JOURNAL
CIGFARO
Chartered Institute of Government Finance, Audit and Risk Officers

VOLUME 17 • NUMBER 4 • WINTER ISSUE

9
PALEDI MAROTA
Code of Conduct

12 **KEY INVESTMENT PRINCIPLES**
to support your investment decisions in uncertain times

14 Finance Structures within Municipalities
A guide to Revenue Loss Recovery

R30.00 ISSN 1607-520X

SAQA Recognised Professional Body

ED

CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

Winter is here and the journal couldn't come at a better time. As we brace ourselves for another cold winter it is only mandatory that we keep warm during the season. In this issue we will be focusing on the economic state of the country and our 8th Audit & Risk Indaba. S&P Global ratings on April 3rd 2017 downgraded South Africa to a sub-investment grade and Moody's Investors Service placed the Baa2 long-term issuer and senior unsecured bond ratings of the government of South Africa on review for downgrade. On April 7th 2017, Fitch Ratings downgraded South Africa's unsecured foreign-currency and local-currency bonds to non-investment grade - commonly known as junk status. Junk status is a colloquial term used to describe a country that has dropped below an acceptable investment grade in the eyes of the three internationally recognised ratings agencies.

In light of the current economic climate, CIGFARO hosted its 8th Annual Audit and Risk Indaba from 19-21st June. With the Theme as *"Inculcating ethical culture through governance processes"*. With remarkable speakers to entice the audience with powerful topics and great presentation skills, we thank you all for your valuable time and expertise. The INDABA opened with a bang. The Honourable President Dr Krish Kumar officially opened the Audit & Risk Indaba 2017. The Honourable David van Rooyen, Minister of Cooperative Governance and Traditional Affairs (COGTA) was the Keynote Speaker touching on Youth development forums as he emphasized the fact that South Africa is a youthful country, with almost 55 percent of the population falling into the 15-34 year age grouping, furthermore, the Minister spoke of the commitment to zero tolerance in fraud and corruption that will demonstrate support for the overall Government Vision 2030, as espoused in the National Development Plan. The Auditor General Kimi Makwetu addressed delegates on Complementary role of internal and external audit in "clean administration processes", with the Auditor General emphasizing the Accountability in the Public Sector - stepped approach (Plan+Do+Check+Act). For more on the papers that were delivered at the INDABA visit our website www.cigfaro.co.za or download our Mobile App from your smart phone. The 2017 Audit & Risk INDABA would not be possible without our valued sponsors and exhibitors, see page 31.

For further information about our upcoming events and publications visit our website on www.cigfaro.co.za and you can also find us on our Social Media platforms:

- **Follow us on Twitter:** @CIGFARO-editor
- **Like us on Facebook:** Chartered Institute of Government Finance, Audit & Risk Officers- CIGFARO

***CIAO** - Mboneni Zwane, Communication Intern*

CONTENTS

EDITOR-IN-CHIEF
Ocean Makalima

MANAGING EDITOR
Esther Gumata

EDITING ASSISTANCE
Louise Muller, David Garegae, Bharthie Ranchoddas, Abbey Tlaletsi, Fathima Khan, Mboneni Zwane – Intern

ADVERTISING
Ocean Makalima, Hloni Tseke, Thandi Tshabangu – Intern

LAYOUT AND DESIGN
Eloise Watson

PHYSICAL ADDRESS
CIGFARO
28 Fortress Street, Rhodesfield, Kempton Park, 1619
Tel: +27 11 394 0879 • Fax: +27 11 394 0886
E-mail: oceanm@cigfaro.co.za
www.cigfaro.co.za

POSTAL ADDRESS
P O Box 4003, Kempton Park, 1620

PUBLISHER:
The Chartered Institute of Government Finance, Audit and Risk Officers.

PRINTED BY:
Triple Trend Printing (PTY) LTD

CIGFARO (ISSN 1607-520X), Chartered Institute of Government Finance, Audit and Risk Officers. Editorial contributions are welcome, but the publisher does not accept responsibility for unsolicited material, views expressed by contributors or correspondence, nor for the accuracy of information printed in this publication. All material submitted for consideration is subject to the discretion of the Editor and the editorial committee. The Editor reserves the right to edit all material. Contributions should be submitted in final form (Word document) by e-mail: oceanm@cigfaro.co.za to the Editor, accompanied by a short summary and preferably a photo of the author. For specifications on advertisement material contact the editor or Eloise Watson T: +27 72 451 6878.

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

COST EFFICIENCY – FLEET RATIONALISATION

In the current economic climate, it is imperative for public entities to closely monitor and reduce their biggest cost items to ensure value for money and optimal service delivery.

In municipalities in South Africa, bulk services is about the biggest cost centre. However, as electricity has an independent regulator in NERSA and water is controlled by independent water boards, there is really very little that municipalities can do to control these costs, except make representation and raise concerns with the relevant authorities.

The next biggest cost is salaries, wages and allowances. Here again, salary increases are centrally negotiated by SALGA with the labour unions. However, municipalities can ensure that productivity levels are measured and maintained at a high level, as well as ensure that the return on investment is demonstrated when posts are filled.

Procurement is another huge cost. The benchmarking of the prices of goods and services to ensure value for money is key to reducing this cost. Another possible initiative is the introduction of common standards by the South African Bureau of Standards and National Treasury for the Top 150 items procured by municipalities and public entities to ensure standardization and cost efficiency.

The next biggest cost centre is transport which is the focus of this foreword. Hopefully MSCOA will help aggregate all the costs related to transport to enable us to get a better appreciation of the full cost of the transport function. The anticipated vehicle costs for Metro is between 10 to 15% of their budget. Accordingly, there is huge potential for cost savings here.

Accordingly, we need to ensure optimal usage of our fleets and to rightsize them. At the Ethekwini Municipality, we are currently undertaking a vehicle rationalization project. The key initiatives are to centralize the fleet management function, tighten controls, introduce a pre-trip authority, and ensure more effective fleet monitoring and management. We have only begun the project as a pilot in one precinct and we have already saved over 100 vehicles so far.

In addition, we have requested line departments to re-motivate the need for the use of any vehicles overnight (i.e. vehicles taken home by staff). In terms of a being a caring city, we have started to put up signs of the vehicles for the public to report, bad vehicles, bad driving, and suspected unauthorized use of vehicles seen at malls, after hours, etc. Furthermore, the useful lives of the vehicles have been extended, however, bad vehicles that are not considered cost effective to repair are replaced.

Moreover, we are also looking at improving our shuttle service to help reduce the use of municipal vehicles by staff even further. In conjunction with this we are also looking at the rationalization of drivers and messengers which will hopefully lead to more cost savings. We are also encouraging video conferences rather than travelling to meetings.

In view of the aforegoing, I strongly suggest that you critically analyze and review your transport costs. This is one of our biggest costs in our cities and entities, and there are certainly potential cost saving opportunities. As Taiichi Ohno said, "Costs do not exist to be calculated. Costs exist to be reduced."

KRISH KUMAR
CIGFARO PRESIDENT

MESSAGE FROM THE CEO

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

This Journal edition is for a season which poses challenges to productivity levels for some people and at the same time creates a conducive environment for some to excel in increasing their productivity levels. We take advantage of this winter season to reflect and consolidate activities covered in the previous season, Autumn, and to plan in advance for the institute's climax season of hosting our most referred Annual Conference inclusive of the Annual General meeting.

Our 2017 Annual Conference scheduled for 09th -11th October 2017 at Cape Town International Convention Centre, will be anchoring on the theme; **"SUSTAINING SERVICE DELIVERY AMIDST THE CHALLENGING ECONOMIC CLIMATE".**

Members and all other participants are being reminded that prudent financial management requires advance planning and implementation, amongst others. This has a benefit of saving your organisation money which could be deployed elsewhere. It is against this background that CIGFARO is still offering Municipalities and all Stakeholders incentives of highly reduced fees for registering more participants before the normal registration period. You are once more urged to take advantage of this benefit. A competition has also been introduced for members and non-members who introduce new members to register and attend the conference. Winners will be announced and awarded prizes worth declaring, at the conference.

Whilst we are heavily engaged in the business activities of providing guidance, advice and training in Public Finance Management, we do think of and sympathise with Municipalities as well as families who were dealt a heavy blow by the rain storms and veld fires in the Cape areas. We appreciate assistance and support provided to date by Municipalities with their kind hearted residents. Our sincere condolences to those who have lost their lives during this bad time. We salute those heroes and heroines who battled throughout.

We will continue as CIGFARO to provide support in any form, within our limitations, through our branches. We trust that the dust of suffering will settle down soon, and the bright sun will shine again.

We are also very hopeful that the water shortage experienced in other areas will also pass. We urge all citizen to use water more wisely. Water is life and it is of recent a great privilege to have more than sufficient clean water at our disposal. Use it whilst being mindful of the fact than there are some who do not have access to a drop of what you waste.

The highlight of this term will be the celebration of our global icon, the late Dr. Nelson R. Mandela. His legacy of sound ethical conduct, good morals as well as embracing each other will remain with us forever. May his soul rest in peace!!! C

ABBEY TLALETSI
CIGFARO CEO

Code of Conduct

by Paledi Marota, Vice President - Technical Ekurhuleni Metro

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

Purpose of Code of Conduct in the work environment in addressing Ethical Dilemmas

Ethics programs are meant to influence how people think about and address ethical issues that arise daily when doing their jobs. The same principle is necessary for a typical work environment like a Municipality which has a social responsibility and is dealing with service delivery to communities on daily basis. Gretchen Winter, vice president of business practices at Baxter International, puts it this way: "By providing employees with ethics standards, training, and resources to get advice, organizations seek to create a work environment where (1) it's okay for employees to acknowledge that they have an ethical dilemma, and (2) resources are readily available to guide employees in working through such dilemmas before making decisions".

Do we have the necessary resources to guide employees when facing Ethical Dilemmas?

The resources referred to by Gretchen Winter above refers to legislations, Code of Conduct, Risk Management frameworks, Management and Oversight Structures in place to guide employees in addressing the ethical dilemmas they face daily when doing their jobs. In Local Government there are many legislations available to assist in managing ethical dilemmas which may lead to corrupt activities that reduces the community's trust in Municipalities. The following legislations are available to prevent corruption in Municipalities and Municipal entities

- Municipal Finance Management act 56 of 2003
- Municipal System's Act 32 of 2000 (Includes Code of Conducts for both Councilors and Municipal Officials)
- The Protected Disclosures Act no 26 of 2000
- Supply Chain Management Regulations

For this article we will concentrate on one of the key resources being the Code of Conduct because its main purpose is to create a platform for employees to be able to differentiate between their behaviors based on the upbringing values and the behavior expected when they are acting on behalf of the organization.

Provision of this key resources was made in the Municipal Systems Act 32 of 2000 to assist in managing ethical dilemmas to both Councilors and Municipal officials as Schedule one and two which includes the consequences for non-compliance (Breach of the Code). The additional code of conduct available for municipal officials is provided to guide the officials who are performing Supply Chain Management activities under the Supply Chain Management Regulations developed by National Treasury. A code of conduct is defined by many authors as a set of rules outlining the social norms and rules and responsibilities of, or proper practices for, an individual, party or organization. Concepts related to the code of conduct includes ethics, morality, integrity, values, principles, and laws. But the International Federation of Accountants provides a clearer perspective by defining Code of conduct as "Principles, values, standards, or rules of behavior that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations."

The importance of the code of conduct

The importance of this code is being emphasised by one of the statements from the Free Management Library which holds that; **"...a code of conduct is important because it promotes moral behaviour, acts as a guideline for ethical decision making, enhances the reputation of an organization, prevents negative legal effects, encourages positive relationships, acts as a reference for solving ethical dilemmas"**. A code of conduct can be looked at as an administrative formality or a vital, comprehensive guideline for making company decisions. The code of conduct gives employees the basic tools to take informed risks on behalf of their organizations. Ethical guidelines benefit organizations by directing employees away from non-ethical risk-taking and into more productive and appropriate kinds of risk-taking. Ethics cannot completely prevent all types of misconduct from occurring in an organization but it reduces them to a very minimal level which cannot compromise the organization's integrity. Even in the most ethical organizations, there are always a few employees who willfully break the rules.

Achieving the benefits of the code of ethics in the organization relies on every employee's awareness of and commitment to the code. Listed below are the benefits of the code of ethics:

- It guides employees in situations where the ethical course of action is not immediately obvious.
- It helps the company to emphasize and familiarize new employees with its culture and values. A code can help create a climate of integrity and excellence.
- It helps the organization to communicate its expectations to staff, suppliers, vendors and customers.
- It reduces subjective and changeable management standards. A code openly outlines the rights and responsibilities of staff members and helps safeguard against changeable and preferential treatment of employees.

Code of Conduct

by Paledi Marota, Vice President - Technical Ekurhuleni Metro

- It helps the organization to be in compliance with government regulations.
- Build public trust and enhance business reputations.
- The code helps demonstrate the company's values to socially responsible stakeholders.
- The code offers protection for the company in preventing or protecting against lawsuits.
- The code helps to boost the morale, employee loyalty and the recruiting of exceptional employees.
- It helps to promote beneficial social change by raising awareness of the customer's needs and encouraging employees and other stakeholders to assist.

What's outlined in the codes of conducts in Schedule one and two of the Municipal System's Act?

