and Background

In terms of the Provincial Treasury's mandate to support municipalities in strengthening their financial management capacity, Provincial Treasury continued to provide financial management on-site support to identified municipalities within the province during Quarter 1 of 2019/20 financial year. The fundamental objective of this program is to improve the financial management accounting and reporting processes at the delegated municipalities and assist in addressing audit findings.

The on-site support intervention strategy conducted by the initiative entails the following:

- An assessment of the status of financial management practice at identified municipalities and the development of a project plan;
- Review or perform monthly general ledger reconciliations and monitoring of the quality of financial management reconciliations and accounting processes, as required;
- Address prior year audit matters as raised by the Auditor-General to ensure that such matters are resolved adequately;
- Provide guidance and oversight in the asset register preparation process and asset management processes or assist in the preparation of the asset register as required;
- Monitor and assist in the preparation of the Interim Financial Statements and Annual Financial Statements (AFS);
- Preparation of AFS and supporting reconciliations and schedules, as required;
- Assist in the preparation and review of the audit working paper file including all financial reconciliations and disclosure requirements;
- Training and development, including continuous on-the-job training of municipal officials in terms of financial management throughout the project;
- Monitor and implement compliance with the Municipal Finance Management Act No. 56 of 2003 (MFMA), and other relevant local government legislations;
- Provide support with the alignment and compliance of Municipal Standard Chart of Accounts (mSCOA) requirements for financial management transactions;
- Attendance at audit steering committee meetings. Provide guidance and support during the audit process to the CFO in addressing all financial management audit queries until the issue of the final audit report; and
- Attendance at management meetings that relate to financial management within the municipality.

## Financial Management Support

Financial management support continued to be implemented during quarter 1 of the 2019/20 financial year as municipalities were gearing towards the preparation of the AFS, audit working paper files and supporting documentation for the 2018/19 financial year.

Provincial Treasury performed an assessment of key financial matters as reflected in the audit report and management report of municipalities in order to identify possible areas of intervention and support within available capacity and scope.

The outcomes from the Auditor-General indicated that municipalities in the KZN Province received the following audit opinions for the 2017/18 financial year:

- 13 qualifications;
- One (1) disclaimer;
- Six (6) adverse;
- 33 unqualified; and
- One (1) clean audit opinion.

Table 26 reflects the municipalities identified by Provincial Treasury for inclusion in the financial management support initiative in the 2019/20 financial year.

**Table 26: Municipalities supported in Quarter 1 of 2019/20**

No	Name of Municipality	2017/18 Audit Opinion	Extent of support
1	Ray Nkonyeni LM	Unqualified	Full time Support
2	uMuziwabantu LM	Unqualified	Full time Support
3	Ugu DM	Adverse	Full time Support
4	uThukela DM	Qualified	Full time Support
5	uPhongolo LM	Unqualified	Full time Support
6	Mandeni LM	Unqualified	Full time Support
7	uBuhlebezwe LM	Qualified	Full time Support

The onsite support commenced in May 2019 and it is anticipated to be concluded in December 2019.

### Challenges identified during implementation

The challenges faced by municipalities are similar each year and show little improvement over the financial years. The challenges identified during the financial management support and preparation of AFS initiative include, among others, the following:

- A lack of resources due to the high levels of vacancies/skills at the municipalities which negatively impacts effective skills transfer, particularly in the preparation of the AFS and resolving audit queries;

- The resignation of key officials, such as the Chief Financial Officer, during key periods resulting in other municipal officials acting in the respective positions for long periods without the vacancies being filled;
- Significant reliance is placed on Provincial Treasury support, consultants or interns to perform the work of municipal officials without adequate commitment from the respective officials to ensure sufficient transfer of skill;
- The implementation of mSCOA has reduced the capacity available at the municipalities to undertake financial management responsibilities;
- Poor record keeping and maintenance of adequate supporting documentation negatively impacts the correction of prior period errors identified from the prior year audit;
- Inadequate skills on credit control and debt management, including basic financial accounting and document management systems;
- Lack of systems to address audit queries and recommendations for both internal and external auditing;
- Inadequate asset management processes within the municipality which impacts the maintenance of the asset register as well as the accuracy and timelines of related reporting;
- Poor controls over routine accounting processes, i.e. failing to prepare and review monthly reconciliations between the sub ledger and control accounts in the general ledger as well as between the general ledger and external source information and related register, failure to clear control/suspense accounts and failure to maintain supporting schedules such as accruals listings;
- Lack of effective controls and processes to prevent non-compliance with relevant legislation and supply chain management processes as well as to prevent the incurrance of unavoidable expenditure which results in irregular, fruitless and wasteful expenditure;
- Little or no action taken in investigating or condoning the unauthorised, irregular, fruitless and wasteful expenditure;
- Lack of evidence based reporting and failure to prepare comprehensive audit working paper files supporting the AFS; and
- Availability of municipal financial management officials to address challenges identified during the support provided.

Provincial Treasury will continue to support the municipalities by means of continued assistance until December 2019, including addressing current year audit queries and processing adjustments to the financial statements, as required. An assessment of the capacity and financial management matters that still require attention will be performed toward the end of the financial management support program in order to determine future support for the next financial year.

