

MFMA Implementation CFO Forum

07 November 2016



national treasury

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National Treasury
REPUBLIC OF SOUTH AFRICA

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2015/16 Annual Financial Statements



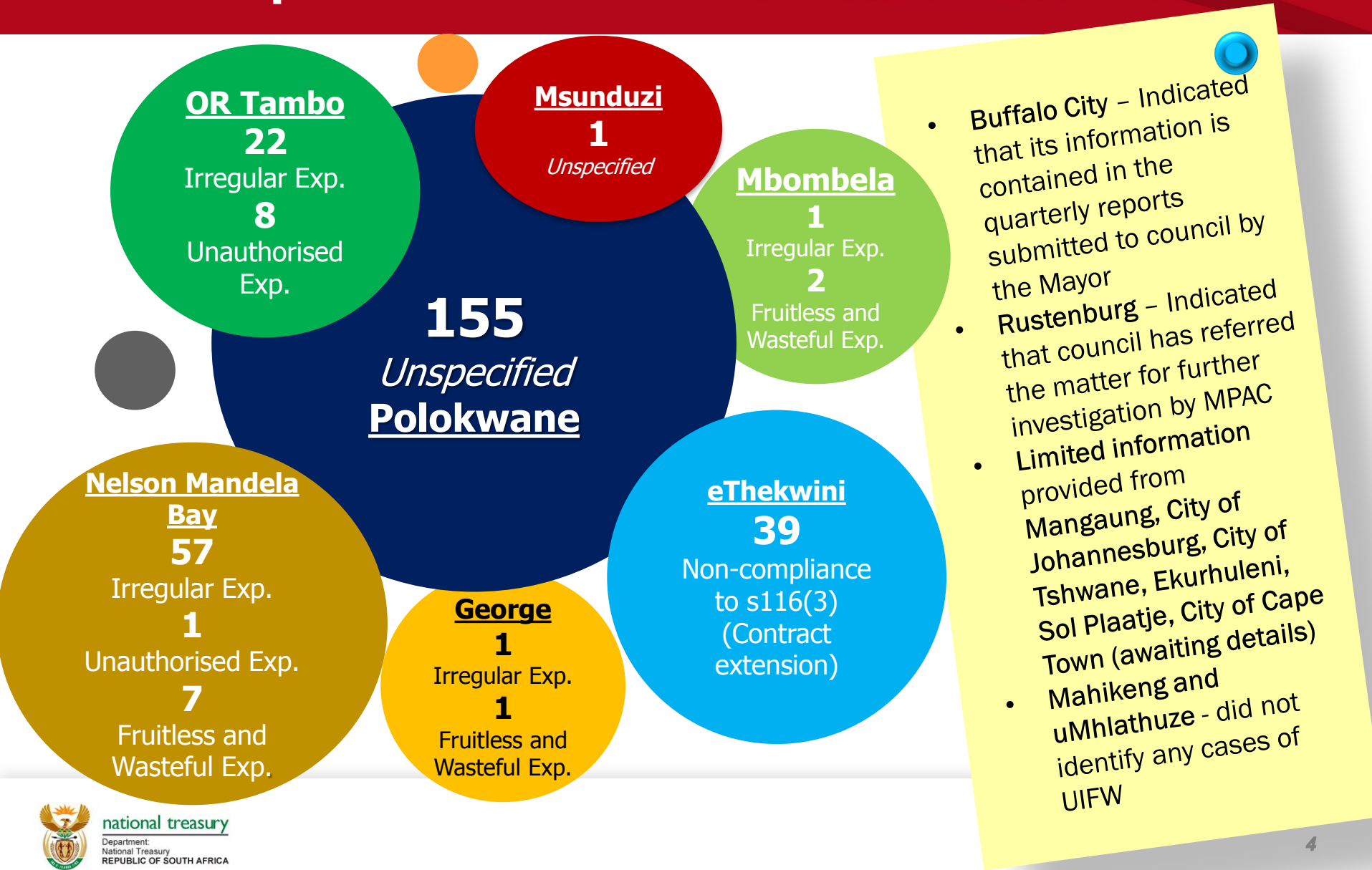
Submission and Preparation of 2015/16 Audit Files