Schedule 1 applicable to councilors addresses the following matters:

- Behavior when performing council duties
- Attendance at meetings
- Sanctions for non-attendance of meetings
- Disclosure of interests
- Personal gain
- Declaration of interests
- Councillors undertaking private work
- Rewards, gifts and favours
- Unauthorised disclosure of information
- Intervention in administration
- Usage of Council property
- Duty of chairpersons of municipal councils
- Breaches of Code
- Application of Code to traditional leaders

Schedule 2 applicable to municipal staff members addresses the following matters:

- General Conduct
- Commitment to serving the public interest
- Personal gain
- Disclosure of benefits
- Unauthorised disclosure of information
- Undue influence
- Rewards, gifts and favours
- Usage of Council property
- Payment of arrears
- Participation in elections
- Sexual harassment
- Reporting duty of staff members
- Breaches of Code

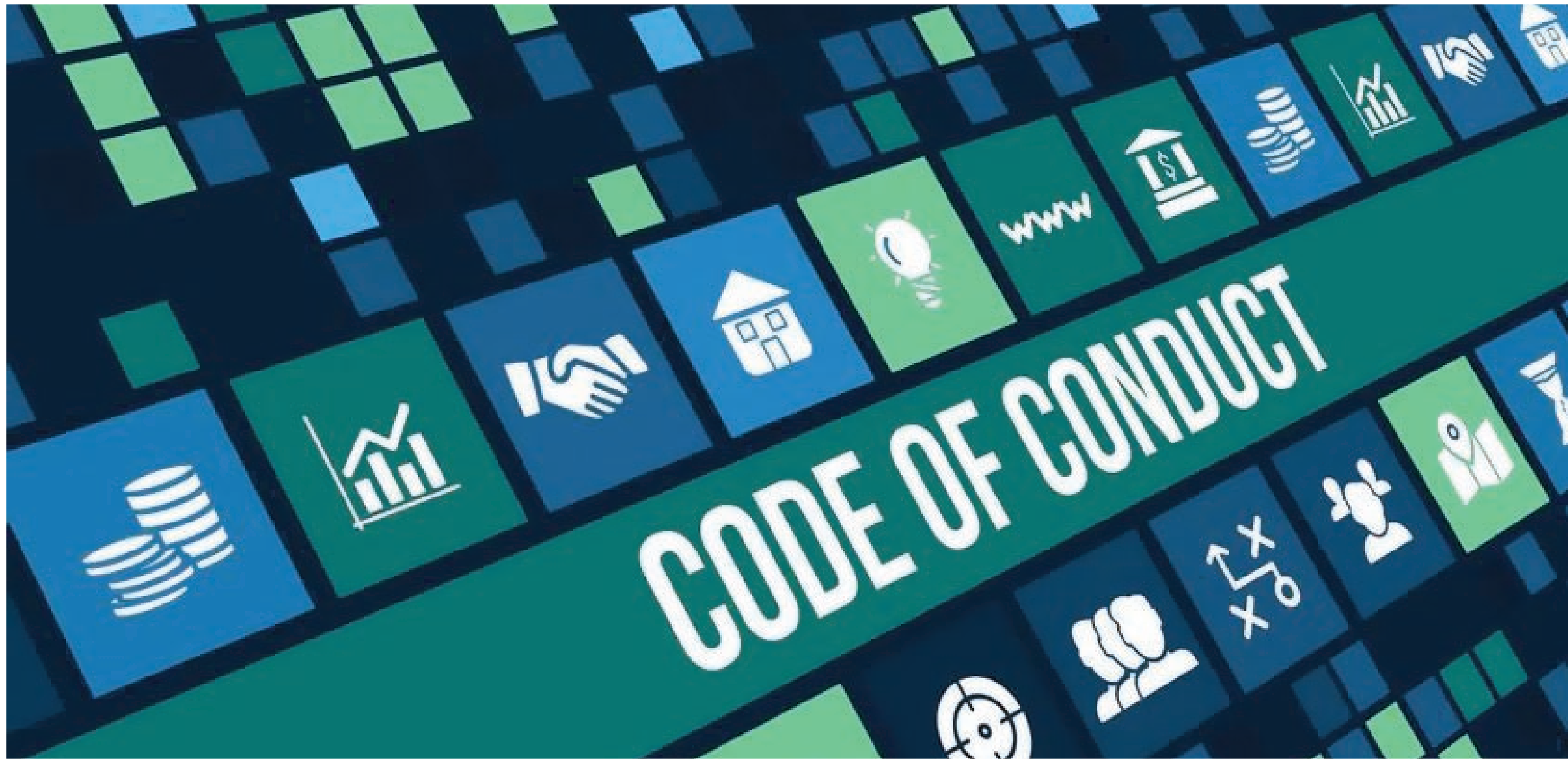
The National Treasury has developed an additional code of conduct on 28 July 2005 for Municipalities and Entities, as part of the Supply Chain Management Policy's ethical standards set out in clause 46(4) of the policy. This was in addition to schedules outlined above which were introduced in 2000 as part of the Municipal System's Act. That Code of conduct which is applicable to officials executing Supply Chain Management roles addresses the following matters:

- General Principles
- Conflict of Interests
- Accountability
- Openness
- Confidentiality
- Combative Practices

Codes of Conduct in Municipalities appears not to be helpful in preventing unethical conducts, why?

Currently Municipalities are perceived to be conducting businesses unethically despite the availability of all the tools which have been outlined above. Majority of communities have lost confidence in the municipalities such that they resort to community protests as the only way to raise their concerns against corruption. Government made provision for whistleblowing mechanisms which still seem not to be adequate to assist in preventing unethical behaviors. The question one always ask is where did we get it wrong? Did we not communicate the code of conducts adequately to both councilors and municipal officials in all the municipalities? Do we lack ethical leadership country wide which can lead by example? Are our professional institutions not helping by instilling the right values and principles to their members to uphold integrity at all times? It is very much difficult to answer the above questions as an individual but only the perpetrators know the answers.

"The image of a government depends upon the conduct of public functionaries and the perceptions of its citizenry regarding the acceptable standards of services offered by the functionaries. It is, therefore, of fundamental importance that public functionaries act justly and fairly to one and all, not only paying lip service to transparency and openness but also ensure that these are manifested based on Batho Pele principles per se. It is imperative that each public functionary, upon accepting government employment, takes cognizance of the fact that there is a special duty to be open, fair and impartial in interacting with the public ((Vyas-Doorgapersad & Ababio, 2006: 385)". The researcher is correct because what is more



crucial is the commitment and dedication by the employee at the beginning when they accept appointment in government institutions. Unfortunately, lately the culture is such that civil servants accept positions for self-enrichment and forget the main purpose being provision of service delivery to our communities in a transparent manner. There are several efforts made by the Government to improve the situation through the introduction of relevant pieces of legislation as well as monitoring systems at National and Provincial Departments. These efforts seem to be making less impact. It is very difficult to determine the actual root cause of the unethical culture in municipalities except for "Self Interest" or maybe one can suggest that it is all about "Self-enrichment at the expense of communities".

Conclusion:

There are institutions we have to commend for excellence in this regard. Our Judiciary, Chapter 9 institutions such as the Office of the Auditor General and the Office of the Public Protector as well as some municipalities do have Officials with sound ethical conduct. There are good lessons to be learned from them.

We have to accept the fact that damage is done but it is never too late to remedy the situation. The very same code of conducts available can be of help if we can change our attitudes towards handling of public funds. Let's go back to our different municipalities and ensure the alignment between the Performance Management System and the code of conduct. Let's make it a culture that awareness is done continuously in the municipalities about the relevant codes of conduct. As part of the internship programs in different municipalities, let's include the code of conduct as the crucial element of the training process to ensure that we instill the right culture in the future municipal employees.

Let's learn something from McNamara's 8 Guidelines for Managing Ethics in the Workplace:

1. Recognize that managing ethics is a process.
2. The bottom line of an ethics program is accomplishing preferred behaviors in the workplace.
3. The best way to handle ethical dilemmas is to avoid their occurrence in the first place.
4. Make ethics decisions in groups, and make decisions public, as appropriate.
5. Integrate ethics management with other management practices.
6. Use cross-functional teams when developing and implementing the ethics management program.
7. Value forgiveness.
8. Note that trying to operate ethically and making a few mistakes is better than not trying at all.

Key investment principles to support your investment decisions in uncertain times

by David Garegae, City Of Tshwane Metro

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

INTRODUCTION

The recent cabinet reshuffle, which led to South Africa being immediately downgraded to junk status by one of the ratings agencies, Standard and Poor's (S&P) Global Ratings, has led to panic to most investors as the rand continued to lose value. This loss of value by the local currency does not affect investors alone, but every citizen is affected since as the buying power of the rand becomes weaker, consumers can buy few items from what they have. It is therefore important for citizens as investors to know what to do in such times. According to Old Mutual, the following are the 8 principles to support your investment decisions during uncertain times:

1. **A sound financial plan helps build confidence regardless of what the market is doing**
   Your financial plan should be tailored to your particular financial needs and risk profile. It should include your goals, current financial position and make adequate provisions for the future. It is important to review it regularly with the help of a financial advisor.

2. **A diversified portfolio will help to manage your risk**
   A sound financial plan includes a balanced portfolio of investments with shares, bonds, cash and property invested in both local and international markets. Combine a range of different asset classes to ensure that you do not have too many eggs in one basket. The result is a lower level of overall risk, while still enjoying exposure to potentially inflation-beating returns.

3. **Always consider your investments as a whole**
   In any diversified portfolio there will always be times when one asset class outperforms another. Property may go up as shares come down. International investments may prosper when local markets fall. It is the total return over the longer term that matters. Portfolio managers can manage this exposure your behalf.

4. **It is time in the market that counts, not timing the market**
   No one knows with certainty when markets will rise or fall. Trying to time the market is not only stressful, it is very seldom successful. It is far better to use time to your advantage. The sooner you start investing, and the longer you invest, the more likely you are to make a handsome return, regardless of the ups and downs along the way.

5. **Over the long term cash is likely to deliver the returns needed to outpace inflation**
   Investing in cash may seem a safe bet, especially when markets are volatile. But it comes at the price of lower long-term returns. Every investor needs at least some part of their funds in liquid investments in case of an emergency. And for some investors, a larger cash holding may be appropriate.

6. **By investing regularly over the longer term, you generally get a better return on your investment**
   Research has proven that investors tend to join late in a rising share market, and then achieve disappointing results when the market falls. By contrast, when the market falls, investors stay out of the market, which means very few people are still buying at the market's lowest levels.

   If you are in the market with the aim of building your long-term wealth, it is better to disregard short-term performance fluctuations and to focus on your long-term goals. The wise investor continues to invest through dips in the market, knowing that the cheaper shares become the greater the potential when the market recovers.

7. **Invest with a partner experienced in managing different market conditions**
   In South Africa, there are many reputable financial services companies that can help you to manage your investments. These companies have tools, people and experience to help you structure your investments to match your needs and goals. A proper choice of an investment company can make you yield good results. However, great care should be taken when looking for investment company to avoid losing your investment.

8. **Each investor's solution is unique**
   Everyone's circumstances and needs are different. The right answer for your neighbour might not be the right one for you. Financial advisers are trained to help you think about what you want to achieve, and the best possible way to achieve it. They are there to provide you with an objective view.

Conclusion

The above investment principles are a guide to managing your portfolio but its best to seek professional advice. It is advisable in view of the current economic situation to maximise on investment opportunities.

References: Old Mutual

Finance Structures within Municipalities: A guide to Revenue Loss Recovery

by Krish Kumar, CIGFARO President

The distribution of electricity requires significant operating revenues and expenditure from municipalities. However, due to national power utility Eskom's high bulk tariff increases municipalities have had to make tough financial decisions with regard to competing priorities.

The priorities include the affordability and sustainability of free basic electricity, keeping electricity tariffs to consumers affordable, maintaining or improving collection rates, ensuring sufficient reinvestment in electricity infrastructure through cost-reflective tariffs, funding the rollout of electricity projects for economic growth, as well as environmental sustainability and energy efficiency. Accordingly, municipalities currently face a tricky balancing act in terms of structuring the finances of electricity.

FUNDING SOURCES OF MUNICIPALITIES

In 2015/2016, the main sources of revenue for municipalities in South Africa were property rates (14%), service charges (46.1%), transfers and subsidies (30%) and other own revenue sources (9.9%). Seventy percent of revenue of municipalities is self-generated.

Service charges are comprised of electricity, water, sewerage and refuse and make up the bulk of revenue (46%). In 2015/2016 R83.6 billion ($6 million) was billed for electricity revenue in metros and secondary cities. This equates to about 22.4% of the adjusted revenue budget of R373.1 billion ($20 billion). Electricity revenue plays a huge role in terms of the financial sustainability and viability of municipalities.

ELECTRICITY EXPENDITURE

As regards electricity expenditure, it is interesting to note that the increase in bulk electricity costs have far outstripped the overall increase in operating expenditure. For example, in 2013/2014 the total municipal operating expenditure increased by 7.3% against an increase of 16.3% in total municipal expenditure on bulk electricity purchases whilst in 2014/2015 it was 9.6% against 16.6%.

PAYING OF POWER BILLS

At the outset it must be stated that there is no excuse for any municipalities to pay their utility bills. It is unacceptable that such municipalities are not paying Eskom, especially as they are ringfenced operations. However, it is pleasing to note that as of 31 January 2017 only one municipality, Naledi Local Municipality in Vryburg, North West Province, has yet to pay Eskom and has not come up with a sustainable financial plan.

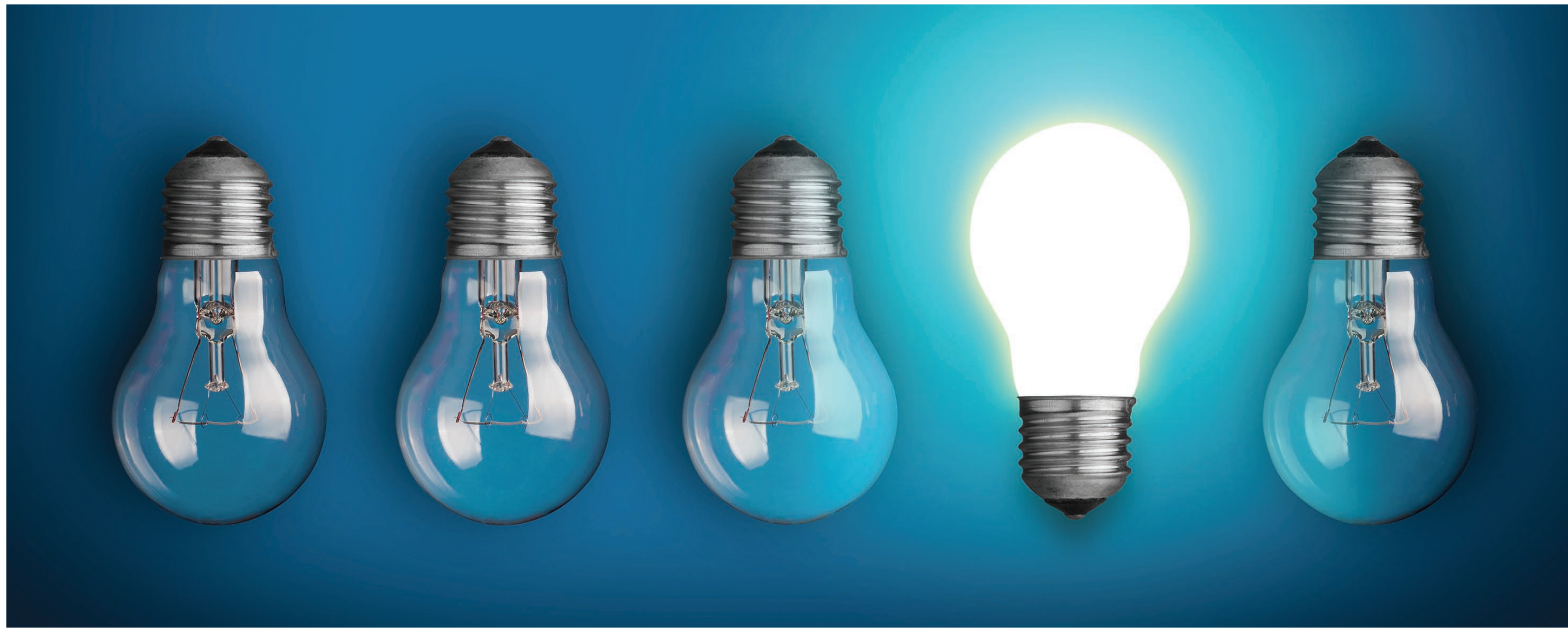
The other eight municipalities have managed to come up with plans to foot their bills and are considered out of danger. Illegal electricity connections are the major contributing revenue loss issue in these municipalities.