### **Annual Financial Statements Review Support**

Provincial Treasury conducted the review of the AFS for the 2018/19 financial year for identified municipalities in the province, commencing from the month of August 2019. The objective of the AFS review was to ensure that municipalities' AFS comply with the Generally Recognised Accounting Practice (GRAP) accounting framework as well as improve the quality of the AFS submitted to the Auditor-General for audit.

The onsite support intervention strategy conducted by the initiative entails the following:

- Technical review of the AFS, together with supporting working papers, to ensure compliance with the accounting standards and MFMA disclosure requirements;

- Technical review of the key registers and reconciliations, e.g. fixed assets, grants, retentions, receivables, payables etc. to ensure compliance with the accounting standards and disclosure within the AFS;
- Provide technical assistance in addressing AFS review queries as required including queries from the Auditor-General on key financial statement matters having an impact on fair presentation; and
- Provide skills transfer to the internal audit component of the municipality, by providing training on the process of reviewing the AFS and working papers as well as dealing with the audit queries.

During quarter 1, skills transfer and training on the process for the review of the AFS took place at 3 municipalities namely: the KwaDukuza, Dr. Nkosazana Dlamini Zuma and uMzimkhulu Local Municipalities. Training at the remaining municipalities is scheduled to take place during quarter 2 pending final approval from the municipal officials.

Table 27 below shows a list of the municipalities which were supported by reviewing their 2018/19 AFS.

**Table 27: Municipalities supported in Quarter 1 of 2019/20**

No	Name of Municipality	AFS Reviews	Skills Transfer
1	uMhlabuyalingana LM	✓	
2	Harry Gwala DM	✓	
3	KwaDukuza LM	✓	✓
4	Ulundi LM	✓	
5	uPhongolo LM	✓	
6	Dr. Nkosazana Dlamini Zuma LM	✓	✓
7	uBuhlebezwe LM	✓	
8	uMzimkhulu LM	✓	✓

The significant challenges identified during the AFS review were as follows:

- The AFS review was significantly delayed due to the AFS still being prepared, with majority of the reviews taking place in the last week of August;
- The AFS were incomplete at the time of review, particularly asset information and supporting documentation for the AFS, including working papers;
- Audit working paper files were still in the process of being compiled; and
- The intention was to transfer skill to internal audit officials at these municipalities and in many instances, internal audit officials were not appointed or not available to undertake the review with the Provincial Treasury team.



## Municipal Finance Improvement Programme

Provincial Treasury continued to provide asset management support in response to the continuing challenges faced by municipalities and the resulting impact on audit outcomes. National Treasury also provided a resource from the Municipal Finance Improvement Programme (MFIP III) – Asset Management whose aim was to address weaknesses identified, ensure the establishment of an asset management steering committee and the capacitation of the asset management unit as well as to provide assistance with the development of policies and procedures.

A total of 12 municipalities were selected for inclusion in the asset management programme, however, only seven municipalities were provided with support during quarter 1 as noted in Table 28 below. Of the remaining five municipalities, three municipalities were contacted for support but did not use the services of the MFIP Asset Advisor and two municipalities have not confirmed an inception meeting date to commence the support offered.

**Table 28: Municipalities supported in Quarter 1 of 2019/20**

No	Name of the municipality	Asset Register / Asset Components reviewed	Asset Management guidance and assistance provided	Other Support provided / comments
1	AbaQulusi LM	Onsite assistance provided with the compilation of the asset register	Guidance provided with presentation and disclosure for current year asset register and prior year errors	Workshops held on asset management
2	Harry Gwala DM			Asset Management support offered but no response received.
3	iMpendle LM	Reviews performed prior to submission and guidance provided	Onsite assistance with prior year queries and guidance for the current year asset register	
4	Nongoma LM			Asset Management support offered but no response received.
5	uBuhlebezwe LM	Reviews performed prior to submission and guidance provided		Workshops held on asset management
6	Ugu DM	Onsite assistance provided with the correction of the prior period error	Onsite assistance with prior year queries and guidance for the current year asset register	Workshops held on asset management
7	uMgungundlovu DM	Reviews performed prior to submission and guidance provided	Guidance provided with prior year queries and the current year asset register	
8	uMkhanyakude DM			Asset Management support offered but no response received.
9	uMsinga LM			Asset Management support offered but no response received.
10	uMzinyathi DM	Reviews performed prior to submission and guidance provided	Guidance provided with prior year queries and the current year asset register	
11	uPhongolo LM			Asset Management support offered but no response received.
12	uThukela DM		Discussions with asset manager regarding year end disclosures	

The support provided in quarter 1 related to reviews of the draft asset register and asset components prior to the submission of the AFS on 31 August 2019. Reviews of the final asset registers provided to the Auditor-General to audit were also performed and comments were provided to municipal officials for review and follow up. Onsite guidance was also provided by the MFIP Asset Advisor including assistance with prior period errors and guidance on the finalisation of the 2018/19 asset registers. Other support in the form of workshops providing guidance with prior year audit queries and current year asset registers as well as monitoring the status of the MFIP action plans and focus areas were performed.

The significant challenges experienced during the implementation of the asset management support, amongst others, are the following:

- Asset management activities related to the physical verification, condition assessments, impairments, depreciation calculations, additions, disposals and assets under construction transfers all occur at year end and are not executed throughout the year;
- The appointment of consultants to assist with the preparation of the asset register occur very close to year end;
- Lack of capacity or skills of officials responsible for asset management. The municipalities visited have an Assets Management Unit capacity disparity, as well as an oversight weakness. The lack of capacity influenced the Action Plans developed to support each selected municipality; and
- Lack of oversight and management of the assets by the Municipal Management Officials.