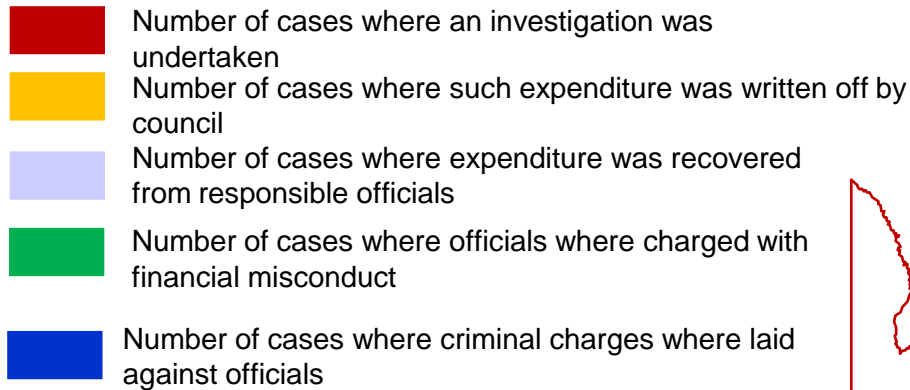
Supply Chain Management

UIFW Expenditure in Municipalities and Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

Municipalities that identified cases of UIFW Expenditure

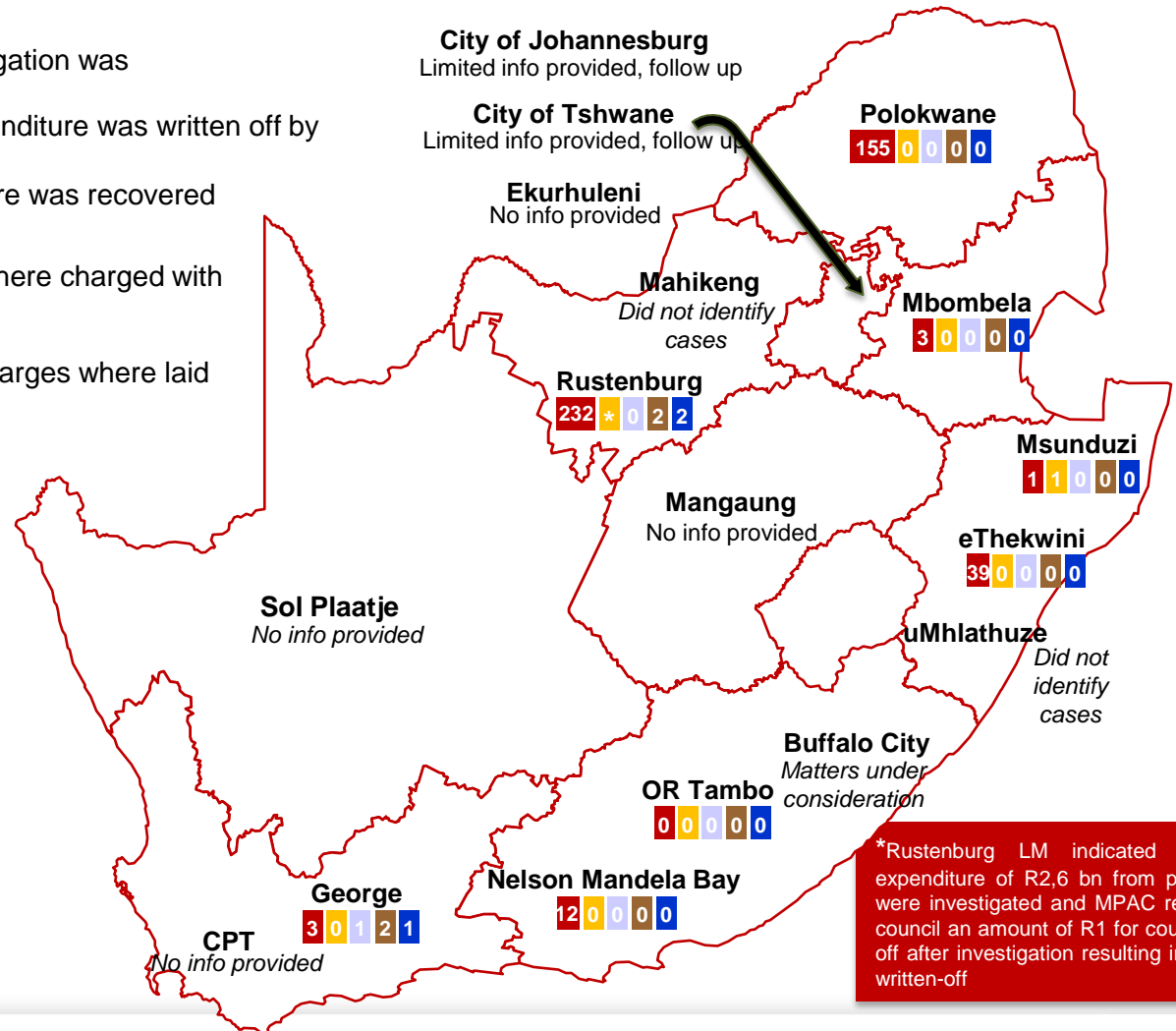


UIFW expenditure cases



Measures put in place to prevent future UIFW included:

- Fraud and corruption prevention strategy
- Enforcing SCM policies and relevant circulars
- Developing policies to detect, report and prevent instances
- Scrutinizing expenditure by various Council Committees
- Compliance checklists
- Improving SCM processes
- Proper documentation system
- Centralization of SCM



*Rustenburg LM indicated that the expenditure of R2,6 bn from prior years were investigated and MPAC reported to council an amount of R1 for council write-off after investigation resulting in R1,1 bn written-off

Financial Misconduct Regulations

4

NDMs

established a disciplinary board as required in terms of Regulation 4 of the Municipal Regulation on Financial Misconduct Procedures and Criminal Proceedings:

5

NDMs

Nelson Mandela Bay, Msunduzi, Mbombela, George

where officials were charged with financial misconduct during the 2015/16 financial year:

Buffalo City, eThekweni, Polokwane, Rustenburg, George

34

Officials

Number of officials charged with financial misconduct per municipality:

Buffalo City (3), eThekweni (2), Polokwane (8), Rustenburg (7), George (14)

instituted disciplinary proceedings against officials charged with financial misconduct:

Buffalo City, eThekweni, Polokwane, Rustenburg, George

5

NDMs

George and OR Tambo had in its disciplinary board, one member of the audit committee, a senior manager from the legal division as well as any person as determined by the municipal council or board of directors. As stipulated in the Regulation 4 of the Municipal Regulations on Financial Misconduct Procedure and Criminal Proceedings.

Note: OR Tambo uses SALGA main collective agreement on disciplinary matters. City of Johannesburg, City of Tshwane, Ekurhuleni, Sol Plaatje and Mangaung did not provide responses.

Recommendations on UIFW Expenditure and Financial Misconduct Regulations

- Ensure that continuous awareness is raised on the Financial Misconduct Regulations read with MFMA Circular 76.
- NT will provide more hands on assistance to municipalities with implementation of the regulations.
- Municipalities to maintain information relating to the implementation of the regulations for both internal disciplinary proceedings and external criminal proceedings. This will ensure that information is readily available, during audits and oversight reporting.
- All further training needs on the financial misconduct regulations for municipal officials to be communicated to NT for consideration.
- Municipalities to utilise MFMA helpdesk for any clarity seeking questions on the Regulations: MFMA@treasury.gov.za.