It must also be stated that the Eskom bulk tariff increases have increased the burden on consumers and have made it very difficult for municipalities to collect all revenues from electricity.

The graph clearly illustrates the above-inflation increases in bulk tariffs to municipalities. The tariff increases were particularly significant from 2008 to 2011 when electricity prices increased by 78% in real terms. However increases continue to be above inflation. Municipalities have in many instances absorbed some of these increases to alleviate the burden on consumers; however, decreasing collection rates remain a burden for municipalities. This has placed great strain on the finances of municipalities in terms of liquidity and sustainability, as confirmed by a study undertaken by the Financial & Fiscal Commission (FFC) on the impact of electricity price increases on municipalities.

Moreover, the profit margins that the National Energy Regulator of South Africa (NERSA) has approved for the power utility in terms of Eskom's surpluses, have placed municipalities in a very difficult financial position and this is resulting in erosion of cash reserves, as well as higher property taxes, to make up for the shortfall. Where this is not possible the ultimate impact is reduced service delivery.

However, Minister of Public Enterprises Lynne Brown has identified a number of challenges in the approach of the power utility as the bulk service provider. These need to be addressed politically in order to ensure a fair dispensation to municipalities. The minister is also of the strong view that the current Eskom disconnection threat to municipalities is not a long term, sustainable solution to the current challenges that municipalities are facing but can only result in unintended consequences in terms of public unrest.



ELECTRICITY RETICULATION

On the electricity reticulation front, the constitution provides that municipalities are responsible for electricity reticulation to end users. However, due to historical and institutional arrangements, Eskom has reticulated electricity to huge numbers of end users across the country. This has massive implications for municipalities. The South African Local Government Association (SALGA) is of the view that all the said aspects can be addressed in service delivery agreements entered into between the utility and the relevant municipalities. In an attempt to regularise this, SALGA has proposed a framework agreement to be entered into, between Eskom and SALGA on behalf of municipalities, but Eskom has to date not been willing to do this.

SALGA has also suggested that serious consideration should be given to the restructuring of the industry to give effect to the constitutional authority of municipalities with regard to electricity reticulation. The association has proposed that Eskom relook at its internal policies that are implemented to the detriment of the financial sustainability of municipalities. The utility is also required to comply with the relevant legislation within the current dispensation as well as in the new electricity reticulation developments within the areas of jurisdiction of the municipalities concerned.

ELECTRICITY COLLECTION RATE

According to National Treasury, in 2014/2015, the national collection rate for electricity by all municipalities was 95.9%. This is above the norm of 95%. To improve the collection rate, there must be strict adherence to the Credit Control & Debt Collection Policy of the municipality with no political interference, especially with regard to disconnections.
Other initiatives that municipalities can use to improve their electricity collection rates include, inter alia, the following:

- Ensure all properties are metered
- Monthly electricity meter readings
- Prepaid metering and smart metering
- Adequate provision for bad debts
- An effective billing and cash receipting system
- A good Debt Management Strategy, which includes the monitoring of the Top 100 debtors (based on the 80-20 principle);the pursuance of government debt; addressing the issue of returned mail, using revenue clearance certificates (RCCs) when a property is sold to ensure that all outstanding debt is collected; debtors are closely monitored; adequate deposits are held in respect of errant customers; developing customer consciousness by fast action and effective communication; and automation of the debt collection processes.
- Sanctions for non-payment should include: credit bureau listings; disconnections; consolidation of debt; selling of properties in the High Court (saleinexecutions); sale of movables in the Magistrates' Court; and the removal of meters (especially where there is tampering).

Finance Structures within Municipalities: A guide to Revenue Loss Recovery

by Krish Kumar, CIGFARO President

ELECTRICITY LOSS IN DISTRIBUTION

Electricity losses in distribution was measured at 8.47% in 2011 and 8.49% in 2013 against a world average of 8.163% in 2013. Theft of electricity through illegal connections is a key issue. A dedicated team to deal with inspections, detections, investigations, and prosecutions can help, as well as a hotline, prepaid metering, and community education campaigns.

According to the Financial & Fiscal Commission (FFC), the current investment of municipalities in repairs and maintenance is 3–4%. They also suggest that a spend of 6–8% is required to reduce the technical loss in distribution. This means higher electricity tariffs, which in turn will impact on the affordability of electricity for consumers.

FREE BASIC ELECTRICITY

This is a major challenge in terms of affordability and the impact on the financial sustainability of municipalities. With increasing ruralurban migration, this is a growing problem. In addition, this leads to cross-subsidisation of the electricity service by paying consumers. However, in smaller and rural municipalities there are insufficient high-use residential and business customers to cross-subsidise the tariffs. Whilst the equitable share has been allocated to fund this, there is a funding gap in municipalities.

FUNDAMENTALS OF FINANCING ELECTRICITY PROJECTS

In the current economic climate, there is a definite need for electricity projects that drive growth in the economy. Accordingly, there must be a balance between electricity bulk services for housing and economic development projects. Projects for economic development must clearly show that they are feasible, make business sense and have economic benefits. There are various funding sources for such projects, such as private-public funding, grants, own revenue sources, borrowings, developer contributions, and land value capture. A new local business tax could also be used to fund such projects and developments in terms of the infrastructure costs.

The timing of such projects needs to be carefully considered and own sources of income need to be optimised in the first instance. Currently such projects in the main form part of the capital budget and are funded through borrowings and own funding. A notable project by international energy company Enel has brought two new solar plants into commercial

Finance Structures within Municipalities: A guide to Revenue Loss Recovery

by Krish Kumar, CIGFARO President

operation through its renewable energy subsidiary, Enel Green Power RSA. This will help make a significant contribution to the country's economy. Together, the two solar plants will be able to generate 318GWh per year; equivalent to the annual consumption needs of around 100,000 households.

In addition, the long-term plan for electricity generation, the Integrated Resource Plan (IRP), is at the time of writing being reviewed by the department of energy. The IRP is a 20-year plan for the expansion of the electricity supply, which needs to ensure adequacy of supply, support a manufacturing base, retain the country's competitive position globally and ensure sustainable use of local resources. According to SALGA, it has profound implications for local government's role in the country's future energy landscape.

Due to rapid structural changes and behavioural issues in the energy sector, municipalities have reached a point where they need to seriously consider reviewing their business models: from traditional buying of bulk supply from Eskom and selling to its customers to being their own power generators, as well as playing a role in the independent power producer space.

SALGA's main concern is that local government is charged with a developmental mandate, which includes universal access to energy and electricity. However, the current IRP does not clarify the role of local government in the energy sector considering the rapid changes in that sector.

CONCLUSION

Given the weak economic outlook and the constrained resources of municipalities, the actions of municipalities must be focused on improving their efficiency; reinvesting more in electricity infrastructure maintenance; introducing a strategy to reduce illegal electricity connections; enhancing revenue collection, in particular prepaid metering; identifying a new alternate source of income to fund electricity infrastructure, subject to own sources of income being maximised; as well as reviewing the spend on free basic electricity.

In addition, they need to review their role with regard to producing their own energy in terms of the and restructuring of the industry, as well as making sure they pay their Eskom accounts. ESI

Exploring Revenue Enhancement Strategies in Rural Municipalities: A Case of Mutale Municipality

by Frank Moffat, Peter Bikam and Godfrey Anyumba - University of Venda

On a regular annual cycle, the Auditor General presents the financial state of South Africa's municipalities. This paper discusses revenue enhancement strategies employed by rural municipalities to enhance their revenue generation, given the challenges arising from uncertainty, fragility and insecurity. Mutale Local Municipality was the case study for the paper. A revenue enhancement survey approach that set to unpack the various constraints hindering revenue enhancement as adopted. The findings are that the major constraints to revenue enhancement in rural municipalities are attributed to ineffective municipal business model and structural constraints. The recommendations emanating from the study were that rural municipalities should strive to reduce their revenue collection constraints by implementing revenue efficiency measures and explore other revenue collection avenues.

1. INTRODUCTION

The financial concerns for rural municipalities raised in this paper are captured annually via the Office of the Auditor General (Auditor General–South Africa, June 2016). The 2016 report noted that rural `municipalities were the main contributors to the significant increase in irregular expenditure over the past five years' (ibid p.7). `Despite having access to a plethora of own revenue sources, local governments in South Africa are generally perceived as hard pressed for revenue or fiscally stressed' (National Treasury, 2009 cited in Rakabe 2010:132). Notably, Category B rural municipalities, like Mutale, generate less than 20% from own revenue sources. The Fiscal Financial Commission of South Africa (FFC) (2013a), showed major concern regarding the ability of rural municipalities in supporting their expenditure mandates from the current revenue instruments.

2. AIM OF THE PAPER

The aim of this discourse was to explore revenue enhancement strategies employed by the defunct Mutale Local Municipality (MLM) to determine if rural municipalities have the revenue capacity to support their expenditure mandates and to identify possible ways of increasing revenue generation. Previous studies in this area tended to be towards assessment of municipal fiscal stress, financial viability of local governments; fiscal decentralization and improving collection of own revenues (Slack 2009, Rakabe 2010). A research gap was identified regarding revenue enhancement strategies in rural areas given their challenges. This paper discusses the effectiveness of the implementation of Mutale revenue enhance strategy. It also analyses constraints and opportunities associated with revenue enhancement in rural municipalities. This paper concludes by recommending revenue enhancement strategies for rural municipalities. This study was undertaken before the dismantling of Mutale LM by the Demarcation Board.

3. METHODOLOGY

This study adopted a revenue enhancement survey approach prompted by fiscal challenges, to unpack the various constraints hindering revenue enhancement of Mutale. Results from the key informants and municipal financial annual statements were compared with information from residents. The analysis focused on how effectively the revenue enhancement strategy was implemented as well as the constraints and opportunities associated with revenue generation. This aided in explaining why rural municipalities are grappling with fiscal challenges.

4. RELATED LITERATURE ON REVENUE ENHANCEMENT STRATEGIES IN MUNICIPALITIES

The UNDP (2001) cited in Rakabe (2011:133) states that, `Traditionally, local government revenue enhancement has always been to involve effective mobilization of existing local revenue sources from various sources such as business licenses, service fees, rents and property taxes.' Revenue enhancement is a complex approach that involves identification of additional revenue sources, cutting off or eliminating unnecessary expenditure and improving

efficiency. Furthermore, it entails broad improvements in municipal financial systems, e.g. effective revenue management, regular revenue collection, enforcing policies, budget execution and educating ratepayers about the significance of paying for services etc. (Rakabe, 2011:133). Meanwhile, the Municipal Infrastructure Investment Unit (MIIU), (2006:2), states that revenue enhancement focuses on key aspects of municipal business model.

The concept of revenue enhancement originates from the theory of fiscal stress, which grew in the late 1970s and 1980s, (Rakabe 2011 & Carr et.al 2010). Theoretically, causes of fiscal stress in local governments are broadly categorized as external (cyclical) and internal (structural) factors. Cyclical factors are economic fluctuations that affects revenue bases negatively. Structural factors are institutional and environmental factors i.e. government policies, increasing arrears in municipalities, low revenue base in rural municipalities, socio-economic factors, the economic base, and decreasing central governments transfers etc. (Adam, 2009:2; Rakabe 2011:135).

Local Fiscal Government Budget and Review (2011:36) dismisses the notion that rural municipalities are poor and not viable. It indicates that Section 227 of the Constitution of South Africa states that local governments are entitled to receive an equitable share from revenue raised by the national government and may receive conditional or unconditional allocations from the national and provincial governments. However, Section 227(2) of the Constitution indicates that the national government has no obligation of bailing out municipalities that do not raise revenue from their revenue base. Thus, municipalities are expected to strive within their fiscal capacity to raise own revenue through various means i.e. revenue enhancement strategies.

5. DISCUSSION ON MUTALE REVENUE CAPACITY AND REVENUE ENHANCEMENT CHALLENGES

Mutale's revenue capacity and enhancement strategies are discussed to determine the impacts on increasing municipal revenues, the causes of revenue collection constraints, the opportunities of revenue enhancement. Mutale was the smallest amongst the four local municipalities in the Vhembe District Municipality (Figure 1 below).