Asset management training, particularly aimed at adequate planning for assets is planned for quarter 3.

## **Banking and Cash Management**

### **Quarterly Withdrawals from Municipal Bank Accounts**

#### **Background**

In terms of Section 11(4) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) “*The accounting officer must within 30 days after the end of each quarter: -*

- table in the municipal council a consolidated report of all withdrawals made in terms of subsection (1)(b) to (j) during that quarter; and*
- submit a copy of the report to the relevant Provincial Treasury and the Auditor General.”*

Municipalities were provided with National Treasury MFMA Circular No. 61 on Banking, Overdrafts and Investments, dated April 2012.

## Progress/Outcome

Table 29 below lists the municipalities that have not submitted the first quarterly withdrawal report in respect of the 2019/20 financial year.

**Table 29: Municipalities that have Outstanding Quarterly Withdrawal Reports for 2019/20**

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	Ugu DM	12	iLembe DM	23	eDumbe
2	uMdoni	13	Ndwedwe	24	uPhongolo
3	Ray Nkonyeni	14	uMgungundlovu DM	25	AbaQulusi
4	uThukela DM	15	uMshwathi	26	uMhlathuze
5	Okhahlamba	16	uMngeni	27	Mthonjaneni
6	iNkosi Langalibalele	17	Mpofana	28	Nkandla
7	eMadlangeni	18	Msunduzi	29	Harry Gwala DM
8	Dannhauser	19	Mkhambathini	30	uBuhlebezwe
9	uMkhanyakude DM	20	eNdumeni	31	Dr. Nkosazana Dlamini Zuma
10	uMhlabuyalingana	21	Nquthu		
11	Jozini	22	uMvoti		

## Status of support offered to Municipality

### Background

Provincial Treasury to assist all municipalities during the 2019/20 financial year in respect of the following sections of the MFMA.

Section 11(4) – Quarterly bank withdrawal reports.

Section 8(5) – Primary Bank Account.

Section 9(b) – Details of all bank accounts details before year-end.

Section 45(4) (a) – Short Term Debt.

Section 13 – Investment and Cash Management Policy.

### Progress/outcome

Visit municipalities when required to provide assistance on the following applicable sections of the MFMA:

During quarter 1 for the 2019/20 financial year, telephonic support was provided to municipalities on the applicable sections of the MFMA when requested.

## Bank Accounts

### Background

In terms of Section 9 and 86 of the MFMA, the Accounting Officer of a municipality and municipal entity must submit to Provincial Treasury in writing:

(a) *within 90 days after opening a bank account, the details of such new bank account; and*

(b) *annually, before the start of the financial year, the name of each bank where the municipality/municipal entity holds an account.*

### Progress/ Outcome

Provincial Treasury monitors changes to primary bank accounts.

During August 2019, a request in terms of Section 9(b), 86(1)(b) and 86(2), was sent to all municipalities requiring the accounting officer to submit a schedule of all bank accounts held by the municipality and of those held by any municipal entities.

Table 30 below lists the municipalities that have not submitted their bank account details in respect of the 2018/19 financial year.

**Table 30: Municipalities that have not submitted their bank account details in respect of the 2018/19 financial year**

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	Ugu DM	16	iLembe DM	31	uMvoti
2	uMdoni	17	Mandeni	32	Zululand DM
3	uMzumbe	18	Ndwedwe	33	eDumbe
4	uMuziwabantu	19	Maphumulo	34	uPhongolo
5	uThukela DM	20	uMgungundlovu DM	35	AbaQulusi
6	Okhahlamba	21	uMshwathi	36	King Cetshwayo DM
7	iNkosi Langalibalele	22	uMngeni	37	uMfolozi
8	Alfred Duma	23	Mpofana	38	uMhlathuze
9	Newcastle	24	iMpendle	39	uMlalazi
10	eMadlangeni	25	Msunduzi	40	Nkandla
11	uMkhanyakude DM	26	Mkhambathini	41	Greater Kokstad
12	uMhlabyalingana	27	Richmond	42	uBuhlebezwe
13	Jozini	28	eNdumeni	43	Dr. Nkosazana Dlamini Zuma
14	Mtubatuba	29	Nquthu	44	uMzimkhulu
15	Big Five Hlabisa	30	uMsinga		

## Cash Management and Investments

### Background

In terms of Section 13(1) of the MFMA, *the Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must—*

- (a) conduct their cash management and investments; and*
- (b) invest money not immediately required.*

Section 13(2) of the MFMA further states that *a municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1).*

### Progress/ Outcome

All municipalities were provided with:

- The municipal Investment Regulations (Government Gazette No. 27431); and
- A generic investment policy.

The regulation and the generic policy were to be used by municipalities to tailor their own investment policy in order to ensure compliance with the regulations and to make economically beneficial investments.

