

From: Elsabe Rossouw

Sent: 22 October 2018 09:48 AM

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Cc: CD _ Local Government Budget Analysis <CD_LocalGovernmentBudgetAnalysis@treasury.gov.za>

Subject: 00. Verification of Budget Information for purposes of publishing the 2018/19 MTREF information on 28 September 2018 - follow up email

To all Municipal Managers, Chief Financial Officers and other municipal officials,

CC: The Head Official: Provincial Treasury,

CC: MFMA Coordinators,

CC: CD: LGBA,

Our emails dated 18 July and 3 October 2018 refer.

Despite our position that was communicated that the mSCOA Data strings (ORGB) must be corrected by 12 October 2018 if it does not reconcile to the Adopted Budget approved by Council, we once again have received a number of requests from municipalities for extension to correct their ORGB.

After further investigation into the reasons for such non-compliance, it is our conclusion that:

- The root cause for the discrepancies in the adopted budgets is still the fact that the municipalities do not plan, test and generate the A1 Schedules directly from the financial systems but prepare the A1 Schedules manually on excel spreadsheets and then captured the tabled (TABB) and ORGB budgets on the system (or worse, the core system vendor does it for them) after these were tabled and adopted in Council. **These data strings will not reconcile to the budgets and this practice is against the spirit of the mSCOA Reform;**
- Some municipalities prepared their TABBs in the financial system but made changes to it during community consultation and council meeting(s). These changes were effected to the A1 Schedule that served before council but never made on the financial system. Hence, the municipality started transacting against the TABB on the system instead of the ORGB. **These data strings will not reconcile to the budgets as the ORGB (which was actually the TABB) has been approved and locked on the system. In terms of the mSCOA Regulations, the budget must be approved and locked on the system, so the system is doing what it should if this is the case;**
- In some cases the ORGBs are correct but the information on the adopted A1 schedules are incorrect (once again the A1 Schedules that were submitted to Council were not prepared in and drawn from the system). **These data strings will not reconcile to the budgets unless the municipality takes the A1 Schedule back to Council for ratification. Apart from the MFMA not allowing for this until the Adjustments budget process, municipalities have already started transacting against the ORGBs. Allowing municipalities to reverse any actual transactions on posting level after month closure is not only a contravention of the mSCOA Regulations but will also affect the already reconciled bank accounts, stores, billing, etc. for the three months already passed;**
- Some municipalities have already approved and captured roll-over budgets which they are transacting against and therefore have already implemented an adjusted budget;
- Most municipalities do not use and combine the correct segments to populate an accurate cash flow statement;
- Municipalities do not know how to do balance sheet budgeting and as a result they are not populating tables A2, A6 and A7 in the A1 budget schedules correctly; and
- Municipalities are not using the segments correctly when they budget. E.g. Municipalities are not using the project segment as the departure point for all transactions and are not populating the funding segment correctly.

Our investigation also revealed that the reason why some municipalities are not using the budget preparation modules to generate A1 Schedules directly from the financial system, is because these modules are not functioning properly, are impractical and are not user friendly. This is unacceptable and means that some system vendors are equally guilty where municipalities could not conclude the data string verifications for these reasons. It also seems as if municipalities are not allowing sufficient time for the preparation of the tabled and adopted budget at the posting level (as required in terms of mSCOA).

Careful consideration was given to the above challenges and after lengthy deliberations, the National Treasury resolved that it is willing to compromise in the following manner:

1. The ORGB should perfectly reconcile to tables A4, A5 and A9 of the adopted budget. Where possible, municipalities should make the necessary corrections now (minor tweaking), but in cases where the ORGB has been locked on the system or municipalities have been transacting on the system against the locked ORGB, municipalities should correct this during the adjustments budget. In such cases, municipalities must inform the National and respective Provincial Treasuries in writing of their intention to correct the data string via an adjustments budget and once these corrections have been made, the National and respective Provincial

Treasuries must be informed of such so that a verification exercise can be done to test the alignment between the data string and adopted adjustment budget. **Those municipalities that fail to do so are reminded that National Treasury reserves the right to invoke Section 38 of the MFMA which empowers NT to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(1) of the Constitution which includes reporting obligations set out in the MFMA and NT requests for information in terms of Section 74 of the MFMA;**