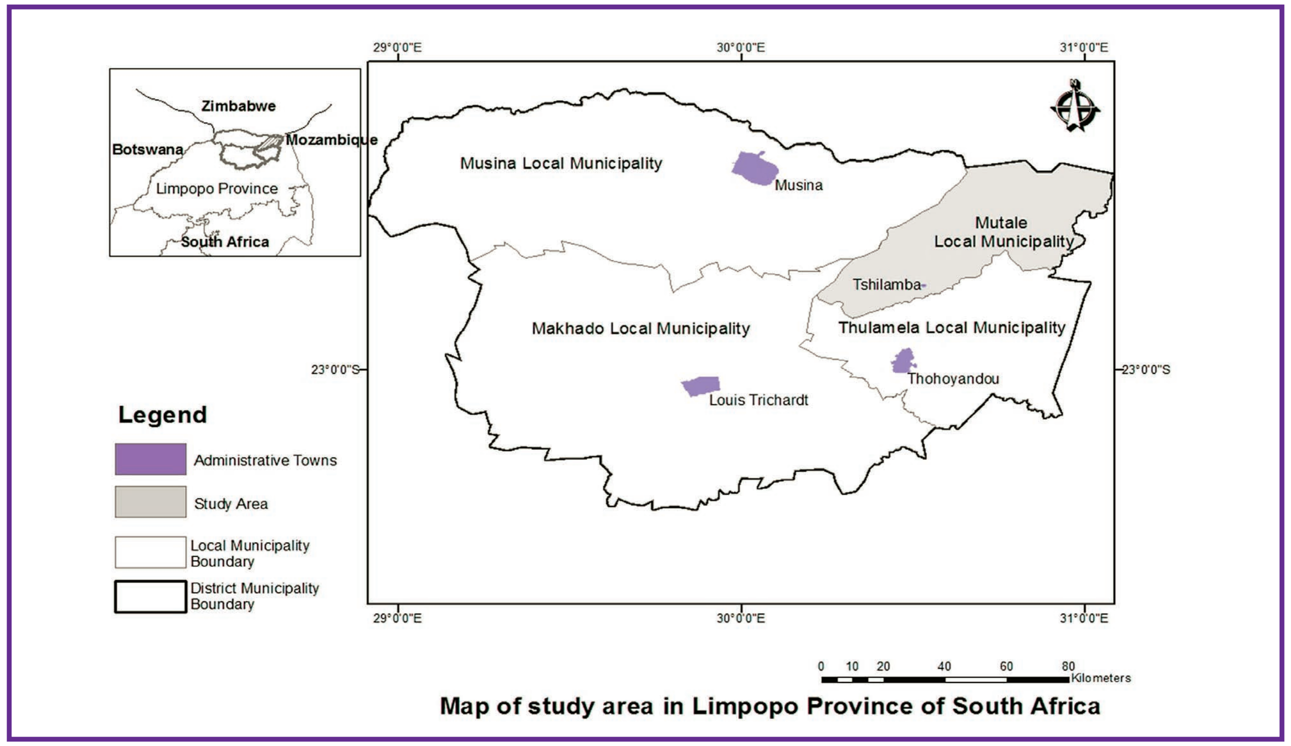


Figure 1: Geographic location of Mutale Local Municipality

Exploring Revenue Enhancement Strategies in Rural Municipalities: A Case of Mutale Municipality

by Frank Moffat, Peter Bikam and Godfrey Anyumba - University of Venda

Mutale was a Category B municipality. It was established in 2000 in accordance with the Local Government Municipal Structures Act No. 117 of 1998. Mutale bordered these local municipalities and countries; Makhado to the west; Thulamela to its south; Mozambique to the east; Musina and Zimbabwe to its north.

5.1 Financial outlook and effectiveness of Mutale revenue enhancement strategy

Mutale's financial outlook (table 1) was analysed to understand the overall revenue generation performance. The aim was to determine its financial viability in support of its expenditure mandates, and effectiveness in implementation of the revenue enhancement strategy.

Table 1: Mutale municipality financial outlook (2006/7-2012/13)

Description	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Value in South African Rands	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome
Financial Performance							
Property rates	1 187 000	1 188 000	789 000	764 000	3 111 000	3 316 000	1 440 000
Service charges	95 000	127 000	743 000	6 488 000	196 000	225 000	249 000
Investment revenue	213 000	3 000	384 000	94 000	350 000	1 153 000	401 000
Other own revenue	3 762 000	5 406 000	2 939 000	4 724 000	5 407 000	5 259 000	4 474 000
Total own revenue	**5 257 000**	**6 724 000**	**4 855 000**	**12 070 000**	**9 064 000**	**9 953 000**	**6 564 000**
Transfers recognised – operational	17 783 000	23 830 000	38 805 000	54 456 000	41 126000	4 726 000	46 869000
Total Revenue (excluding capital transfers and contributions)	**23 039 000**	**30 554 000**	**43 660 000**	**66 526 000**	**50 191 000**	**14 678 000**	**53 434 000**
Total Expenditure	35 134 000	38 811 000	65 604 000	56 055 000	52 165 000	4 377 000	54 800 000
Surplus/(Deficit)	**-12 095 000**	**-8 257 000**	**-21 943 000**	**10 471 000**	**-1 975 000**	**-28 799 000**	**-1 367 000**

Source: Mutale Municipal Budgets & MTREF & Supporting Tables' version 2.2 (2010/11-2014/15)

Table 1 indicates the various financial performances as per the first column for the 2006/7 to 2012/13 financial years.

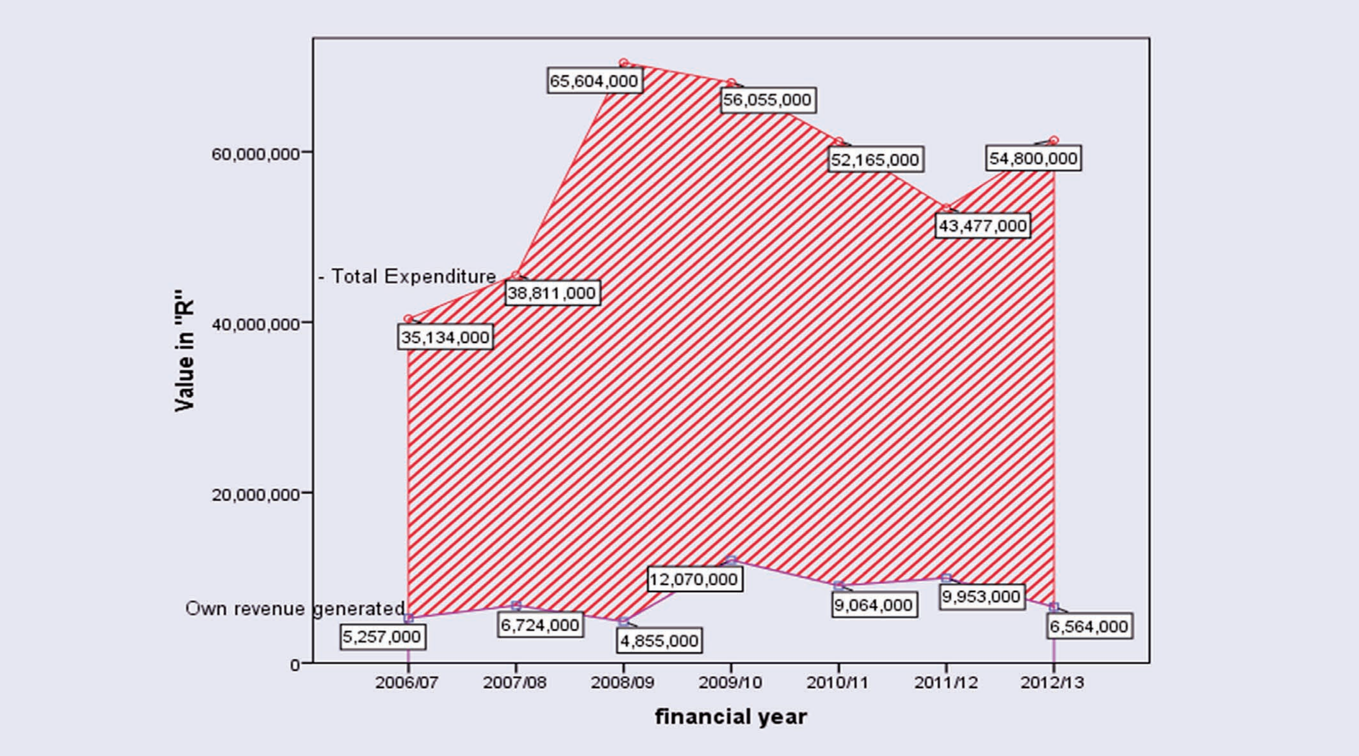
5.2 Revenue collection challenges

Table 1 reveals, inconsistencies in revenue collection and challenges therein. For example, Mutale collected R3 111 000 and R3 316 000 in 2010/11 and 2011/12 respectively, compared to R1 140 000 collected in 2012/13 financial year. This substantiates FFC's (2013b) view that rural municipalities are not reaching their full capacity of collecting property rates. In 2010 the FFC predicted that property rates capacity ranged between an average revenue capacities of R100-R80 vs the average rates collected of R60-R40 in rural municipalities. This implied that revenue generation was compromised, with the municipality not maximising the collection of property taxes.

5.3 Effectiveness of revenue enhancement strategy

The effectiveness of revenue enhancement strategies, can be measured by means of assessing economic efficiency and fairness, tax burden for each service user, the total revenue yield etc. (Rakabe 2011:147). Figure 2 illustrates the revenue yield versus total expenditure for Mutale.

Figure 2: Mutale Own Revenue Generated vs. Total Expenditure.



Source: Mutale Municipal Budgets & MTREF (2010/11-2014/15)

Figure 2 illustrates fiscal stress, i.e. the difference between own revenue generated by the municipality and its operational expenditure. Take any year and the picture is one of a very limited municipal revenue contribution compared with the total expenditure. This evidence confirms the perception that `certain municipalities will never be financially viable' (FFC 2013a:14). Fig 2 shows that Mutale municipality was over reliant on government transfers, grants and subsidies to cover up its operational expenditure. This `soft budget syndrome' (FFC, 2013a) serves as a disincentive for revenue collection by municipalities (Huyos & Uys, 2008) and it weakens local democratic accountability, (State of Local Government Finances and Financial Management Report, 2009:60).

5.4 Low revenue base

Mutale has a low revenue base. It is largely rural with most of the land under Tribal communities in 96.8% of its area with 150 rural settlements. The urban area consists of Tshilamba and Masisi townships accounts 2.9% of the area. Farms make up 0.3% of the area (Mutale Municipality Mid-Year Report 2012 & Mutale IDP 2014/15). Tshilamba and Masisi townships are the only areas where Mutale generated revenues (Mutale IDP 2008/09, 2008:112).

In 2012/13 financial year Mutale generated a revenue of R1 440 000, (or 2.7% of its total revenue) from property rates from these two towns. Additionally, Mutale had 18,333 (77%) indigent households compared to the total household number of 23, 751 for the whole municipality.

5.5 High unemployment rate and poor economic performance

Mutale's poor socio-economic conditions such as high unemployment rate 48.8% (Statistics South Africa 2011), low educational levels of residents and lack of commercial land uses are additional impediments to the revenue yield. Thus, it is impossible for the unemployed residents without an income to pay for services. Mutale's poor economic performance was caused by lack of key development plans fostering economic growth and employment creation such as Infrastructure development plans (Mutale IDP 2014/15:27). For instance, Mutale did not budget for Local Economic Development (LED) projects that are critical for the generation of own revenue streams. The National Development Plan (NDP) 2030 clearly states that for South Africa to achieve economic growth, there is the need to invest in infrastructure. In this respect the MIIU (2006), adds that, municipalities must develop, programmes that facilitates LED that enhance residents' ability to pay for municipal rates and services.

Furthermore, approximately 60% of Mutale's population relied on social grants, i.e. 54% relied on child support grant as their source of livelihood and they cannot afford to pay rates and taxes (Mutale IDP 2014/15 & Vhembe IDP 2012/13-2016/17). Additionally, Mutale's Indigent Policy, stipulated that households would receive basic services charged on the indigent tariff. Given these poor socio-economic characteristics, Mutale relied on government grants and subsidies for its service delivery and expenditure needs.

5.6 Political sensitivity

Political party sensitivity is a constraint to revenue collection as there is no buy-in to enforce credit control to recover revenues. There is the political fear of the erosion of popular support. Municipal officials are restricted by political interventions from collecting outstanding debt.

5.7 Unwillingness of residents to pay for rates and taxes

Further fiscal stress in Mutale can be attributed to (i) the unwillingness of residents to pay for rates and services that were provided by the municipality and (ii) the poor municipal business model. The study revealed that, 16% of the respondents always paid for rates and taxes, compared to 23% that paid sometimes and 61% who reported that they are unwilling and did not pay at all. This lack of frequent payments and the inability and unwillingness to pay rates and taxes explains why Mutale had an ever-increasing municipal debt. The study revealed that those households that did not pay for rates and taxes did so because of entitlement to services, lack of disposable incomes due to low income levels, high dependency ratio, the lack of employment opportunities and the lack of trust in the local government. Furthermore, poor revenue generation was also attributed to the non-payment for services by sector departments (Mutale Mid-Year Report 2012, 2012:3).

5.8 Non-utilization of potential revenue sources

Mutale did not generate revenue from electricity and water services because of the lack of capacity to render such services. The Local Government Budgets and Expenditure Review (2011), Rakabe (2011) and Manyaka (2014), support the notion that most rural municipalities are facing fiscal challenges because they are deprived of their potential revenue sources as enshrined by the Constitution. Schedule 4 of the Constitution gives the responsibility of electricity distribution to municipalities but this function is executed by Eskom in most rural municipalities.

The low revenue generation in Mutale was attributed to the miniature tax base and not charging property tax to potential revenue sources such households and commercial farms (Mutale Mid-Year Report, 2012). Further complications were explained by the Local Government Budgets and Expenditure Review (2011), that imposing property tax in rural households was difficult because government issues them letters of `Permission To Occupy' (PTO). It's unclear whether such households are legally liable for rates on the land they are occupying. Other households revealed that they did not pay because they did not receive basic services.

5.9 Poor service delivery

The majority of respondents at 76%, expressed the opinion that they did not pay for rates and taxes because they reasoned that services provided by Mutale were `poor'. This attitude deterred the payment of rates and taxes. This obviously affected municipal revenue generation.

5.10 Contribution of poor billing to revenue enhancement

The study assumed that systems were in place to bill and notify household to pay for services rendered. However, the study learnt that most households did not receive bills notifying payments. This logically affected municipal revenue generation. Conversely other households did receive notifications, but they could not afford to pay. Thus, the municipality was billing those who could not afford to pay and that increased the municipality's debt. On further verification, it was discovered that erroneous receipt bills were attributed to incorrect customer personal data.

The municipal officials confirmed that inaccurate customer data and erroneous billing affected revenue collection in Mutale. However, a contrary view was presented in the Mutale IDP 2014/15, which stated that, 'complete, accurate, regular and timeously bills are dispatched to all consumers'. However, the IDP statement was contradicted by the study's findings.

5.11 Poor indigent registration

The municipal officials conceded that the lack of regular updating of indigent register impacted on revenue

enhancement in the municipality. The study revealed that the indigent register was not updated regularly. Studies by various authors i.e. Rakabe (2011), Kanyane (2011) & De Wet (2004), show that lack of regular updating of indiegent registers resulted in municipalities incurring debt, accumulated administrative costs and negative impacts on revenue generation. Another consequence of poor registration was that those who were supposed to graduate from indigent status and pay for services would keep receiving free basic services.