### Impending Overdrafts

#### Background

In terms of Section 70(2) of the MFMA, *if a municipality's bank account, or if the municipality has more than one bank account, the consolidated balance in those bank accounts, shows a net overdraft position for a period exceeding a prescribed period, the Accounting Officer of the municipality must promptly notify the National Treasury in the prescribed format of-*

- (a) the amount by which the account or accounts are overdrawn;*
- (b) the reason for the overdrawn account or accounts; and*
- (c) the steps taken or to be taken to correct the matter.*

In terms of Section 101 of the MFMA, *(1) the Accounting Officer of a municipal entity must report, in writing, to the board of directors of the entity, at its next meeting, and to the Accounting Officer of the entity's parent municipality any financial problems of the entity, including-*

- (a) any impending or actual-*
  - (i) under collection of revenue due;*

(ii) shortfalls in budgeted revenue;

(iii) overspending of the entity's budget;

(iv) delay in the entity's payments to any creditors; or

(v) overdraft in any bank account of the entity for a period exceeding 21 days; and

(b) any steps taken to rectify such financial problems.

(2) The Accounting Officer of the municipality must table a report referred to in subsection (1) in the municipal council at its next meeting.

National Treasury MFMA Circular no. 61 on Banking, Overdraft and Investments, dated April 2012 further states that *if the bank account, or if the municipality or municipal entity has more than one bank account, the consolidated balance in those bank accounts shows a net overdrawn position for a period exceeding 3 months, the Accounting Officer of the municipality must notify the National Treasury (Form F) within 14 days after the 3 months period lapses for municipalities and 21 days for municipal entities.*

### Progress/ Outcome

Municipalities were made aware of the reporting requirements of Sections 70 and 101 of the MFMA via written correspondence in August 2019 in this regard. No municipality reported any impending overdrafts during the first quarter of the 2019/20 financial year.

### Supply Chain Management (SCM)

During the quarter under review, the following municipalities shown in Table 31 were supported in various aspects of SCM which included the following amongst others:

- SCM training;
- Routine Compliance Assessment;
- Contract Management; and
- Assistance regarding SCM processes and procedures etc.

**Table 31: List of municipalities supported on SCM activities in Quarter 1 of 2019/20**

Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
<i>Compliance Assessments Conducted</i>					
uBuhlebezwe uThukela DM Alfred Duma uPhongolo Zululand DM eDumbe	Compliance assessments	Routine	Routine	Due to the timing of this report, a number of compliance assessment reports were still in the process of being finalised.	The risks and challenges relating to each municipality are contained in the assessment report.

**Table 31: List of municipalities supported on SCM activities in Quarter 1 of 2019/20 continued...**

Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
<i>Training Sessions</i>					
iLembe DM Ndwedwe Mandeni Maphumulo KwaDukuza uMkhanyakude DM uMhlabuyalingana Jozini Big Five Hlabisa King Cetshwayo DM Nkandla uMfolozi uMlalazi Mthonjaneni uMhlathuze Harry Gwala DM uBuhlebezwe uMzimkhulu Greater Kokstad Harry Gwala Development Agency Zululand DM	Local production and content training was conducted at 21 municipalities from July to September 2019.	As and when requested.	As and when requested	All requests for workshops were honoured.	None
iLembe DM Ndwedwe Mandeni Maphumulo KwaDukuza uMkhanyakude DM uMhlabuyalingana Mtubatuba Jozini Big Five Hlabisa King Cetshwayo DM Nkandla uMfolozi uMlalazi Mthonjaneni uMhlathuze Harry Gwala DM uBuhlebezwe uMzimkhulu Greater Kokstad Harry Gwala Development Agency Zululand DM	Bid committee training was conducted at 22 municipalities from July to September 2019.	As and when requested	As and when requested	All requests for workshops were honoured.	None

**Table 31: List of municipalities supported on SCM activities in Quarter 1 of 2019/20 continued...**

Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
<i>Procurement Plans</i>					
All municipalities	Collection of procurement plans	01 June 2019 (closing date 30 June 2019)	Continuous	Only 26 municipalities have submitted their procurement plans.	Municipalities not complying with the requirements to submit reports due to the many reporting requirements by the different government institutions. Some municipalities are not using prescribed templates and they are also submitting procurement plans which are not approved. Furthermore, municipalities also send procurement plans with no amounts.
<i>Regulation 32</i>					
Ray Nkonyeni	Traffic contravention management system	R205 314.00	Not Granted	24-Jul-19	AbaQulusi municipality had secured the contract through competitive bidding however, there is no concrete evidence to support the statement. As of 21 June 2019, the BSC minutes, bid advert opening register and successful bidders bid document were attached with the letter. Furthermore, the period of the contract is not clearly indicated to ascertain the validity of the contract. There was no clear scope of work or specification provided to compare if the requirements of the Ray Nkonyeni Local Municipality are the same as the requirements of AbaQulusi Local Municipality. The discounts or benefits to participate in this contract could not be demonstrated.
AbaQulusi	Provision of forensic services for period of 24 months	Not indicated	Not Granted	21-Aug-19	It is concerning that Provincial Treasury was not provided with a formal submission explaining reasons for not following a competitive bidding process. In the absence of correspondence from the municipality, Provincial Treasury could not determine the benefits of participating in the contract and the proposed duration of the intended appointment. The letter of appointment addressed to the service provider from the eThekweni Metro is dated 16 March 2018 and the period of panel appointed by the eThekweni Metro is only left with seven months.
uMhlatuze	Appointment to perform vat review and recovery (ref Nk0045/2018) for Nkomazi Local Municipality	Not indicated	Not Granted	02-Sep-19	More information required, such as proof of advertising in the newspaper, with the date of advertising, bid opening register, approval of specification by the Municipal Manager and Score Sheets of Bid Evaluation Committee members.



