

**Question:**

Tender evaluation fraud what is your experience in this area?

**Answer:**

*Tender evaluation fraud is the most common way of diverting large amounts of funds destined to provide services to the poorest of the poor into the pockets of unscrupulous individuals from within and out of the organization.*

*In the year 2000 when back to back municipalities were formed and the representative councils were dissolved and municipalities were regionalized into the 284 structures we have today from 840 odd the climate was created for the mass implementation of tender evaluation fraud. I say this because far larger amounts of money were passing through far fewer hands far removed from the communities where the services were supposed to be delivered (in many to most cases). How are communities supposed to monitor projects when they had no say in the tender process?*

*In a sense the regionalizing of local government and dissolving the representative councils for all intents and purposes disenfranchised and isolated the poor in rural areas, their participation in local government was curtailed because they are simply too poor to attend Council meetings far away from their homes. (Anything from 50 to 600 km to the town where decisions are taken and tenders awarded.) In many cases the newspapers advertising the tenders are not even circulated in their communities.*

*I opposed tender fraud vehemently when I was an acting CFO of a municipality and I received death threats, some (many) of the Councillors that did the same are no more today . Enough said.*

**Question:**

Is there an acceptable alternative to GRAP reporting framework, such as hew IFRS or SME issued for private sector? Particularly low capacity municipalities, what is the panel's view?

**Answer:**

*The GRAP Reporting Framework should be simplified to ensure that the following principles are kept in mind to ensure ease of use and applicability to the environment in which the standards are applied:*

- 1. The costs of applying the framework should not exceed the benefits to be derived.*

2. *It must enable the primary users (identified below) to evaluate the reporting entity's liquidity, solvency and profitability.*
3. *It must be a stand-alone document which is succinct, easy to use and understand.*
4. *It should eliminate transactions that relate to few entities and be a reflection of the majority of transactions that a reporting entity may encounter.*
5. *It must ensure minimal deviation from management accounts, with as little possible adjustments required, and reflect the economic reality of the business activities by reflecting the intention of management.*
6. *It must ensure that transactions are recognized with integrity to enable the primary users to place reliance thereon. The primary users were identified by the group as ratepayers and, financial institutions and the South African Revenue Services (SARS).*

*The annual financial statements prepared under this framework are not general purpose annual financial statements and there is an "undue cost or effort" exemption, whereby, compliance with the framework is not required should such compliance result in undue cost or effort.*

**Question:**

- What steps are municipalities taking to address impact on cash flow of National Treasury Circulars 48 and 49?
- How serious is the problem? and
- How should lenders approach this?

**Answer:**

*The National Minister of COGTA is taking action to address the numerous cash flow crises that Municipalities find themselves in. Many are unable to meet their statutory obligations to service their creditors. At times conditional grants are utilized to finance operating expenditure.*

*Various municipalities find themselves in dire straights or they simply unable to meet their obligations.*

*I think lenders should approach cash strapped municipalities with due diligence and apply the usual lending criteria to the municipalities and where they are found to be lacking , they should not lend funds to ailing municipalities because this would exacerbate the problem.*

**Question:**

The National Treasury does not necessarily prescribe that personnel costs should be 35% of the budget. However, municipalities are encouraged to keep personnel costs to acceptable levels.

**Answer:**

*When referring to the 35% of personnel costs to budget this norm guideline was already in place before the days of full time Councillors and other full time political appointees in municipalities. The 35% limit was intended for personnel of the municipality.*

*When budgeting personnel and the political component of the municipalities should be provided for separately in order to distinguish between the two.*

*It would be great if Municipalities could keep their personnel bill, full time political appointees bill below 35%. Is it possible? I don't think so*

**Question:**

When implementing components requirement of GRAP17, should fixtures to buildings, e.g. aircons, be included in the class "buildings"? They're valued with the building and cannot be removed without impairing the aircon and/or the building, or in the class "Furniture & Fittings"?

**Answer:**

*If the air conditioners are part of the original design of the building and are shown on the original building plan they can be included in the class buildings. E.g. if you remove an air conditioner it would leave a huge hole in the wall.*

*Air conditioners that are added to a building later and are not financed under the original erection cost of the building should also be included under buildings if they are fixed to the building to enhance the functionality of the building permanently. Portable air conditioners are deemed to be furniture and fittings and classified as such.*

**Question:**

GRAP102: Intangible Assets, clarity is required in accounting of a valuation roll compilation cost. Where a standard refer to right from statute? We believe that valuation roll cost be capitalized to intangible asset, are we correct? If no, what is the right accounting to be followed?

**Answer:**

*The cost of compilation of the valuation roll must be expensed against the income statement because it is a revenue generating instrument. Numerous debates have been held about this matter.*

*It was suggested that the cost of compilation of the valuation roll be capitalized as an intangible asset and depreciated over the life of the valuation roll. This argument was defeated*

**Question:**

In terms of IAS19 multi-employer plans are post retirement plans that a number of entities belong to. According to the Main Collective Agreement municipalities make past retirement contributions to Salga approved medical aids. The Accountant General template AFS describes these contributions as a multi-employer plan, but AG Limpopo required normal defined benefit accounting.

Should these contributions be recognized as normal defined benefit plan i.e, obtain individual actuarial valuation for each municipality? or Multi-employer plan where the actuarial valuation of the medical aid is obtained and proportionally recognized?