5.12 Poor Debt collection

Mutale had a poor debt collection system, between 2010/11 to 2012/13 financial years, the municipality did not collect 83% (R8 653 986.19) of its total billed services of R11 868 019.34. This trend was attributed to the following; (i) political party interference within the municipality, (ii) lack of enforcement of credit control and the enforcement of the debt collection policy, (iii) lack of updating of indigent register, (iv) inaccurate customer data and (v) the lack of human resources capacity etc.

5.13 Institutional constraints hindering revenue enhancement

Lack of appropriate ICT infrastructure deterred effective and efficient revenue generation in Mutale, (Mutale IDP 2014/15). Most of the municipality's business processes were largely manual, resulting in production losses as well as inaccurate data management deters effective and efficient revenue generation. In addition, there was the lack of municipal staff in strategic units such as LED officers to address issues related to mining, agriculture and tourism, which are potential revenue generation areas (Mutale Mid-Year Report 2012 & Mutale IDP 2014/15). The institutional factors such as unfilled critical vacant positions, the lame political support and lack of property valuation software adversely impacted on municipal revenue enhancement.

6. RECOMMENDATION ON REVENUE ENHANCEMENT IN RURAL MUNICIPALITIES

This section briefly recommends a cluster of six strategies that rural municipalities could consider employing to enhance municipal own revenue generation.

The first is to improve service delivery levels. This entails examining all infrastructure and having functional and implementable infrastructure plans in place. Then the municipality lets the `benefit received principle' kick in to induce households to pay rates and taxes. The second is a sustained roll out of increased political and financial educational awareness campaigns and effective communication to give reasons for the need and encourage the payment of rates and taxes. The third recommendation is to evolve locally functional and nationally accepted instruments to incentivise the increase in revenue generation. The fourth is to maximise revenue collection from existing revenue sources. This would entail education and political acceptance for the need for municipalities to generate and sustain `own revenues', to be understood and accepted as a principle by all of a municipality's citizens. The fifth is to explore other avenues to collect revenues. A municipality must aggressively make use of all the national, provincial and local hierarchy of support available as well as `think out of the box' of how to collect additional local revenues. Last but not least, is exploring and forcefully applying other opportunities to enhance revenue generation. These would require building political bridges, relentless consumer education, searching for the best technical staff, incentivise, create, support and diversifying the sources of municipal revenues.

7. CONCLUSIONS

Through the study of the defunct Mutale Local Municipality, this paper demonstrated that the fiscal challenges faced in rural South African municipalities are attributable to structural factors. The paper showed that there is a mismatch between the ideal municipal revenue enhancement business model that is supported by a large variety of legal, financial, human and planning processes in contrast to the `deficit' a typical rural municipality finds itself. The result of a sophisticated system superimposed on a less-than-optimal local government system results in an ineffective implementation of the municipal revenue enhancement business model. What is evident is a diametrically opposed comprehension of the reasons for revenue collection between Government on one side and the politicians, officers and the majority of residents on the other side, so to speak. In many municipalities, a great number of citizens have demonstrated a destructive belief in an entitlement to `everything for free' mind-set. However, these problems are not insurmountable. To reduce fiscal challenges the actionable planning processes were identified for Mutale. However, further studies may prove that other struggling rural municipalities in South Africa face the same revenue enhancing challenges.

by Silma Koekemoer, National Treasury

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

Does Information Technology Support Achieveing A Clean Audit Report?

ABSTRACT:

This paper investigates the municipal audit outcomes and compares the results with the distribution of financial management and internal control systems in South African municipalities. It employs a qualitative research study, using document analysis techniques. The major sources of information are the consolidated general reports on the audit outcomes of local government during the last five reporting periods.

The impact of Information Technology (IT) as one of the possible causes or solutions for the adverse audit reports which municipalities receive year after year is further compared to the distribution of financial management and internal control systems across municipalities to identify trends, without consideration of the role of skilled staff and rigorous processes, or the support provided by external consultants and system vendors.

The paper concludes that whilst trends have been identified that call for additional research and analysis, the distribution of systems alone do not determine the achievement of a clean audit report.

The Auditor-General (AG) provides recommendations to address IT related audit findings, amongst other standardisation of IT governance; best practice manuals; policies and procedures; the systems; and management of vendors. These recommendations, together with enabling legislation and regulations, pave the way for a standardised minimum system specification for municipalities.

BACKGROUND

Municipalities "function as a fully-fledged sphere of government and are the closest to the citizens of the country", (Alberts, 2011). Their purpose is to provide services to the citizens and business in a sustainable manner, with IT an enabler of these services.

Whilst steady progress has been made towards significant social and economic development and financial management reforms, service delivery protests have been escalating, partly due to expectations being created by national government that local government cannot fulfill. "Persisting apartheid-era spatial segregation patterns require large subsidies, and poor households face disproportionate cost to access services and opportunities. At the same time, the current pace of urban population growth is outstripping economic growth, and the urban economic growth rate has failed to deliver required jobs," (Nagooroo, 2011). The failure of municipalities to deliver on service delivery targets are echoed in reports by newspapers, academics, government stakeholders and the AG.

Molatlhwa (2016) continues this discourse by stating that whilst "municipalities spent more than R3.3-billion of taxpayers' money on consultants, … it was the AG's office that had to correct their material mistakes". The author continues that "R615-million was spent on consultants for IT services, R43-million for preparation of performance information and R1.822-billion for other services". Given these levels of spending, the question arises, is there a relationship between services provided to citizens and business, a specific Financial Management and Internal Control System (FMICS), and the audit outcome a municipality achieves?

METHODOLOGY

This paper is based on a qualitative research study, using documents for gathering and analysing of information, identification of trends and establishment of relationships. Documents provide a source of data other than observations, interviews and questionnaires. Oates (2011, p. 233) distinguishes between found and researcher generated documents, being that found documents existed before the research commenced and research generated documents were constructed solely for the purposes of the research task.

Documents are viewed as vessels and both qualitative and quantitative methods are applied to discover themes relating to audit qualifications which are related to municipal IT systems. The findings were then compared with similar *found* documents, after establishing their appropriateness, credibility, reliability, possible bias and recognition of limitations in their use.

ANALYSIS OF RESEARCH FINDINGS

During the review of the 2010-11 financial year, the AG provided an overview of IT systems management, and the IT employed by municipalities, (Auditor-General, 2011). The report noted that 191 municipalities used 57 different financial and payroll systems which ranged from "computer packages bought off-the-shelf" to custom developed systems. "The management and support of these systems take place independently, with each municipality managing its own systems with little or no support apart from the system vendors". The AG reviewed and reported on IT management roles and responsibilities; control and management weaknesses; and the root causes of deficiencies. Significant IT weaknesses were identified in the areas of IT governance; Security management; User account management; and IT service continuity. (Auditor-General, 2011).

The General report on the audit outcomes of Local Government 2011-12 (Auditor-General, 2012), indicates four recurring findings which contribute towards adverse municipal audit reports, namely: Key role players not providing assurance; Drivers of key controls which are not improving; Root causes which are not being addressed; and Key risk areas which are not receiving required attention.

The AG contends that most municipalities are experiencing challenges with the design of controls and many have not begun to deal with implementation and sustained effectiveness thereof. At a minimum, management should design IT controls that would address the threats and weaknesses identified in vulnerability assessments. Once the IT controls have been designed, management should ensure that they are implemented and embedded in IT processes and systems.

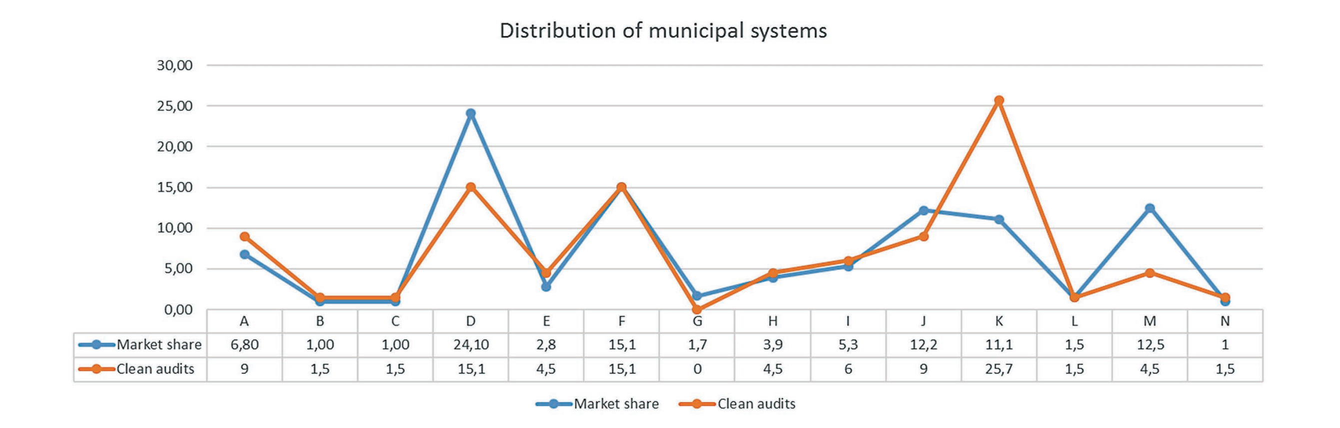
These audit findings should be considered in response to the *Operation clean audit operational plan* which was presented by the AG on 3 April 2012, indicating that IT compliance and performance is an area of grave concern across local government. The operational plan which was presented highlights, amongst other, Leadership; Financial and performance management; and Governance, including IT governance, as areas requiring intervention to achieve clean audit reports.

However, the consolidated municipal audit report for the period 2012-13 once again mentions IT governance; Security management; User access management; IT service continuity; and Formal control over IT systems as the root causes for adverse audit findings (Auditor-General, 2013). The report cites a lack of skills and budget constraints, deficient service level agreements with system vendors and inadequate support, as inefficiencies which exacerbate the identified challenges.

The woes of municipalities continue during the periods 2013-14 and 2014-15, with Radebe (2014) commenting that *Operation clean audit* should be viewed as a journey and not a once off target. In this period, the AG report highlights five areas of concern that require external intervention to resolve, IT management and controls being one of these.

The AG again cautions in 2014-15 (Auditor-General, 2015) that "attention should be given to the qualifications and experience of Chief Information Officers (CIOs) and IT managers", in addition to addressing the findings from previous years and paying attention to emerging risks, naming electronic fund transfers and readiness for implementation of the Standard Chart of Accounts for Municipalities (mSCOA).

It is clear from the reports of the AG that IT has both a direct and indirect impact on achieving a clean audit report, in terms of enabling municipal operations and financial management, but more importantly in the management of municipal information, provision and maintenance of enabling controls, and instrumentality in terms of corporate governance. An analysis of the distribution of FMICS across municipalities achieving clean audit reports, provides evidence of this correlation:



	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Market share	6,80	1,00	1,00	24,10	2,8	15,1	1,7	3,9	5,3	12,2	11,1	1,5	12,5	1
Clean audits	9	1,5	1,5	15,1	4,5	15,1	0	4,5	6	9	25,7	1,5	4,5	1,5

Figure 1: Distribution of FMICS based on market share and clean audit outcomes

In the case of systems D, K and M however, that represent a large portion of the total market, there is a significant deviation which calls for further analysis and research.

RECOMMENDATIONS TO ADDRESS THE FINDINGS

The AG provides guidance to municipalities to address and resolve the audit findings, amongst other that:

i) A uniform IT governance framework should be developed and rolled out to all municipalities;
ii) An IT best practice manual or guideline should be drafted for municipalities;
iii) Policies and procedures should be centrally developed to address the control weaknesses;
iv) External stakeholders such as CoGTA, SALGA and District Municipalities should support and capacitate IT functions within municipalities;
v) A working group should be established to assist the municipalities in addressing the root causes of audit findings;
vi) IT governance forums should be established;
vii) Internal audit and audit committees should play a more effective role in tracking progress made with implementation of corrective measures to address IT audit findings;
viii) Management should institute consequence management;
ix) Management should reprioritise budget allocations to provide for the implementation of disaster recovery plans and backup procedures;
x) Management should reallocate sufficient budget for the upskilling of IT staff;
xi) Consultants should be monitored and managed through service level agreements (SLAs);
xii) Staff should be up-skilled by the consultants performing services; and
xiii) More standardisation should take place at the municipalities with regards to the IT systems used and the vendors that support these systems.

ISO/IEC 38500 further provides an internationally accepted standard for governance of IT. It proposes a framework to assist municipalities to understand and fulfil their legal, regulatory, and ethical obligations:

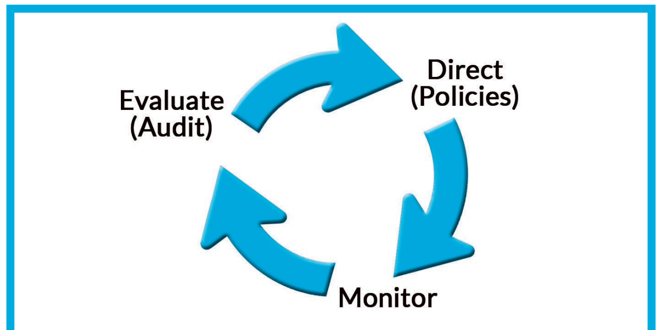


Figure 2: Application of ISO/IEC 38500 main tasks

The ISO standard proposes six guiding principles for good governance of IT, which can be applied to municipalities as follows (Van Haren Publishing, 2015):

- Responsibility - Employees know their responsibilities in terms of demand and supply of IT and have the authority to meet these. The knowledge (skills) and authority (governance, policies and procedures) are addressed in the recommendations of the AG. Mention should also be made of the necessary resources to action these responsibilities;
- Strategy - Municipal strategies and objectives should be aligned with IT possibilities, and all IT within the municipality should support these (best practice manuals, policies and procedures). Municipal strategies and objectives are captured in the Integrated Development Plan (IDP), provided for in the annual budget (resource allocations) and monitored in line with the Strategic Development and Budget Implementation Plan (SDBIP);
- Acquisition - IT investments must be based on a business case with regular monitoring in place to assess whether the assumptions still hold and the objectives are being achieved (IT governance forums, internal audit and audit committees);
- Performance - The performance of IT systems should lead to business benefits and therefore it is necessary that IT supports the municipality properly. The performance of IT should be measured and reported (SLAs), and directly related to the direct and indirect business benefits being achieved;
- Conformance - IT systems should help to ensure that business processes comply with legislation and regulations, and therefore IT itself must also comply with legal requirements, regulations and agreed internal processes (standardisation); and
- Human behaviour - IT policies, practices and decisions respect human behaviour and acknowledge the needs of all the people in the process. Sufficient skills transfer and capacity building within municipalities should be provided. Key IT decisions should be documented and continuity planning maintained to cater for human weakness/ failure (consequence management).