**Table 31: List of municipalities supported on SCM activities in Quarter 1 of 2019/20 continued...**

Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
<i>Contract Management</i>					
<p>Provincial Circular No. 1 of 2017/2018 was sent to all municipalities.</p>	<p>As per KZN Provincial Circular No. 1 of 2017/18, Implementation of Contract Management, paragraph 9, issued in terms of Section 5 (3) (c) and (d) as well as Section 116 of the MFMA.</p>	<p>Routine</p>	<p>Routine</p>	<p>Conducted an analysis of the Expenditure report and Contract register of municipalities to assess the extent of implementation of contract management.</p>	<p>The challenges that Provincial Treasury are currently facing is the lack cooperation by some municipalities in availing themselves for site visit assessments, late responses or no response at all and the unavailability of the municipal senior officials.</p>
<p>One assessment was conducted and the feedback report was sent to the municipality for the uBuhlebezwe Local Municipality.</p>				<p>Comprehensive report based on the outcome of the desktop exercise undertaken had been conducted and sent to one municipalities.</p>	
<p>Twenty eighty site visits were conducted of which, reports have been sent to 21 municipalities. The municipalities are as follows:</p> <p>iNkosi Langalibalele Dr. Nkosazana Dlamini Zuma uMfolozi uMuziwabantu Ray Nkonyeni Jozini uMlalazi uMzumbe King Cetshwayo DM uMhlathuze uMzimkhulu Mthonjaneni uMsinga uBuhlebezwe uMvoti Nquthu Richmond Dannhauser Harry Gwala DM Amajuba DM uMshwathi DM</p>				<p>Conducted site visits to 28 municipalities of which reports have been sent to all. Currently, six reports were sent for review and the remaining seven are still in the progress of finalisation. The reports will be dispatched before the end of the quarter under review.</p>	
<p>The site visit assessments have been conducted for the following municipalities and reports have been compiled and sent for review:</p> <p>Ndwedwe uMgungundlovu DM Ugu DM Mandeni Okhahlamba</p>					
<p>The site visit assessments have been conducted in the following three municipalities and reports will shortly be compiled:</p> <p>uMdoni Mkhambathini Mpofana</p>					
<p>Training, after the request was made, was provided to eNdameni Local Municipality.</p>				<p>A full day training session was conducted at eNdameni Local Municipality.</p>	

**Table 31: List of municipalities supported on SCM activities in Quarter 1 of 2019/20 continued...**

Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
<b>MFIP Support</b>					
Local Production and content training was conducted at five municipalities from July to September 2019. These municipalities were as follows:  Ugu DM Ray Nkonyeni Local Municipality uMdoni Local Municipality Jozini Local Municipality Maphumulo Local Municipality	Local Production and Content Training	As and when requested	As and when requested	All requests for workshops were honoured.	None
<b>Other Support Interventions</b>					
All 53 municipalities Note: eThekweni Metro is supported by National Treasury.	Order and payment upload. Information Management (IM) continued to assist municipal officials in uploading Orders and Payments to the Central Supplier Database (CSD).	01-Feb-18	Routine	<b>10 municipalities have uploaded Orders successfully:</b> AbaQulusi Dannhauser Mandeni Maphumulo Nkandla uMzikhulu Nongoma Umgweni uMshwathi Nquthu	There is resistance from the municipalities as officials are reluctant to utilise the CSD. Officials are not reachable telephonically or via email for long durations due to connectivity problems at the municipalities. Some vendor systems cannot extract data as prescribed by the CSD templates (fields) which leads to delays in uploading data. Most of the systems are not interfaced with CSD.
				<b>Four municipalities have uploaded Payment transactions successfully :</b> uBuhlebezwe uMngeni Nkandla Dannhauser	
Zululand DM	To train all CSD users from the municipality in order to reduce audit findings of 2017/2018	22-Jul-19	22-Jul-19		Users expressed technical challenges when selecting suppliers on CSD e.g commodities, addresses etc.
uThukela DM	To train municipal officials on CSD in order to reduce audit findings	23-Aug-19	23-Aug-19	Continuation of the project from the last quarter	No challenges experienced

**Table 31: List of municipalities supported on SCM activities in Quarter 1 of 2019/20 continued...**

Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
<i>Other Support Interventions</i>					
All 53 municipalities Note: eThekweni Metro is supported by National Treasury.		01-Feb-18	Routine	<b>Thirty six municipalities have uploaded employee information successfully.</b>  AbaQulusi Amajuba DM Dr. Nkosazana Dlamini Zuma Dannhauser eMadlangeni eNdumeni Greater Kokstad Harry Gwala DM iLembe DM iNkosi Langalibalele Jozini King Cetshwayo DM KwaDukuza Mandeni Maphumulo Mpfana uMsinga Msunduzi Mthonjaneni Ndwedwe Newcastle Nkandla Nquthu Richmond Ugu uMdoni uMfolozi uMgungundlovu DM uMhlathuze uMngeni uMvoti uMzikhulu uMzinyathi DM uMzumbe uPhongolo Zululand DM	

## Internal Audit

### Purpose

The purpose of this report is to provide the status of the work performed from 01 July 2019 to 30 September 2019 with regards to Risk management and Internal audit services to municipalities and municipal entities.

## Background

The Provincial Internal Audit Services provides risk management and internal audit support to municipalities. The summary of the work done by the Unit during quarter 1 is highlighted below.