2. Tables A2, A4, A5, A6 and A7 must be correct in the next budget period, i.e. in the 2019/20 TABB. We are going to embark on intensive training for municipal budget managers/officials at the end of November 2018 (at the time when they start preparing TABBs) to guide municipalities on how to do balance sheet budgeting and use the A1 budget tables and *mSCOA* segments correctly. **We will discontinue the use of the budget return forms in 2019/20 and will publish all budget related and S71 information directly from the data strings. Municipalities will continue to report on the old electronic returns until the end of the 2018/19 municipal financial year – which includes all the audit results as well.** It is therefore vital that municipalities work closely with their system vendors to ensure that system related issues, data string challenges and training requirements are resolved by 31 March 2018 and that budget preparation, implementation and in-year transacting all happen within the *mSCOA* reporting framework and on the preferred municipal financial system;
3. We will also request all vendors to present their budget module (specifically on the statement of financial performance (Table A4), statement of financial position (table A6) and cash flow statement (table A7) and how these feed and reconcile into the A1 Schedules to the National and Provincial Treasuries in November 2018 in order to provide guidance to vendors where required. In an attempt to ensure that, going forward, all municipalities budget directly in the financial system manage their statements of financial position and cash flow in the correct manner. Invitations for these engagements will be distributed to all system vendors and Provincial Treasuries in due course;
4. In an attempt to ensure that, going forward, all municipalities budget directly in the financial system and manage their statements of financial position and cash flow in the correct manner, the National Treasury will offer training to the municipal officials preparing the budgets on the population of the A1 budget schedules and *mSCOA* data strings. Details on the training will be communicated in due course;
5. The National Treasury has also secured funding to conduct an independent audits on all municipal core financial systems to determine to what extend these systems comply with the functionality requirements and 15 business processes required in terms of *mSCOA*. These audits will commence within the next month and the results will be published and shared in a media release. These results will also inform the new transversal tender for the procurement of municipal financial systems when RT25-2016 comes to an end in March 2019; and
6. National Treasury will still submit to Parliament and the Auditor-General and publish on our website the names of all municipalities whose data strings did not reconcile to their adopted budgets.

Please ensure that you take note of these developments and understand the contents of this mail.

Kind regards

Jan Hattingh

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Subject: 01. EC - Verification of Budget Information for purposes of publishing the 2018/19 MTREF information on 28 September 2018

To all Municipal Managers, Chief Financial Officers and other municipal officials,
CC: The Head Official: Provincial Treasury,
CC: MFMA Coordinators,
CC: CD: LGBA,

Our email dated 18 July 2018 refers.

We have received a number of requests from Municipalities for extension until the Adjustments Budget process (25 January 2019 to 28 February 2019) to correct their mSCOA Data strings (ORGB) that do not reconcile properly with the Adopted Budget approved by Council.

We have carefully considered this request and it is with regret that I have to inform you that your request cannot be accommodated for the following reason:

Firstly, this requirement was introduced as part of the preparation for the 2017/18 MTREF. Most municipalities did not take our request (which is a legal requirement in terms of the Municipal Regulations on Standard Chart of Accounts)(mSCOA) seriously; Secondly, during April 2018 after completing the reconciliation for all 257 municipalities, it was agreed that all the errors will be corrected during the Adjustments Budget. However, most municipalities did not honor this commitment; and Thirdly, municipalities were advised to ensure that there is a perfect match when compiling the 2018/19 MTREF as articulated in our email dated 18 July 2018.

In other words, we have allowed municipalities on three different occasions to resolve the inconsistencies between all the budget and in-year related reporting requirements. Once again, most municipalities have simply ignored our requirements.

We have however agreed that we will allow extension until **12 October 2018** for all municipalities to conclude this process. Unfortunately, after this date the National Treasury would have no choice but to introduce measures to enforce compliance and consequence. I am sure by now most municipalities know exactly what we are referring to.

Please use your time productively to assist us to complete this process.

Regards

Jan H

From: Jan Hattingh

Sent: Wednesday, July 18, 2018 19:15

Subject: Verification of Budget Information for purposes of publishing the 2018/19 MTREF information on 28 September 2018

Importance: High

To all Municipal Managers, Chief Financial Officers and other municipal officials,

CC: The Head Official: Provincial Treasury,

CC: MFMA Coordinators,

CC: CD: LGBA,

Background

Each year National Treasury publishes a consolidated set of budget information for all municipalities. This practice is aligned to the MFMA and has been institutionalised over the last eleven years. For those municipalities who are unfamiliar with this publication, kindly visit the National Treasury Website using the following link:

http://mfma.treasury.gov.za/Media_Releases/mbi/Pages/Municipal%20Budgets%20-%20Main%20Page.aspx

What are the objectives of this exercise?

1. To obtain a full set of 2018/19 MTREF budget information from all municipalities in terms of the MFMA and the annual budget circulars released by NT;
2. To obtain the 2018/19 MTREF in the prescribed mSCOA classification framework in version 6.2;
3. To ensure that the budget adopted by Council contains the same information as the A1 schedules submitted to NT, the budget return forms submitted to the LG database and the mSCOA ORGB dataset; and
4. To compile a credible baseline for the monitoring of in-year performance through the Section 71 reporting process, reporting to Parliament and informing key policy funding decisions.