**Answer:**

*I would agree with the Auditor-General, because in a defined benefit plan, the amount recognized in the balance sheet should be the present value of the defined obligation (that is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods as adjusted for unadjusted actuarial gains and losses and unrecognized actuarial service costs, and reduced by the fair value of plan assets at the balance sheet date (IAS 19.54).*

*The present value of the defined benefit obligation should be determined by using the Projected Unit Credit Method. (IAS 19.64)*

**Question:**

Audit Report: going concern, how does the going concern of the municipality impacts on the qualification of the audit opinion because I feel municipalities may be bailed out when it faces financial difficulties through intervention – administration order.

**Answer:**

*Every municipality should strive to be self sufficient and through good governance structures, create a sustainable model with which they can provide services to their communities within their means.*

*Even though municipalities may be bailed out it is the duty of the Auditor to report on the financial position of the municipality, be it either positive or negative, an auditor that fails to do so has not complied with the professional standards of the auditing profession.*

**Question:**

Although basic accounting standards are necessary to insure disciplined accounting, I am of the opinion that the energy and money involved to comply to GRAP is not appropriate for a developing country.

We need to start a discussion on simplifying the accounting standards for municipalities.

**Answer:**

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**Question:**

You had an outcry from small private companies about IFRS, we now have IFRS for SMME. Why not for small and medium municipalities GRAP standards?

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**Question:**

What is the rationale (legislation) behind requiring municipalities to prepare consolidated financial statements whilst the audit of individual financial statements is underway? Don't you think that the current arrangement will result in unnecessary duplication of audit findings?

**Answer:**

*The municipal functions delegated to entities in the applicable agreement are not included in the activities of the municipality. In order to get a true reflection of a*

*municipality the activities of the entities and the municipality must be combined to give a holistic picture of the municipality's activities.*

*It must be borne in mind that a municipality can devolve its functions to an entity but it cannot delegate its obligation (responsibility) to provide services to its communities.*

**Question:**

- How geared up are the SA municipalities to adopt to the GRAP standards?
- How clean are the available financial/accounting data to start with?
- How long until it take for all the municipalities to be on the same GRAP standards from now?

**Answer:**

- *From the results of the research conducted on the state of readiness of municipalities to convert to GRAP by the then DPLG, IMFO and PWC it was found that from approximately 41 project consolidated municipalities many had not even mastered IMFO standards and did not have sufficient expertise to manage their day to day cash flow and bank reconciliations. Most were reliant on consultants to compile their AFS.*
- *I foresee that the situation in municipalities is deteriorating especially smaller municipalities, to hazard a guess would be irresponsible.*

**Question:**

It appears that many of the problems regarding municipality's finances and systems, in that there is no standard financial systems in place across the country for all municipalities. Everyone does it's own. Is there a way to standardize financial systems across all municipalities?

**Answer:**

*The ideal would be to have a standardized ICT Financial System throughout the country, due to logistical problems and the option to chose a service provider has led to a state of affairs where many municipalities have the same service provider but their systems are at various stages of implementation or are even not the same version of the system as their neighbours.*

*To even prescribe a standard chart of accounts for smaller local municipalities would go a long way to assisting to normalize ICT structures and reporting frameworks in municipalities.*

*A code should be compiled that prescribes the minimum specifications for an ICT system in a municipality, with emphasis on MFMA reporting requirements in mind.*

**Question:**

The MFMA forfeits loans to state/public institutions. Does the description of state/public institutions include another municipality?

**Answer:**

*Yes, see the definition in the definition section of the PFMA*

**Question:**

As a district municipality we took loans from DBSA on behalf of local municipalities for infrastructure for a period of 20 years. As we are moving to GRAP how do we account for these loans as we do not own the asset nor do we have cash to pay for the loans?

**Answer:**

*If there is no agreement between the District and Local municipality the onus remains on the district to pay the DBSA for the loan commitments.*

*If the asset has been formally transferred to the local municipality the debt should have followed the asset, naturally after negotiations with the DBSA to amend the conditions of the loan.*

**Question:**

Ventersdorp municipality has been getting a disclaimer since 2002. In 2006 the municipality secured a loan of R19 mil from INCA. The AG's report had indicated a concern for the going concern basis of the municipality. Was INCA a professional institution correct to advance such a loan? Municipality cannot service the loan currently.

**Answer:**

*Financial institutions do not award loans on a willy nilly basis, they do an in depth evaluation of the going concern status of the municipality and the sustainability potential to service such a loan before they award the loan.*

*What is more important is to determine if the infra structure that the loan was meant to create has been built and been utilized to it's full potential to create revenue.*

**Question:**

Since all municipalities have the same business activities, can IMFO investigate introducing a generally accepted computerized financial system. On a shared basis. Substantial costs will be saved.

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**Answer:**

*Even though all municipalities have generic functions to perform they are all unique, a one size approach does not fit all .(Go to a red hanger sale at Edgars and see my theory in practice)*

*A standard chart of accounts may be a step in the right direction.*

*The financial implications would be massive. Even though many municipalities have the same financial systems, they are all at various versions and states of implementation. They don't even look like the same system in some cases.*

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**Question:**

Why is it not possible to make it compulsory to deduct the rates portion of a municipal account from the account holders salary, like SARS is doing with PAYE. Suggestion is to get legislation in place to enable us to do so?

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**Answer:**

*That would be brilliant if it could be done, but it would require changes to legislation and a no doubt heated in depth public participation process which could drag on for years, the chances are that property rates could even be placed under the jurisdiction of SARS.*

*At one stage there were rumors that Government wanted to introduce a flat structure in the Public Service. If a person looks at municipalities and sees how normal municipal functions are being carried out by consultants and parastatals, you can even buy your car license at the Post Office, it won't be long before municipalities as we know them could be absorbed into the public service, especially if Section 139 interventions increase and service delivery protests break out spontaneously because of poor service delivery and more and more communities are paying for and doing their own services thus creating alternative service delivery mechanisms.*