### 1. Risk and Control Assessment Workshops (Includes Fraud Risk Assessments)

Risk and control assessment workshops were conducted for the following municipalities and final reports were issued to the municipalities:

**Table 32: List of municipalities that participated in risk and control workshops**

No	Name of Municipality	No	Name of Municipality
1	Nquthu	4	uMlalazi
2	eNdumeni	5	Ndwedwe
3	Big Five Hlabisa	6	Ray Nkonyeni

### 2. Follow up action plans

None performed during the period under review.

### 3. Training and awareness

The following training was conducted during the quarter (July – September 2019).

- Nquthu Local Municipality – Risk management and Financial misconduct regulations awareness and training;
- eNdumeni Local Municipality – Risk management and financial misconduct regulations awareness and training;
- Newcastle Local Municipality – Fraud risk management training;
- Nongoma Local Municipality – Municipal Public Accounts Committee (MPAC) training;
- Okhahlamba Local Municipality – Financial misconduct regulations awareness and training;
- Big Five Hlabisa Local Municipality – Risk management and Financial misconduct regulations awareness and training; and
- Harry Gwala District Municipality – Fraud risk management training.

### 4. Internal Audit Support and Audit Committee Support

None for the period under review.

### 5. Occupational Health and Safety (OHS) practices review

None for the period under review.

## **6. Weaknesses observed**

The following were noted from the onsite assessments conducted during the period under review:

### **Risk and Control Assessment**

Some municipalities have made good progress in terms of implementing action plans identified during the previous year's Risk and control assessment workshops. There is still however a need for municipalities to come up with practical, realistic actions plans that are implementable to allow municipalities to address risks adequately.

### **Training**

The following issues were highlighted as being problematic with regards to training provided:

- Officials come to the training sessions unprepared therefore causing delays in addressing problematic areas;
- Poor attendance by targeted audience therefore rendering some sessions are irrelevant;
- Lack of engagement during training sessions; and
- Reluctance to report suspicious wrongdoing due to perceived lack of action from provincial government.

### **Way forward**

The Unit is finalising the reviewing and updating of the Enterprise Risk Management (ERM) Framework for Local Government and the roll out to municipalities will begin as soon as it is approved. The framework would assist in streamlining and standardising risk management practises at municipalities.

## Public Private Partnership (PPP)

During the quarter under review, the following municipalities shown in Table 33 were supported by PPP Unit.

**Table 33: List of municipalities supported by PPP in Quarter 1 of 2019/20**

Municipality	Gaps identified	Recommendations	Progress thus far
<i>iLembe District Municipality – Siza Water Concession</i>	<b>Shareholding:</b> Clause 10 of the concession agreement provides for any change of shareholding that can be carried out and the structure that must be maintained by the concessionaire.	The current shareholding structure should be amended to reflect the new structure.	The municipality accepted the change in shareholding despite reservations being raised by the PPP unit and their own legal opinion which recommended a thorough due diligence and risk assessment on the new shareholders.
	<b>Performance and Service Levels:</b> The concessionaire agreement is not explicit on the targets of service levels that should be achieved in certain areas within the concession area.	The municipality should review the current legislation to determine the current service standards that should be implemented by the concessionaire and thereafter should ensure that those service levels are met.	The current service levels are very ambiguous.
	<b>Performance Monitoring:</b> Performance monitoring has been a constant hindrance for the majority of the concession and has meant that there has not been any constant independent verification of the work done by the concessionaire.	The municipality must establish and implement a contract monitoring structure which must have sufficient capacity to conduct monitoring of technical, operational, financial, legal and socio-economic obligations of the concessionaire. The structure must be headed by a contract monitoring officer with powers and authority delegated by the Accounting Officer.	A municipal entity, Vuthela LED, has come on board to assist the municipality with the contract monitoring function.
	<b>Concession Fee:</b> Clause 5.5.1 provides for an annual concession fee is payable by the concessionaire to the municipality for the grant and appointment of the concessionaire.	The purpose of the concession fee is to fund the monitoring of the concession from the municipal perspective. The municipality should use this fee to develop a contract monitoring structure.	It has not been evident as to whether the municipality receives this payment, which is due to them quarterly, and/or if they do receive it, what they utilise the funds for.
	<b>Five Year Plan:</b> Clause 58 provides for the development of a five year plan for the next five period which must be approved by council at least four months before the end of the current five year period and it is a mechanism to identify capital works to be undertaken within the concession area over the preceding five year period.	The municipality has appointed a service provider to review the five year plan on behalf of the municipality.	The concessionaire has submitted the draft five year plan and is currently under review by the appointed service provider.
	<b>Skills Development, BEE and SMME:</b> Clause 53.9 mandates the concessionaire, through direct contracting and through its sub-contractors, promote 15% of the investment in works to BEE and SMME components, within the concession area.	The PPP unit has tasked the municipality, through its Enterprise iLembe entity, to develop contractors through the latter's incubation programme and create a database of contractors that can be utilised by the concessionaire.	The concessionaire has, for the current financial year, earmarked 45% of its capital budget to local black Emerging Micro Enterprises (EME's).
	<b>Dispute with Umgeni Water:</b> Umgeni Water had imposed a 38% tariff hike on the concessionaire. The concessionaire disputed the tariff on the basis that they should be charged a similar tariff to that of the municipality.	The concession agreement provides that bulk water costs are passed through in the tariff and the additional charge would have been passed through to the consumers.	The concessionaire had won the original court case at the High Court. Umgeni Water appealed the matter at the Supreme Court of Appeals, which was won by the concessionaire again, with Umgeni Water escalating the matter to the Constitutional Court.