What does the budget verification exercise involve?

1. The reconciliation process involves ensuring that the following documents all contain the same information/numbers, in other words, the information in all documents must reconcile:



1



2. No. 1 is the legally adopted budget of the Council (hard and soft copy) – NO CHANGES CAN BE EFFECTED AS IT IS THE LEGALLY APPROVED BUDGET OF THE MUNICIPALITY. If however there are errors in the adopted budget, these errors may only be corrected during the **Adjustments Budget Process in January/February 2019**.
3. If the information in No. 1, 2 and 3 do not reconcile, **THEN CHANGES CAN ONLY BE MADE TO NO. 2 OR NO. 3** (depending on where the errors exist).
4. In addition, No. 4 must be a successful submission and will be evaluated for the correct format, periods and posting levels as well as the 16 point segment validation testing / analysis posting rules. Thereafter an extraction in the A1 schedule format will be made using the LGDRS. This schedule must reconcile with the A1 schedule adopted by council. Kindly note that the rules for the alignment will be shared with all vendors to ensure that municipalities and National Treasury uses the same rules for the alignment. Where the A1 schedules were extracted from the municipal financial system, this will enable easier reconciliation of the A1 Schedules adopted by Council for 2018/19 MTREF budget with the LGDRS.

In addition to the verification of the 2018/19 MTREF budget, all previous year's figures should also be corrected to align with the audited financial statements of the municipality and any restatement of audit figures. For purposes of the 2018/19 MTREF Budget Publication historical audit years may be opened and electronic returns resubmitted to obtain alignment. This process is not automatic and will be managed by the respective director for your province / municipality within the National Treasury: Local Government Budget Analysis (LGBA) unit. Should your municipality need to restate historical audit year figures, the CFO / budget manager need to request the respective LGBA director to open the historical audit years for your municipality prior to submitting the restated returns forms.

What is the process to complete the verification?

1. All budget return forms should be submitted to the LG database 10 within working days after the adoption of the 2018/19 MTREF budget;
2. All A1 schedules (in Excel), hard and electronic copies of the budget documents should have been submitted to NT immediately after the adoption of the budget;
3. **The mSCOA ORGB and PROR datasets must be prepared in the correct format and uploaded using the LG Upload Portal and must pass the segment validation testing / analysis (posting rule validation) by 20 July 2018;**
4. Before submission of the information, municipalities are required to ensure that the information in all of these documents reconcile with each other;
5. Upon receipt of the information from the municipality (within the above timeframes), National (for non-delegated municipalities) and provincial treasury (for delegated municipalities) staff will verify whether the information reconciles;
6. NT and PTs will correspond with municipalities where corrections need to be effected;
7. Municipalities need to effect the identified corrections and resubmit to NT and / or the LG database and / or the LG Upload Portal; and
8. Once information in all documents reconcile, the process is complete and the LGDRS will lock the figures for publication purposes.

What happens if the information does not reconcile?

As supplementary information to the budget publication, NT usually publishes two lists for submission to Parliament and the Auditor-General. These lists include the names of:

1. All municipalities who have not submitted a complete set of 2018/19 MTREF budget information; and
2. All municipalities whose budgets did not reconcile.

In addition, National Treasury reserves the right to invoke Section 38 of the MFMA which empowers NT to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(1) of the Constitution which includes reporting obligations set out in the MFMA and NT requests for information in terms of Section 74 of the MFMA.

How should you support the process?

1. Submit all outstanding information as a matter of urgency to NT and the LG database (all 257 municipalities as in the current demarcation to avoid non-compliance);
2. Conduct an internal check to see if the information reconciles (do not wait to hear from NT and PT first);
3. Where corrections need to be effected, either re-submit the A1 schedules and /or revised database return forms and/or mSCOA datasets;
4. Provide full co-operation to NT and PT officials in the completion of this exercise; and
5. Verify information relating to the previous financial years – ensure that figures correspond with the audited AFS of the municipality.

We trust that you will give this process your full support and that the budget publication will reflect a full set of perfectly reconciled information for all 257 municipalities. Should you have any questions, kindly contact your provincial treasury or the analyst responsible for your province/municipality at NT. The final deadline for the completion of this exercise is **28 September 2018**.

However, the provincial treasury or the analyst responsible for your province at NT may set an earlier deadline to ensure that the adopted budget information for all municipalities in the province has been verified by the deadline date.

Lastly, you are reminded to provide us with the signed **Quality certificate** as outlined in MFMA Circular No. 58, as well as the signed **Budget Locking certificate** certifying that the budget figures have correctly been captured in the municipality's financial system.

Kind regards,

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