Therefore, the six guiding principles for good governance of IT which are provided by the ISO standard present a framework for municipalities to address existing audit findings related to

Information Technology and Municipal Audit Outcomes

by Silma Koekemoer, National Treasury

IT management, and that these should be incorporated into the daily practises of the municipality to contribute towards the achievement of clean audit.

CONCLUSION

The consolidated general reports on the audit outcomes of Local Government for the last five years were considered to identify IT related audit findings and together with the six guiding principles for good governance of IT from ISO/ ISEC 38500, these reports provide recommendations to improve the audit outcomes in municipalities, namely:

- Development of a standard IT governance framework for municipalities;
- Development and roll out uniform IT best practice manuals for municipalities;
- Development of uniform IT policies and procedures for municipalities;
- External support and capacity building for IT functions in municipalities;
- Working groups to assist with addressing root causes of adverse audit findings;
- Establishment of IT governance forums;
- Internal audit functions and committees to track implementation of corrective steps;
- Consequence management;
- Budget allocations to address disaster recovery and back up facilities;
- Budget allocations for up skilling of IT staff;
- Standardisation of systems and vendor SLAs for municipalities; and
- Standard system specifications for municipalities.

The comparison of clean audit outcomes and the distribution of FMICS across the municipal environment, present a correlation which calls for further analysis to conclusively prove the existence of a positive relationship. The recommendations above could be used as the evaluation criteria for this analysis.

It is recommended as an outcome of this paper that the above analysis of audit findings, together with the deviations in market distributions thereof, be further researched to identify the impact which individual FMICS have on the audit outcome.

Thank you for Sponsoring the Audit & Risk INDABA 2017

COMPANY	PACKAGE
ARMS AUDIT, RISK MANAGEMENT SOLUTIONS	HOST SPONSORS
SEKELAXABISO	PLATINUM SPONSOR
BONAKUDE CONSULTING	GOLD SPONSOR
CROSSCHECK INFORMATION BUREAU	SLIVER SPONSOR
CCG SYSTEMS	SLIVER AND MOBILE APP SPONSOR
IDI TECHNOLOGY SOLUTIONS - BARNOWL	SLIVER SPONSOR
ASSESMENT AND RPL COLLEGE	STANDARD SPONSOR
I@CONSULTING	GALA DINNER SPONSOR
AUDITOR GENERAL OF SOUTH AFRICA	PARTNER
CQS	PARTNER
SPINTELLIGENT	PARTNER
TSOGO SUN	PARTNER

Thank You

KZN Provincial Workshop

18th May 2017 – eBandla Hotel , Kwadukuza

On the 18th May 2017, the Kwa-Zulu Natal Branch of CIGFARO hosted a successful one day workshop on key control and risk matters related to the implementation of mSCOA.

The workshop was well attended consisting of 170 delegates from the public sector. This took place at the eBandla Hotel & Conference Centre, Ballito.

The workshop was keeping in line with executing effective implementation of legislative requirements by maintaining continuous collaboration between members and the sharing of best practices so to ensure that all can attain common understanding of public finance issues and the associated benefits.

The first presentation was undertaken by the Auditor General (KZN) which focused on the critical areas of audit in an mSCOA environment.

These critical areas are listed below:

- Budget is required to be aligned to mSCOA requirements.
- Testing of the correct data for migration from old to new system.
- Detailed working papers for alignment of the General Ledger to be in place.
- The use of IT audit to ensure that data conversion and migration process is complete and accurate.
- Internal audit needs to be optimally utilised.
- Reviewing management's risk assessment and response to mSCOA risks.
- Internal controls must be in place to ensure quality data.
- Focus on Balance Sheet items.
- Municipalities to validate Opening Balances.
- Municipalities changing systems to consider the parallel run's if possible.
- Issue of training requires attention
- Focus on Governance

SEBATA provided a detail account of the Balance Sheet Budgeting and the practical implementation guidance when commencing this "new phase" of budgeting.

It was further highlighted that budget should have its origin from the Municipal IDP and that mSCOA provides the "golden thread linking" the process of Planning, Budgeting, In-year Monitoring, Reporting and Annual Financial Statement

The following significant areas of Sub System Utilisation were also discussed by SEBATA:

- The core financial system should integrate with all subsystem to ensure compliance
- Ensure that the policies are signed and enforced by system and mSCOA changes

The process of identifying methods to incorporate data from different sources and combine them to have a uniform view is currently the biggest risk during the integration and requires attention.

KPMG addressed the Best Practices of quality assurance related to system changes and data migration. This assisted municipality in ensuring that the data migration and system changes are executed accurately during implementation.

Why Assurance of the system changes and data migration

- To ensure scope management
- To ensure that no new functionality is added
- To ensure that there is no incomplete testing
- To ensure that there is no Data quality problems
- To ensure that there is no incomplete/unclear requirements

Why Data assurance

- To Go-Live with no disruption
- Avoid delaying Go-Live
- No surprises when transacting

The Data assurance advantages:

- Data Governance Set Up
- Data Analysis and Data Extraction
- Data Cleansing
- Data Validation
- Data Loading
- Data Reconciliation

GALLERY - CIGFARO AUDIT AND RISK INDABA

CIGFARO BOARD MEMBERS -
Maria Makgongela, Paledi Marota, David Garegae, Bharthie Ranchoddas, Khomotso Phelane and Cheryl Reddy

Sidwell Mofokeng – CIGFARO Vice President and Honourable David van Rooyen – COGTA Minister

Xolani Gwala – Media Personality

Krish Kumar – CIGFARO President

Abbey Tlaletsi – CIGFARO CEO

Jane Masite – CIGFARO Past President and Kimi Makwetu – Auditor General

Delegates attending the Gala Dinner


Delegates attending the Gala Dinner

Woman Manager of the year
Margaret Skosana – Nkangala Municipality and delegation

Risk Officer of the year – Musawakhe Khumalo – Ekurhuleni Municipality

Gala Deco

Arms Audit – Host Sponsor


SekelaXabiso – Platinum Sponsor

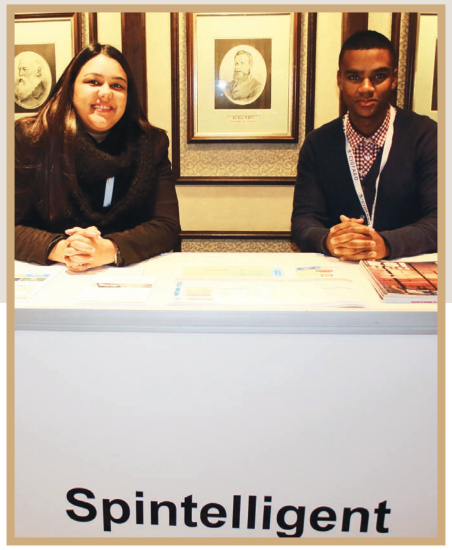

CCG Systems – Mobile App Sponsor

Auditor General of South Africa

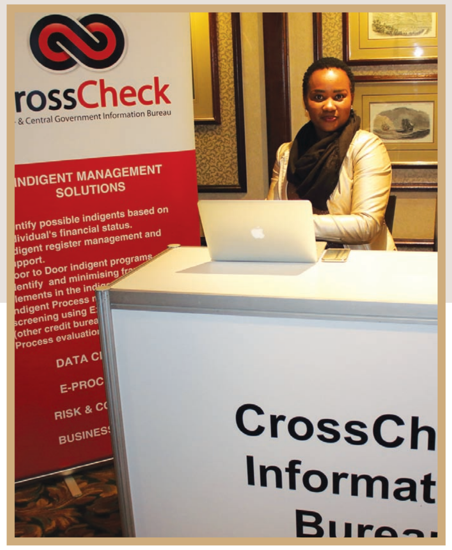
IDI Technology Barn Owl

CQS

Bonakude Consulting



Spintelligent

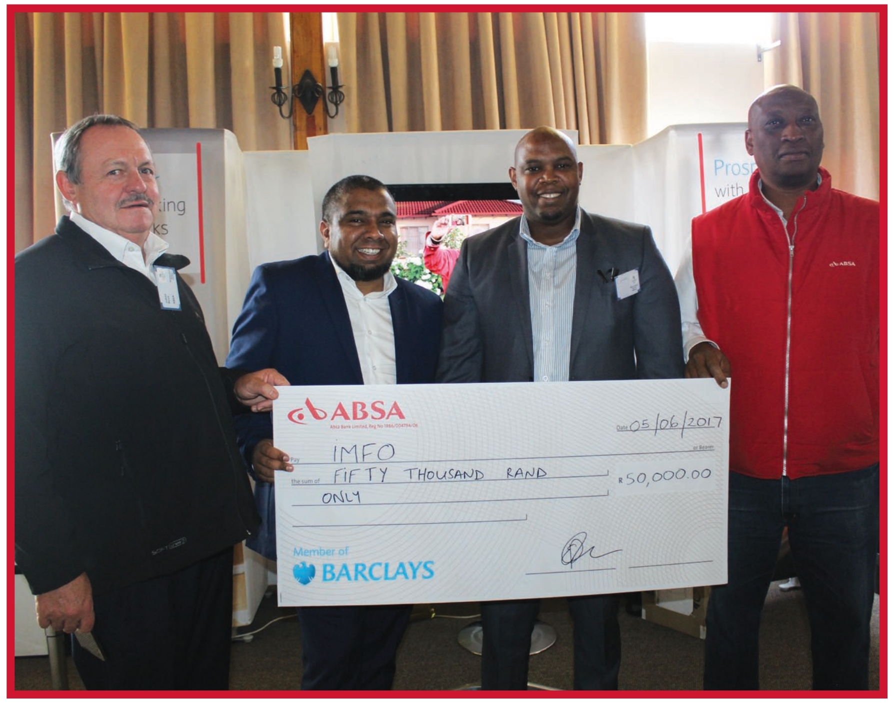


CrossCheck

GALLERY - WESTERN CAPE BRANCH SEMINAR


Mbulelo Memani – Western Cape chairperson, Kevin Horsely – Munsoft, Louise Muller – CIGFARO Past President


Minister of Local Government, Environmental Affairs and Development Planning



ABSA Group handing over cheque


Ian Engelmohr – Drakenstein Municipality, Santie Reyneke-Naude – Overstrand Municipality, Donovan Stuurman – Provincial Treasury: Western Cape

SEBATA Group – Exhibitor


The Western Cape Branch Chairperson acknowledging George Van Schalkwyk for his dedication in the Western Cape Branch before his retirement in September 2017


Bytes Universal Systems – Exhibitor


Delegate winner of ABSA draw


Delegates attending the Western Cape Branch Seminar


Gaudini-Bad school children singing National Anthem

NEW MEMBERS

STUDENT MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
GP	O	Madisha	Student	Tshwane University of Technology
GENERAL MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
GP	KW	Senosha	Director: Assistant	Provincial Treasury - G
GP	S	Lupiwana	Director: Assistant	Provincial Treasury - G
KZN	JL	Zotwa	Chief Executive Officer	Sonke Consulting
KZN	N	Shabane	Manager: Revenue	Ethekwini Municipality
KZN	ZM	Mzimela	Controller	Ethekwini Municipality
NW	TJ	Makgolo	Manager: Performance	Greater Taung Municipality
JUNIOR MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
EC	N	Hlabumkhosi	Accountant: Assistant	Great Kei Municipality
GP	BC	Mlangeni	Officer: Administration	Gert Sibande District Municipality
GP	BS	Malomane	Intern: Finance	Ekurhuleni Metro Municipality-Benoni
GP	KP	Dinyake	Intern: Finance	Ekurhuleni Metro Municipality
GP	MC	Malema	Director: Assistant	Provincial Treasury - G
GP	S	Petersen	Director: Assistant	Provincial Treasury - G
GP	TE	Mosito	Officer: Senior	Provincial Treasury - G
GP	S	Ngobese	Analyst: Budget	Provincial Treasury - G
GP	A	Gxoyiya	Intern: Finance	Breede Valley Municipality
GP	P	Mukwevho	Director: Assistant	Provincial Treasury - G
GP	JM	Mampuru	Manager	City of Johannesburg
KZN	SS	Linda	Community Development Worker	COGTA - KZN
KZN	TB	Qwabe	Intern	uMfolozi Municipality
KZN	FN	Ngcobo	Intern: Finance	uMfolozi Municipality
KZN	VS	Dlulane	Accountant: Graduate	Ethekwini Municipality
KZN	NA	Madondo		Endumeni Municipality
KZN	SB	Mhlongo	Clerk: Finance	Ilembe District Municipality
KZN	R	Goutham	Supervisor	Ushaka Marine World
MP	ML	Kgoele	Clerk: Chief	Emalahleni Municipality - M
MP	MC	Sechabe	Intern: Finance	Thaba Chweu Municipality
NW	MS	Modiba	Clerk: Administration	Moses Kotane Municipality
NW	NL	Lale	Practitioner: PMS	Moretele Municipality
KZN	S	Msweli	Intern: Finance	Umdoni Municipality
MP	PK	Mashila	Intern: Finance	Thembisile Hani Municipality
GP	GT	Pelesane	Intern: Finance	Emfuleni Municipality
SZ	NT	Msibi	Cashier	Municipal Council of Mbabane
LICENTIATE MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
GP	MM	Morabi	Director	Ginini Consulting (Pty) Ltd
GP	N	Moloto	Director: Assistant	Provincial Treasury - G
KZN	P	Mohapi	Accountant: Graduate	Ethekwini Municipality
KZN	MD	Gumede	Manager: Revenue	Ilembe District Municipality
KZN	NE	Mthembu	Accountant	Ilembe District Municipality
KZN	ZB	Ntuli	Accountant: Budget	Ilembe District Municipality
KZN	KG	Luthuli	Administrator	Ethekwini Municipality
KZN	TS	Nxumalo	Accountant	Ilembe District Municipality
KZN	GS	Biyela	Accountant: Assets	Maphumulo Municipality
KZN	MS	Mtshali	Accountant: Expenditure	Ilembe District Municipality
KZN	PM	Bhodoza	Practitioner: Supply Chain	Ilembe District Municipality
KZN	SK	Gwamanda	Practitioner: Supply Chain	Ilembe District Municipality
KZN	SP	Sithole	Officer: Finance	Ilembe District Municipality
KZN	ZM	Zulu	Clerk: Finance	Ilembe District Municipality
KZN	NS	Mkhize	Advisor: Local Government Finance	SALGA
WC	NA	Hendricks	Accountant: Chief Budget & Treasury	Knysna Municipality
WC	DE	Duvenage	Analyst	Bytes Technology (Pty) LTD
GP	GZ	Nzima	Assistant Director	Provincial Treasury - GP
ASSOCIATE MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
FS	PK	Pitso	Chief Financial Officer	Lejweleputswa District Municipality
GP	K	Moloto	Manager	Provincial Treasury - G
KZN	MK	Dlomo	Accountant: Chief	Zululand District Municipality
LP	CM	Makgopa	Manager: Accounts	Ephraim Mogale Municipality
MP	NA	Sifunda	Chief Audit Executive	Nkomazi Municipality
NW	TP	Dire	Accountant: Creditors	Moretele Municipality
NC	CB	Mokeng	Chief Financial Officer (Acting)	Dikgatlong Municipality
NC	HE	Cloete	Section Head	Nama Khoi Municipality
SENIOR ASSOCIATE MEMBERS				
Province	**Title**	**Initials**	**Surname**	**Designation**
EC	ND	Smouse	Director	Provincial Treasury - EC
GP	S	Dzengwa	Executive: Director	SALGA
GP	SA	Ngejane	Manager: Senior	Joburg Property Company Ltd
GP	NP	Malatji	Analyst: Financial	National Treasury
GP	BJ	Scholtz	Chief Financial Officer	Emfuleni Municipality
KZN	F	Moola	Chief Financial Officer: Deputy	Uthukela Water Company
KZN	BV	Govender	Director: Associate	KPMG Services (Pty) Ltd
MP	TS	Thobela	Manager: General	Mkhondo Municipality