**Table 33: List of municipalities supported by PPP in Quarter 1 of 2019/20 continued...**

Municipality	Gaps identified	Recommendations	Progress thus far
<p><b>iLembe District Municipality – Broadband Infrastructure Project</b></p>	<p><b>Feasibility Study/Project Scoping:</b></p> <p>The municipality are to issue a terms of reference for a service provider to undertake a project scoping study, which will include a holistic masterplan, an infrastructure reference design, costing implications, technical solution options, legal requirement and a financial model, amongst others.</p>	<p>The PPP Unit, together with the Development Bank of South Africa (DBSA), recommended that the study be undertaken to verify the commercial viability of this project.</p>	<p>The terms of reference for the appointment of a service provider to undertake a scoping study was prepared and shared with the relevant stakeholders for final review and input.</p>
	<p><b>Project Preparation Funding:</b></p> <p>The municipality, through its municipal entity, Enterprise iLembe, have applied for project preparation funding through the DBSA Infrastructure Investment Programme for South Africa (IIPSA) facility, which will be used to fund the scoping study.</p>	<p>The PPP Unit recommended the various funding options available to the municipality in relation to project development and preparation funding.</p>	<p>The municipality has confirmed that Enterprise iLembe has made available a budget of R300,000.00 to co-fund the scoping study.</p>
<p><b>KwaDukuza Municipality - Solid Waste Removal</b></p>	<p><b>Contract extension:</b></p> <p>The current contract for waste removal expired in 2012 and has been renewed on month to month basis since 2012.</p>	<p>The PPP unit recommended that the municipality must investigate whether it is legal to renew the waste removal contract on a month to month basis in terms of municipal SCM regulations.</p>	<p>The recommendations were communicated with the municipality and the municipality was requested to take the recommendations into consideration regarding the legality of renewing the contract on a month to month basis.</p>
<p><b>uMvoti Local Municipality – Forestry PPP</b></p>	<p><b>Expression of Interest:</b></p> <p>The municipality engaged in an Expression of Interest (Eoi) process, to gauge market interest for the project.</p>	<p>It was recommended that the municipality initiate this process as a mechanism to determine the appetite and innovation of the market, on a project of this nature.</p>	<p>The Eoi process revealed 8 bidders, who all showed potential and great innovation in undertaking a forestry business and the associated by-products.</p>
	<p><b>Project Registration:</b></p> <p>As the municipality wishes to utilise its municipal property for commercial purposes, the Municipal Service Delivery and PPP Guidelines requires that that project be registered as a potential Public Private Partnership (PPP).</p>	<p>As soon as the municipality identifies a project that may be concluded as a PPP, the municipality must notify National Treasury and the relevant Provincial Treasury of the municipality's intention.</p>	<p>The municipality has submitted a letter of registration to National Treasury, requesting that they register the project as a potential PPP.</p>

**Table 33: List of municipalities supported by PPP in Quarter 1 of 2019/20 continued...**

Municipality	Gaps identified	Recommendations	Progress thus far
<p><b>City of uMhlathuze – Waste water and associated by-product reuse</b></p>	<p><b>Water Demand:</b></p> <ul style="list-style-type: none"> <li>- The uMhlathuze Local Municipality has undertaken preparatory work in the form of water resource studies and master planning documents, which resulted in the uMhlathuze Local Municipality recognising the importance of securing an adequate water supply in order to underpin its planned growth.</li> <li>- The water demand in 2025 is expected to increase and demand is expected to exceed the current lawful water use by the uMhlathuze Local Municipality within the next few years.</li> <li>- The uMhlathuze Local Municipality has resolved to undertake a comprehensive feasibility study and identify the most viable solution for dealing with the wastewater and associated by-products generated within the uMhlathuze Local Municipality.</li> </ul>	<p>The uMhlathuze Local Municipality completed the comprehensive feasibility study and obtained Treasury Views and Recommendations from National and Provincial Treasury. Subsequent to that, the Council passed the resolution to procure the project through a PPP mechanism. The PPP unit advised the municipality to draft the request for qualification to be issued to the market.</p>	<p>The project is currently on hold owing to the fact the municipality is facing challenges with regards to the transaction advisors' contract. The contract came to an end and the municipality is currently trying to find avenues to reappoint the transaction advisors.</p>
<p><b>uMhlathuze Local Municipality - Richards Bay Airport Relocation</b></p>	<p><b>Technical Capacity to undertake Feasibility study:</b></p> <p>The municipality has identified the need to investigate the feasibility and affordability of the different procurement options which will provide the best technical, financial and legal solution in delivering the project, however, the municipality does not have the technical capacity to undertake the feasibility study.</p>	<ul style="list-style-type: none"> <li>- The PPP unit recommended that the municipality must appoint the transaction advisor that will assist the municipality in undertaking the comprehensive feasibility study for airport relocation.</li> <li>- The PPP unit also advised the municipality to utilise the same consultants that produced the prefeasibility study as the technical advisor and only issue the advert to appoint the legal and finance streams if it is not in contravention with the municipal supply chain management policy.</li> </ul>	<ul style="list-style-type: none"> <li>- The PPP unit assisted the municipality in drafting the terms of reference to appoint a transaction advisor. The municipality finalised the internal processes of issuing the terms of reference to the market at the end of July 2019.</li> <li>- The municipality held the compulsory briefing session on 16 August 2019 and the closing date to submit the proposals was on 17 September 2019.</li> <li>- The PPP unit also assisted in answering the questions from potential transaction advisors.</li> <li>- The municipality resolved not to use the consultants that produced the prefeasibility study as the technical advisors.</li> </ul>



## Norms and Standards

### Strategic objective

The strategic objective of the Norms and Standards Unit is to develop, facilitate implementation and monitor compliance with financial norms and standards at municipalities and municipal entities to enhance financial management. Table 34 summarises the support provided in quarter 1 of the 2019/20 financial year.

