CIGFARO Mpumalanga

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Creating Audit-Ready Municipalities: Practical Tools for Improved Audit Outcomes

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*m*SCOA Regulation 2014 (1)

- Section 216(1) of the Constitution (1996) provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of government
- The introduction of the MFMA (2003) laid the foundation for the LG financial management reform agenda
- The Minister of Finance has, i.t.o. Sections 216(1) of the Constitution and 168 of the MFMA promulgated the *m*SCOA Regulations on 22 April 2014 (Govt Gazette No. 37577)

*m*SCOA Regulation 2014 (2)

- The *m*SCOA Regulations provide for:
  - A national standard for the uniform recording and classification of municipal budget and financial information at a transaction level – *across all municipalities and financial systems*
  - Modernisation of LG business processes (issuing of minimum business processes requirements)
  - Application of basic processes and procedures for the daily operation of the municipality (issuing of minimum technical system specifications requirements)
  - Improvement of the municipal ITC and control environment

Building an audit-ready culture throughout the financial year.

- Section 71(1) of the Municipal Finance Management Act (MFMA) requires from the Municipal Manager, as Accounting Officer of the Municipality, to submit a report in a prescribed format to the Executive Mayor within 10 working days after the end of each month on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:-
- (a) Actual revenue per revenue source;
- (b) Actual expenditure per vote;
- (c) Actual capital expenditure per vote;
- (d) Any allocations received;
- (e) Actual expenditure on allocations received;
- (f) Actual borrowings; and
- (g) Any other budget information as may be required by National and Provincial Treasury for monitoring purposes.

- This report is a summary of the main budget issues arising from the monitoring process. It compares the process of the budget to the projections contained in the Service Delivery and Budget Implementation Plan (SDBIP). Section 54 of the MFMA requires from the Executive Mayor to consider the Section 71 report and to take appropriate action, if needed, to ensure that the approved budget is implemented in accordance with the approved SDBIP.

MFMA Requirements for preparation of the annual financial statements

- Section 122(1) of the MFMA requires that "Every municipality and every municipal entity must for each financial year prepare annual financial statements which –
  a) Fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and
  b) Disclose the information required in terms of sections 123, 124 and 125".

– It should be noted that the **AFS specimen** covers various standards that might not be applicable to all municipalities. Therefore, municipalities must decide what is applicable / relevant to them in the specimen AFS and items that is material should be disclosed on the face on the financial statements.

MFMA Requirements for preparation of the annual financial statements Cont:-

- Section 83 of the Municipal Finance Management Act (MFMA) requires the accounting officer, senior managers, chief financial officer and other financial officials of a municipality to meet the prescribed financial management competency levels. A municipality must for this purpose provide resources or opportunities for the training of these officials to meet the prescribed competency levels.

- Section 107 of the MFMA states that the accounting officer, senior managers, chief financial officer and all other financial officials of a municipal entity must meet the prescribed financial management competency levels.

Benefit of mSCOA Specimen AFS

- **The benefits of the *m*SCOA Specimen Annual Financial Statements are as follows:**
- **Improves the quality of Financial Statements;**
- Standardise reporting templates (statements/notes);
- Provides uniform reporting;
- Improves the percentage of timeous submissions of Financial Statements to the Auditor-General;
- Ensure alignment between budget, municipal standard chart of accounts and annual financial statements;
- It contributes towards greater transparency for both reporting and comparative analysis purposes;
- It built on *m*SCOA principles and thus facilitates the automated production of financial statements when a municipality has implemented a module within the financial system that reconcile with the framework of the Specimen Financial Statements;
- It provides monthly/quarterly Financial Statements when a module to compile financial statements has been implemented by the municipality that reconcile with the framework of the Specimen Financial Statements; and
- Consistency with the Municipal Budget and Reporting Regulation.

Capacity and skills Required to perform accounting and reporting activities from Accounting officers.

- Institutions should have adequate capacity and the required skills in place. This means:
- • The tasks, roles and resources required for the accounting and reporting function have been defined and the institution’s establishment is reflective of the capacity required.
- • The positions of key officials (including the chief financial officer and financial managers) are filled, stability is maintained in these positions, and there is a low vacancy rate in the rest of the finance unit.
- • The qualifications, competence and skills requirements for finance officials are defined, and recruitment is done in accordance with these requirements Any competency gaps are identified and addressed through training and/or other development processes.
- • Regular training is provided to those responsible for accounting and reporting to enable them to correctly interpret and apply current and updated accounting standards.
- Where complex accounting matters arise and the institution does not have the current capacity to attend to these matters appropriately, suitably skilled consultants can be brought in to assist. The agreement with the consultants should ensure the transfer of the required skills for the institution to be able to handle the matters in-house in future. The institution should also monitor the consultants to ensure that they deliver on their commitments as agreed.