DIVISION OF REVENUE ACT 3 OF 2017
(No. 40871 Government Gazette 40871 of 30 May 2017)

The Division of Revenue Act 3 of 2016 has been repealed, except for ss. 16 and 26, which are repealed from 1 July 2017. It further repeals the Division of Revenue Amendment Act 11 of 2016 with effect from 30 May 2017.

The Division of Revenue Act has been published to provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2017/18 financial year, the determination of each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable share and the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

Some aspects to take note of: Liability for costs incurred in violation of principles of cooperative governance and intergovernmental relations – S 32. (1) An organ of state involved in an intergovernmental dispute regarding any provision of this Act or any division of revenue matter or allocation must, before approaching a court to resolve such dispute, make every effort to settle the dispute with the other organ of state concerned, including exhausting all mechanisms provided for the settlement of disputes in relevant legislation. (2) If a dispute is referred back by a court in accordance with section 41(4) of the Constitution, due to the court not being satisfied that the organ of state approaching the court has complied with subsection (1), the expenditure incurred by that organ of state in approaching the court must be regarded as fruitless and wasteful. (3) The amount of any such fruitless and wasteful expenditure must, in terms of the applicable procedures in the Public Finance Management Act or the Municipal Finance Management Act, be recovered without delay from every person who caused the organ of state not to comply with subsection (1).

Irregular expenditure – S 33. The following transfers must be regarded as irregular expenditure in terms of the Public Finance Management Act or the Municipal Finance Management Act, as the case may be: (a) A transfer prohibited in terms of section 17(2); (b) a transfer by a transferring officer to a bank account of a province or municipality that is not the primary bank account; (c) a transfer envisaged in section 25(1); or (d) a transfer made or expenditure of an allocation in contravention of this Act.
Financial misconduct - S 34. (1) Despite a provision of other legislation to the contrary, any wilful or negligent non-compliance with a provision of the DORA constitutes financial misconduct. (2) Section 84 of the Public Finance Management Act or section 171 of the Municipal Finance Management Act, as the case may be, applies in respect of financial misconduct envisaged in subsection (1). Note also the requirements for **Delegations and assignments.**

EMPLOYMENT EQUITY ACT, ACT 55 OF 1998 (AS AMENDED)
(Notice No. 424 in Government Gazette 40840 of 12 May 2017 (pg 105)

The Code of Good Practice on the Preparation, Implementation and Monitoring of the Employment Equity Plan as published in GN R1394 in GG 20626 of 23 November 1999 has now been replaced. The objective of the Code is to provide guidelines on good practice in terms of the requirements of the Employment Equity Act, 1998 (Act 55 of 1998) as amended.

The Code applies to all employers that are required to prepare and implement an Employment Equity (EE) Plan in terms of the Act (which includes spheres of government and State Owned Entities). An EE Plan prepared in line with the Code would enable employers to ensure that their human resource policies, procedures and practices are based on non-discrimination and reflect employment equity principles for accessing and commencing employment, during employment and upon termination of employment. The Code will guide the preparation, implementation and monitoring procedures and will give guidelines to employers to consider and apply appropriately to their circumstances.

ACCOUNTING STANDARDS BOARD (ASB) – PUBLICATION OF EXPOSURE DRAFTS:
(BN 62 in Government Gazette 40827 of 5 May 2017 (p126)

The following Exposure Drafts have been published for comment:

- *Proposed Transitional Provisions for the Initial Adoption of the Standard of GRAP on Living and Non-living Resources* (ED 154)
- *Proposed Revisions to Directive 6 Transitional Provisions for Revenue Administered by the South African Revenue Service (SARS)* (ED 155)
- IPSASB's Consultation Paper on *Financial Reporting for Heritage in the Public Sector* (ED 156)

COMPENSATION FOR OCCUPATIONAL INJURIES AND DISEASES ACT 130 OF 1993

Annual increases in medical tariffs have been published for the following items with effect of 1 April 2017:

- private ambulance services *(GenN 259 in Government Gazette 40736 of 30 March 2017 (p4)*
- wound care *(GenN 260 in Government Gazette 40737 of 30 March 2017 (p4)*
- renal care *(GenN 261 in Government Gazette 40738 of 30 March 2017 (p4)*
- physiotherapy services *(GenN 262 in Government Gazette 40739 of 30 March 2017 (p4)*
- occupational therapy services *(GenN 263 in Government Gazette 40740 of 30 March 2017 (p4)*
- social workers and psychologists services *(GenN 264 in Government Gazette 40741 of 30 March 2017 (p4)*
- blood services *(GenN 265 in Government Gazette 40742 of 30 March 2017 (p4)*
- private hospitals *(GenN 266 in Government Gazette 40743 of 30 March 2017 (p4)*
- dental services *(GenN 267 in Government Gazette 40744 of 30 March 2017 p4)*
- specialists, general practitioners and anaesthetists *(GenN 268 in Government Gazette 40745 of 30 March 2017 (p4)*
- chiropractic services *(GenNs 405-406 in Government Gazette 40853 of 22 May 2017 (pp 4 & 67)*
- prosthetics - Note that the Annual increase in medical tariffs for prosthetics published in GenN 405 in GG 40853 of 22 May 2017 were corrected *(GenN 419 in Government Gazette 40873 of 30 May 2017 (p4)*

UIF SCALE OF BENEFITS DISTINGUISHED FROM INCOME THRESHOLD

On 17 March 2017, the Minister of Labour gazetted an increase in the scale of benefits under section 12(3)(a) of the Unemployment Insurance Act, 2001 **(the UIA)**. With effect from 1 April 2017, the scale of benefits increased from R 178 464 per annum to R 212 539 per annum for purposes of the UIA. This is not an increase in the "income" threshold - the "income" threshold has not been increased and remains at R 178 464 per annum for the time being.

The increase in the scale of benefits has led to confusion about whether this impacts on the existing contribution rates and thresholds for purposes of the Unemployment Insurance Contributions Act, 2002 **(the UICA)**. Ordinarily, the scale of benefits (for purposes of the UIA) and the income threshold (for purposes of the UICA) have been updated concurrently. However, until the Minister of Finance has gazetted new contribution rates and thresholds under the UICA, the existing contribution rates and thresholds apply, meaning those articulated by section 6 UICA, read with its accompanying notices.

In the light of this, employers should not adjust their contribution calculations until such time as the Minister of Finance determines and promulgates a new income threshold.

INDEPENDENT REGULATORY BOARD FOR AUDITORS (IRBA)
(BN 100 in Government Gazette 40888 of 5 June 2017)

The Independent Regulatory Board for Auditors (IRBA) has published a rule on Mandatory Audit Firm Rotation (MAFR) for auditors of all public interest entities.

The IRBA Code of Professional Conduct for Registered Auditors defines a 'Public interest entity' as

a) A listed entity; or
b) An entity defined by regulation or legislation as a public interest entity; or
c) An entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

The requirement (effective from 2023) -

1. An audit firm, including a network firm as defined in the IRBA Code of Professional Conduct for Registered Auditors, shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years.
2. Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years.
3. When the auditor determines that an audit client becomes a public interest entity, the length of time the audit firm has served the audit client as the auditor before the client becomes a public interest entity shall be included in determining the timing of audit firm rotation.

Transitional Provisions

1. If, at the effective date, the public interest entity has appointed joint auditors and both have had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required.
2. This provision will only be applicable at the effective date.

Also note the following:

- Inspection Fees Payable to the IRBA with effect from 1 April 2017 were published – *see BN 101 in Government Gazette 40898 of 9 June 2017) (p112)*
- Proposed amendments to the code of professional conduct for registered auditors regarding new guidance for professional scepticism and professional judgment were published for comment - *BN 107 in Government Gazette 40898 of 9 June 2017 (p118)*

SPECIAL ECONOMIC ZONES ACT 16 OF 2014

The amendment of an IDZ for the purpose of the SEZ tax incentives was published:

- Richards Bay IDZ *(GN 502 in Government Gazette 40883 of 2 June 2017 (p140)*

The final notice of amendment to an IDZ for the purpose of the SEZ tax incentives was published for:

- the Dube Tradeport IDZ *(GN 503 in Government Gazette 40883 of 2 June 2017 (p147)*
- the Saldanha Bay IDZ *(GN 504 in Government Gazette 40883 of 2 June 2017 (p151)*
- the Coega IDZ *(GN 505 in Government Gazette 40883 of 2 June 2017 (p155)*
- the Maluti-a-Phofung IDZ *(GN 523 in Government Gazette 40883 of 2 June 2017 (p177)*

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT 53 OF 2003 - THRESHOLD FOR MAJOR B-BBEE TRANSACTIONS PUBLISHED
(GN 551 in Government Gazette 40898 of 9 June 2017 (p95)

The Department of Trade and Industry published a notice which provides that all major broad-based black economic empowerment (B-BBEE) ownership transactions, which have a transaction value equalling or exceeding R 25 million, must be registered with the B-BBEE Commission. A Major B-BBEE transaction is any transaction that has resulted or will result in a measured entity claiming ownership points in terms of the ownership scorecard of the applicable BEE codes of good practice. The notice provides that Transaction Value excludes administration, professional and legal fees. The notice takes effect immediately. All parties to the transaction have a collective responsibility to register the transaction. Parties must submit the transaction for registration within 15 business days after concluding the transaction.

The regulations state that the requirement for registration is not a requirement to obtain the Commission's consent for the transaction. The regulations provide that the Commission is entitled to advise the parties of any concerns that the Commission has regarding the transaction, and the parties must then take steps to address the Commission's concerns. If adequate steps are not taken, the Commission can then initiate an investigation in terms of the B-BBEE Act into the transaction.

The notice also provides that, retrospectively, all major B-BBEE ownership transactions concluded from 24 October 2014, until 9 June 2017, which have a transaction value equalling or exceeding R 25 million, must be registered with the B-BBEE Commission within 60 calendar days of 9 June 2017.

Any major B-BBEE ownership transactions within the above threshold concluded before 24 October 2014 may voluntarily be registered with the B-BBEE Commission.

LEGAL CORNER

The prescribed form B-BBEE 18 is required to be completed and submitted to the B-BBEE Commission for registration of the above transactions. This form can be accessed on page 73 of the B-BBEE Regulations (Refer to Government Gazette no. 40053).

DISASTER MANAGEMENT ACT 57 OF 2002

(Gen Notices 415 and 416 in Government Gazette 40865 of 26 May 2017)

A Guideline on the Development and Structure of a Disaster Management Plan was published as *GenN 415 in Government Gazette 40865 of 26 May 2017 (pg. 4)* while a Guideline on the Minimum Infrastructural Requirements for Disaster Management Centres published as *GenN 416 in Government Gazette 40865 of 26 May 2017 (pg. 38).*

TRADITIONAL LEADERSHIP AND GOVERNANCE FRAMEWORK AMENDMENT BILL, 2017 [B8-2017]

Traditional Leadership and Governance Framework Act, 2003 (Act No. 41 of 2003) (hereinafter referred to as the Act), came into operation on 24 September 2004. The National Assembly's Co-operative Governance and Traditional Affairs Committee has called for written submissions on the Traditional Leadership and Governance Framework Amendment Bill – and is also poised to begin formal deliberations on a Traditional Leadership and Khoi-San Bill. While the Amendment Bill seeks to 'urgently extend' timeframes in the principal statute before the term of office of the National House of Traditional Leaders (NHTL) expires, once in force the Traditional Leadership and Khoi-San Bill will repeal the principal statute and the NHTL Act. However, the process could be stalled yet again by proposals emerging from the hearings for 'separate' legislation on Khoi-San leadership structures.

The purpose of the Traditional Leadership and Governance Framework Amendment Bill is to:

- amend the Traditional Leadership and Governance Framework Act, 2003, so as to make provision for extended timeframes within which kingship and queenship councils and traditional councils must be established;
- provide for extended timeframes within which community authorities have to be disestablished;
- align the term of office of tribal authorities, traditional councils and kingship or queenship councils with the term of the National House of Traditional Leaders.