**Table 34: Support provided by Norms and Standards in Quarter 1 of 2019/20**

Strategic Objective	Record of Support Provided to Municipalities/Entities		Comments
	Target Per Quarter	Actual Results	
Develop, review and monitor compliance with financial norms and standards	3 Policies developed/reviewed for municipality.	<b>uMzimkhulu Local Municipality</b> Reviewed draft policies (5): Budget; Virement; Cash, Banking and Investment; Tariffs; and Indigent.	The Chief Financial Officer of the municipality made a special request for the review of the municipality's finance related policies.

### Infrastructure Support

The provision of infrastructure is integral in the realisation of government's goal to provide basic services to all South Africans. However, under-performance on Capital expenditure (within the full value chain of delivery) by municipalities delays the delivery of basic infrastructure services and exacerbates the current infrastructure backlogs.

The purpose of the Infrastructure Support Team is to assist provincial departments, entities as well as municipalities in the identification and unblocking of bottlenecks in the assessment, planning, implementation and delivery of essential infrastructure services to communities. Table 35 shows the scope of support provided.

**Table 35: Municipality supported by the Infrastructure Support Team**

No	Name of Municipality	Scope of support provided	No	Name of Municipality	Scope of support provided
1	<b>Dannhauser Local Municipality</b>	Support and advice given to the Dannhauser Local Municipality for the funding of a cemetery and solid waste site.  Support given to the Dannhauser Local Municipality - the application to the Department of Trade and Industry (DTI) for the Critical Infrastructure Programme funding of the Dannhauser Municipal Industrial Park. The application has passed the first assessment by DTI.	2	<b>Mpofana Local Municipality</b>	Support was requested to assist CoGTA and the Mpofana Local Municipality. Eskom stated that the electrical supply will be disconnected to the Mpofana Local Municipality as the municipality owes Eskom R132 million for electricity supplied. Support provided from Professional Service Provider (PSP) Panel to employ electrical engineers to conduct an in depth electrical analysis of both the technical and financial systems of the Mpofana Local Municipality. A PSP has been appointed. Stage 1 – Initiation is complete. The progress is satisfactory.

Source: KZN Treasury

The deployment of the Infrastructure Support Team provides the municipalities with the necessary expertise to tackle infrastructure related projects in various stages of the project cycle thus increasing the delivery capacity. This has ultimately improved the return on investment and the value for money in the delivery of infrastructure.

In addition, the services of the team seeks to improve internal capacity at municipalities by augmenting the required skills, thereby improving spending on capital projects/infrastructure.

### **Municipal Support Programme (MSP)**

The Municipal Support Program (MSP) within the Municipal Finance Management Programme was established to assist and provide technical support to delegated municipalities in financial distress. The main objective of the sub-program is to identify the root cause of financial problems experienced by the municipalities, support the municipalities where their financial sustainability is threatened and implement support initiatives that will assist the municipalities to improve their financial health.

The Value Added Tax (VAT) and Pay As You Earn (PAYE) review initiatives are intended to address the shortcomings relating to the management of VAT and PAYE. The filing of VAT and PAYE returns by municipalities and the processes associated with these functions have often been outsourced to service providers which resulted in external resources preparing and filing the returns on behalf of the municipality at a considerable cost thereto. Consequently, the municipal officials have not necessarily been trained in the tasks involved and could be unaware of the best practices to follow in fulfilling these responsibilities. The VAT and PAYE review initiatives aims to capacitate municipalities to undertake the function on their own.

The Grant Management initiative aims to provide guidance to municipalities in effectively managing grants which includes the monitoring, reporting and accounting of grants. The MSP published a “Guide to Grant Management” which presents a holistic approach to effective grant management with the intention of embedding key foundation principles in a municipal environment, covering areas such as municipal planning, budgeting, financial accounting and reporting, cash management, compliance as well as document management.

The MSP is also providing technical support to the Mpofana Local Municipality by deploying a Municipal Finance Technical Advisor as part of the intervention team to address the long outstanding Eskom debt.

Table 36 below shows the municipalities which were supported by the MSP.

**Table 36: Municipalities supported by Municipal Support Program in Quarter 1 of 2019/20**

No.	Name of Municipality	Project			
		VAT	PAYE	Grant Management	Municipal Finance Technical Support
1	Mpofana LM				✓
2	iMpendle LM	✓	✓		
3	uThukela DM			✓	
4	Newcastle LM		✓		
5	Mandeni LM			✓	
6	KwaDukuza LM			✓	
7	Ndwedwe LM			✓	
8	iLembe DM	✓	✓		
9	Harry Gwala DM			✓	