Preparing timeously and accurate year-end reporting and monitoring

- The preparation of financial statements should commence as early as possible after the financial year-end of the institution to allow for a proper process of compilation, followed by several layers of review and correction of any findings from these reviews, well in time for submission to the external auditors (AGSA) by the legislated due date.

- The financial statements should be prepared in accordance with the standardized accounting

processes of the institution including AFS Preparation Plans. After preparation, the following layers of

review should be performed on the financial statements:

- Review by the chief financial officer, followed by corrections from the review, followed by a re-review by the chief financial officer to ensure that all findings from the review have been appropriately addressed.
- Review by the audit committee, followed by corrections from the review, followed by a re-review by the audit committee to ensure that all findings from the review have been appropriately addressed.
- Review by the AO, followed by corrections from the review, followed by a re-review by the AO to ensure that all findings from the review have been appropriately addressed.

- Financial audit areas that had previously received a **qualified audit opinion** should be identified and included in a **corrective audit action plan**. Focus should be placed on these areas during the review processes, to ensure improvement of the quality of reporting in these areas.

Common audit findings and practical measures to address them.

- **A fundamental difference remains:**
- Monthly IYM reports (S71) do not reliably predict or reconcile to year-end AFS outcomes

- **Result:**
- Councils, oversight committees, and the public receive conflicting information
- Audit qualifications and material misstatements persist
- Corrective action is delayed until it is too late to influence the financial year
- "Surprises" at audit undermine accountability

Common audit findings and practical measures to address them.

- **Data String Credibility Issues**
- Recurring Issues:
- Non-credible data strings submitted with inconsistent interpretation of mSCOA requirements
- Generally, due to system parameter settings and configurations
- Application of standard methodology not followed correctly
- Incorrect posting of journals / transactions
- Segment issues due to system set up
- Budget set up not set up correctly

Common audit findings and practical measures to address them.

- **Budget vs Actual Misalignment**
- **Key Observations:**
- Slow progress noted in correcting data strings
- Misalignment between budget and actual figures
- Budget set up not set up correctly resulting in mismatches
- Transacting against line items without budgets, resulting in exceeded annual budgets already in month 1 to 3

Common audit findings and practical measures to address them.

- **System Integration Failures**
- Fragmented system architecture where subsidiary systems (payroll, asset registers, debtors) do not integrate seamlessly with the core financial system
- Not budgeting, transacting, and reporting directly in and from their core financial systems
- Budgets and reports prepared outside the system and then imported into the system
- Results in unauthorised, irregular, fruitless, and wasteful expenditure

Common audit findings and practical measures to address them.

- **Poor Alignment: AUDA Data Strings vs AFS**
- There is generally poor alignment between the audited data strings submitted to the GoMuni Upload portal and the AFS submitted for audit
- Adjusting journals agreed upon with auditors must be processed in the core financial system, not in the AFS Tool
- Trial Balance, audit data strings, and AFS must be in perfect alignment prior to submission to auditors

Best practices and lessons learnt from municipalities that have achieved improved audit results

- National Treasury : Chief financial officers' handbook for municipalities
- National Treasury guidelines through MFMA Circulars and mSCOA Regulations.
- AGSA Preventative Control Guide 1-7
- AGSA Working paper and audit action plan guide
- Implement standardized, effective accounting processes
- Ensure proper record keeping and document control
- Independently review and reconcile accounting records
- Carry out in-year reporting and monitoring
- Perform timely and accurate year-end reporting and monitoring

National Treasury and Provincial Treasuries

- As part of their Constitutional oversight role and as the custodian of the MFMA, the National and Provincial Treasuries must oversee the implementation of *m*SCOA by all municipalities:
- Follow-up on the submission of *m*SCOA data strings within the legislated timeframes;
- Analysed the credibility of the data strings submitted and inform municipalities of errors in the recording of *m*SCOA data strings as required in terms of the *m*SCOA chart and seven mSCOA segments;
- Provide guidance, training and support to municipalities to correct their *m*SCOA data;
- Take action against non-complying municipalities (including issuing of non-compliance letters, meeting with municipalities to discuss non-compliance, withholding conditional grants and equitable share until compliance has been reached);
- Verify system functionality in terms of the minimum business processes and system specifications;
- Verify if municipalities are budgeting, transacting and reporting directly in and from the financial system;
- Publish information on municipal performance in public domain;
- Verified that municipalities are using the modules available on the financial system and that 3rd party sub-systems are integrating to the core financial system; and
- Consider and issue annual chart changes.

Conclusion

Adhering to law and regulations, prescribed financial management competency levels, sound governance structure can deliver credible annual financial statements.

THANK YOU

For additional information on municipal matters, visit the MFMA Webpage at http://mfma.gov.za or

GO Muni

https://lg.treasury.gov.za/ibi_apps/welcome

Municipal Money

https://municipalmoney.gov.za

For additional information on national and provincial budgets, visit: https://vulekamali.gov.za

vulekamali

SA Online Budget Data