AUGUST

NO	REPORTING REQUIREMENT	LEGISLATION	LEGISLATION DEADLINE	RESPONSIBLE PERSON	TO WHOM
1	Change of Primary Bank account details	MFMA 8(5)	30 Days before effecting	Accounting Officer	Nat Treas, Prov Treas, AG
2	Details of a new bank accounts	MFMA 9(a)	90 Days after opening	Accounting Officer	Prov Treas, AG
3	Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 32(4)	Promptly	Accounting Officer	Mayor, MEC (Loc Govt), AG
4	Advertise/advise new long-term debt	MFMA 46(3)(a)(ii)	Promptly	Accounting Officer	Nat Treas, Prov Treas, Public
5	Serious financial problems	MFMA 54(2)	Promptly	Mayor	Mun Counc, MEC (Loc Govt)
6	Impending shortfalls in budgeted revenue & over-spending & steps taken to prevent / rectify	MFMA 70(1)	Promptly	Accounting Officer	Municipal Council
7	Overdrawn bank accs, reasons, rectifying	MFMA 70(2)	Promptly	Accounting Officer	Nat Treas
8	Statement: Budget etc per requirements	MFMA 71(1)	1-10 Days after month-end	Accounting Officer	Mayor, Prov Treas
9	Failure to adopt / implement budget related policies	MFMA 73	Promptly	Accounting Officer	Prov Treas
10	Returns, documents, information, explanations & motivations as prescribed	MFMA 74(1)	As prescribed	Accounting Officer	Nat Treas, Prov Treas, AG, Lgovt
11	Entity - details of a new bank account	MFMA 86(1)(a)	90 Days after opening	Entity Acc Officer	Acc Officer of parent Mun
12	Entity - Stmnt: budget etc per requirements	MFMA 87(11)	1-10 Days after month-end	Entity Acc Officer	Acc Officer of parent Mun
13	Entity - Impending shortfalls & steps	MFMA 101(1)	Next meeting	Entity Acc Officer	BOD of entity, Parent Mun & Counc
14	Table report above	MFMA 101(2)	Next Council meeting	Accounting Officer	Municipal Council
15	Entity - Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 102(1)	Promptly	BOD of entity	Mayor, Mun Mngr of parent mun
16	Entity - Returns, documents, information, explanations & motivations as prescribed	MFMA 101(1)(b)	As prescribed	Entity Acc Officer	Nat Treas, Prov Treas, AG, Lgovt
17	Entity - Improper interference by Cllrs	MFMA 103	Promptly	Entity Acc Officer	Speaker of parent mun Council
18	Deviations from a recommended tender	MFMA 114(1)	Promptly	Accounting Officer	Nat Treas, Prov Treas, AG
19	Entity - Deviations from a recom. tender	MFMA 114(1)	Promptly	Entity Acc Officer	Nat Treas, Prov Treas, AG
20	Prepare & submit Financial Statements	MFMA 126(1)(a)	1-2 months after Fin Y-end	Accounting Officer	AG
21	Entity - Prep & submit Fin Statements	MFMA 126(2)	1-2 months after Fin Y-end	Entity Acc Officer	Parent Municipality
22	Prep & submit Consolidated Fin Stmnts	MFMA 126(1)(b)	1-3 months after Fin Y-end	Accounting Officer	AG
23	Entity - Submit annual report	MFMA 127(1)	1-6 months after Fin Y-end	Entity Acc Officer	Municipal Manager
24	Table mun & entity annual report	MFMA 127(2)	1-7 months after Fin Y-end	Mayor	Municipal Council
25	Reasons for delay of tabling annual report	MFMA 127(3)(a)	Promptly	Mayor	Municipal Council
26	Submit Annual report	MFMA 127(5)	Immediately after report is tabled in Council	Accounting Officer	AG, Prov Treas, Prov Lgovt
27	Non-compliance & reasons of non-complia	MFMA 128©	Promptly	Accounting Officer	Mun Council, Prov Treas, AG
28	Submit copies of Council mtngs (annual report discussions)	MFMA 129(2)	Promptly	Accounting Officer	AG, Prov Treas, Prov Lgovt
29	All monthly returns (MFMA, DORA, etc)		10 Days after month-end	Acc Officer etc	Nat Treas

SEPTEMBER

(1^{ST} QUARTER OF FINANCIAL YEAR)

NO	REPORTING REQUIREMENT	LEGISLATION	LEGISLATION DEADLINE	RESPONSIBLE PERSON	TO WHOM
1	Change of Primary Bank account details	MFMA 8(5)	30 Days before effecting	Accounting Officer	Nat Treas, Prov Treas, AG
2	Details of a new bank accounts	MFMA 9(a)	90 Days after opening	Accounting Officer	Prov Treas, AG
3	Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 32(4)	Promptly	Accounting Officer	Mayor, MEC (Loc Govt), AG
4	Advertise/advise new long-term debt	MFMA 46(3)(a)(ii)	Promptly	Accounting Officer	Nat Treas, Prov Treas, Public
5	Serious financial problems	MFMA 54(2)	Promptly	Mayor	Mun Counc, MEC (Loc Govt)
6	Impending shortfalls in budgeted revenue & over-spending & steps taken to prevent / rectify	MFMA 70(1)	Promptly	Accounting Officer	Municipal Council
7	Overdrawn bank accs, reasons, rectifying	MFMA 70(2)	Promptly	Accounting Officer	Nat Treas
8	Statement: Budget etc per requirements	MFMA 71(1)	1-10 Days after month-end	Accounting Officer	Mayor, Prov Treas
9	Failure to adopt / implement budget related policies	MFMA 73	Promptly	Accounting Officer	Prov Treas
10	Returns, documents, information, explanations & motivations as prescribed	MFMA 74(1)	As prescribed	Accounting Officer	Nat Treas, Prov Treas, AG, Lgovt
11	Entity - details of a new bank account	MFMA 86(1)(a)	90 Days after opening	Entity Acc Officer	Acc Officer of parent Mun
12	Entity - Stmnt: budget etc per requirements	MFMA 87(11)	1-10 Days after month-end	Entity Acc Officer	Acc Officer of parent Mun
13	Entity - Impending shortfalls & steps	MFMA 101(1)	Next meeting	Entity Acc Officer	BOD of entity, Parent Mun & Counc
14	Table report above	MFMA 101(2)	Next Council meeting	Accounting Officer	Municipal Council
15	Entity - Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 102(1)	Promptly	BOD of entity	Mayor, Mun Mngr of parent mun
16	Entity - Returns, documents, information, explanations & motivations as prescribed	MFMA 101(1)(b)	As prescribed	Entity Acc Officer	Nat Treas, Prov Treas, AG, Lgovt
17	Entity - Improper interference by Cllrs	MFMA 103	Promptly	Entity Acc Officer	Speaker of parent mun Council
18	Deviations from a recommended tender	MFMA 114(1)	Promptly	Accounting Officer	Nat Treas, Prov Treas, AG
19	Entity - Deviations from a recom. tender	MFMA 114(1)	Promptly	Entity Acc Officer	Nat Treas, Prov Treas, AG
20	Prep & submit Consolidated Fin Stmnts	MFMA 126(1)(b)	1-3 months after Fin Y-end	Accounting Officer	AG
21	Entity - Submit annual report	MFMA 127(1)	1-6 months after Fin Y-end	Entity Acc Officer	Municipal Manager
22	Table mun & entity annual report	MFMA 127(2)	1-7 months after Fin Y-end	Mayor	Municipal Council
23	Reasons for delay of tabling annual report	MFMA 127(3)(a)	Promptly	Mayor	Municipal Council
24	Submit Annual report	MFMA 127(5)	Immediately after report is tabled in Council	Accounting Officer	AG, Prov Treas, Prov Lgovt
25	Non-compliance & reasons of non-complia	MFMA 128©	Promptly	Accounting Officer	Mun Council, Prov Treas, AG
26	Submit copies of Council mtngs (annual report discussions)	MFMA 129(2)	Promptly	Accounting Officer	AG, Prov Treas, Prov Lgovt
27	All monthly returns (MFMA, DORA, etc)		10 Days after month-end	Acc Officer etc	Nat Treas

REPORTING REQUIREMENTS - LOCAL GOVERNMENT

OCTOBER

NO	REPORTING REQUIREMENT	LEGISLATION	LEGISLATION DEADLINE	RESPONSIBLE PERSON	TO WHOM
1	Change of Primary Bank account details	MFMA 8(5)	30 Days before effecting	Accounting Officer	Nat Treas, Prov Treas, AG
2	Details of a new bank accounts	MFMA 9(a)	90 Days after opening	Accounting Officer	Prov Treas, AG
3	Cons report - all withdrawels each quarter	MFMA (11(4)	Within 30 days	Accounting Officer	Prov Treas, AG
4	Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 32(4)	Promptly	Accounting Officer	Mayor, MEC (Loc Govt), AG
5	Advertise/advise new long-term debt	MFMA 46(3)(a)(ii)	Promptly	Accounting Officer	Nat Treas, Prov Treas, Public
6	Implementation of the budget & financial state of affairs	MFMA 52(d)	Within 30 days of each quarter	Mayor	Municipal Council
7	Serious financial problems	MFMA 54(2)	Promptly	Mayor	Mun Counc, MEC (Loc Govt)
8	Impending shortfalls in budgeted revenue & over-spending & steps taken to prevent / rectify	MFMA 70(1)	Promptly	Accounting Officer	Municipal Council
9	Overdrawn bank accs, reasons, rectifying	MFMA 70(2)	Promptly	Accounting Officer	Nat Treas
10	Statement: Budget etc per requirements	MFMA 71(1)	1-10 Days after month-end	Accounting Officer	Mayor, Prov Treas
11	Failure to adopt / implement budget related policies	MFMA 73	Promptly	Accounting Officer	Prov Treas
12	Returns, documents, information, explanations & motivations as prescribed	MFMA 74(1)	As prescribed	Accounting Officer	Nat Treas, Prov Treas, AG, Lgovt
13	Entity - details of a new bank account	MFMA 86(1)(a)	90 Days after opening	Entity Acc Officer	Acc Officer of parent Mun
14	Entity - Stmnt: budget etc per requirements	MFMA 87(11)	1-10 Days after month-end	Entity Acc Officer	Acc Officer of parent Mun
15	Entity - Impending shortfalls & steps	MFMA 101(1)	Next meeting	Entity Acc Officer	BOD of entity, Parent Mun & Counc
16	Table report above	MFMA 101(2)	Next Council meeting	Accounting Officer	Municipal Council
17	Entity - Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 102(1)	Promptly	BOD of entity	Mayor, Mun Mngr of parent mun
18	Entity - Returns, documents, information, explanations & motivations as prescribed	MFMA 101(1)(b)	As prescribed	Entity Acc Officer	Nat Treas, Prov Treas, AG, Lgovt
19	Entity - Improper interference by Cllrs	MFMA 103	Promptly	Entity Acc Officer	Speaker of parent mun Council
20	Deviations from a recommended tender	MFMA 114(1)	Promptly	Accounting Officer	Nat Treas, Prov Treas, AG
21	Entity - Deviations from a recom. tender	MFMA 114(1)	Promptly	Entity Acc Officer	Nat Treas, Prov Treas, AG
22	Entity - Submit annual report	MFMA 127(1)	1-6 months after Fin Y-end	Entity Acc Officer	Municipal Manager
23	Table mun & entity annual report	MFMA 127(2)	1-7 months after Fin Y-end	Mayor	Municipal Council
24	Reasons for delay of tabling annual report	MFMA 127(3)(a)	Promptly	Mayor	Municipal Council
25	Submit Annual report	MFMA 127(5)	Immediately after report is tabled in Council	Accounting Officer	AG, Prov Treas, Prov Lgovt
26	Non-compliance & reasons of non-complia	MFMA 128©	Promptly	Accounting Officer	Mun Council, Prov Treas, AG
27	Submit copies of Council mtngs (annual report discussions)	MFMA 129(2)	Promptly	Accounting Officer	AG, Prov Treas, Prov Lgovt
28	All monthly returns (MFMA, DORA, etc)		10 Days after month-end	Acc Officer etc	Nat Treas
29	All Quarterly returns (MFMA, DORA, etc)		20 Days after end of Qrtr	Acc Officer etc	Nat Treas
30	Quarterly statistics of Local Government	Stats Act (1999/16)	3 Weeks after qrtr end	Acc Officer etc	Statistics SA
31	Actual & expected Cap Exp	Stats Act (1999/16)	3 Weeks after qrtr end	Acc Officer etc	Statistics SA

CCG SYSTEMS

WWW.CCGS.CO.ZA | CCG SYSTEMS | CHAMPIONING mSCOA AND BEYOND

mSCOA SUPPORT SERVICES

Camelsa Consulting Group T/A CCG Systems is part of the panel of prefered service providers appointed by National Treasury for an integrated financial management and internal control system for local government(RT25-2016). CCG is responsible for developing the Municipal Planning and Budgeting Tool, A web based/Desktop/Mobile application that makes it easy to implement your IDP/SDBIP and budget.

Full Scale Project Management

- Prince II/PMBOK certified project managers with mSCOA experience.
- Online Project management Software to enhance cost visibility and improve productivity.
- CCG accelerates the understanding and performance of the client by additionally going through the handholding and support phases.
- Method 123 Project Management Lifecycle (MPMM), a methodology we follow in conducting the support and maintenance guides you through the entire Project Management Life Cycle, step-by-step. It describes every step in detail, so you know what must be done, when and how to do it. The complete suite of templates and practical examples are included, to save you time on projects.

Change Management

- mSCOA awareness sessions and workshops
- Positive and constant communication with staff at all levels
- Extensive staff involvement on mSCOA project implementation including coaching and support.

Municipal Planning and Budgeting Tool

- User friendly and seamless integrating to financial system
- Houses SDBIP, IDP and Budget
- Capability to retrieve and monitor actual and previous data such as budgets

mSCOA Reporting Pack/Tools

- Section 71/72 Reporting.
- Review and Reconciliation of Grants and Compilation of Grants Registers.

Services

- mSCOA Conversions
- Data Migration
- System Audits

Head Office-Gauteng
Camelsa House
6 Smuts Drive, Vorna Valley
Midrand
1685
TEL: +27 11 805 1027
FAX: +27 11 805 3966

CCG SYSTEMS

Kwa-Zulu Natal
21 Lighthouse Road
Umhlanga
TEL: 031 576 0440
FAX :031 576 0301

Limpopo
Phase 1, Shop 5,100 Market Street.
Polokwane 0699
TEL: 0861 226 572
FAX: 011 805 3966

North West
Office 220 Old Mutual Building
Mmabatho 2790
TEL: 0862 226 572
FAX: 011 805 3966

Eastern Cape
Unit 3, 49 Beach Road, Nahoon
East London 5200
TEL: +27 43 050 1036
FAX: +27 11 805 3966

Richards Bay
Capacity Building, 108 Dollar Drive
Richardsbay
TEL: 035 789 1268
FAX: 011 805 3966