Cost Containment Measures

Implementation of MFMA Circular 82

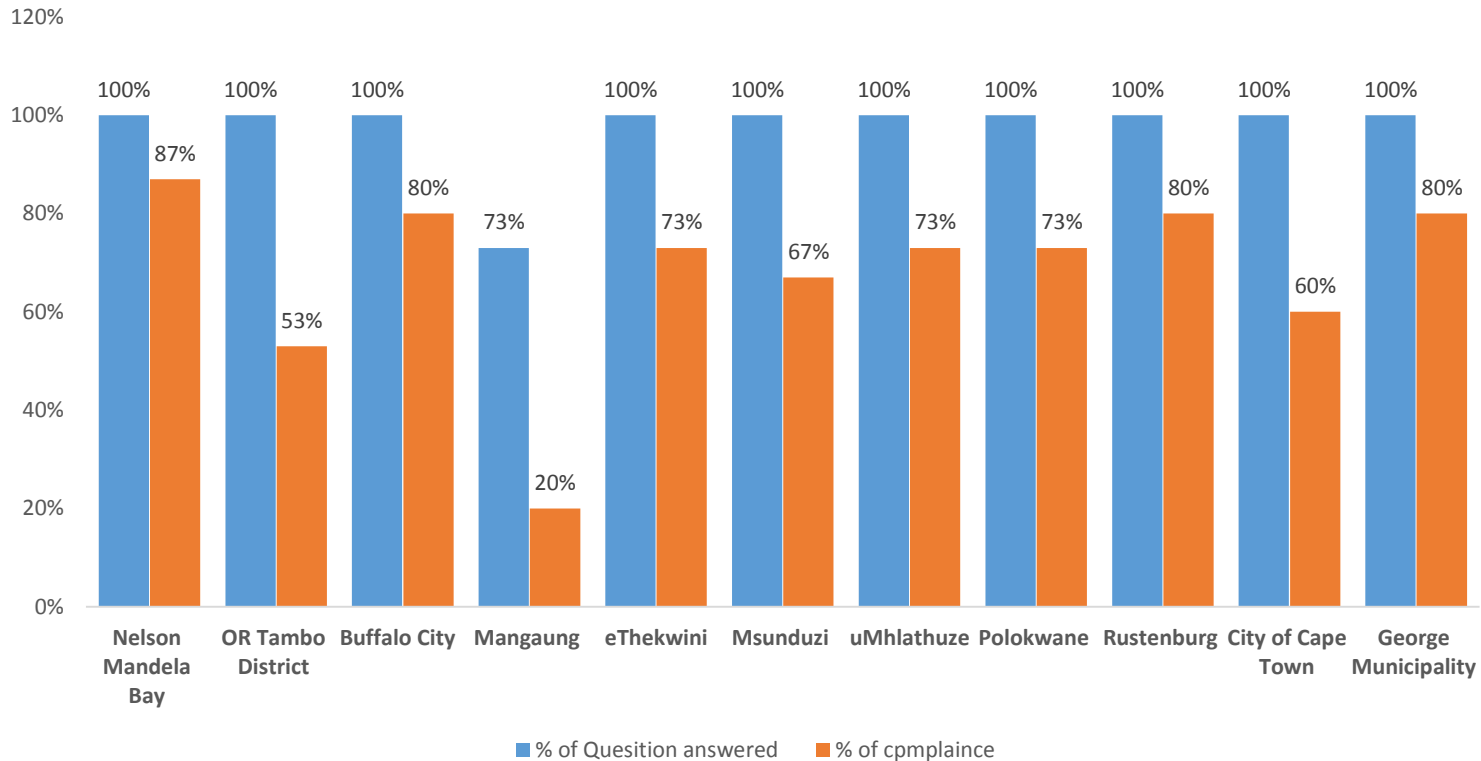
Cost Containment Measures (MFMA Circular 82)

The following 15 questions were asked to the municipalities in order to monitor the progress of compliance with MFMA Circular 82:

- Hotel accommodation may not exceed the rates mentioned in the MFMA Circular 82?
- Only economy class air tickets purchased for flights?
- Only group B vehicles or lower may be hired for engagements?
- Kilometres claimed for the use of private vehicles do not exceed the rates approved by the National Department of Transport, as updated from time to time?
- Does the municipality and its municipal entities, if any, utilise improved upfront discounts for flights and accommodation rates as negotiated by National Treasury?
- Is the municipality utilising SAA and BA or other carriers given the discounted rates for government officials for domestic air travel?
- Has the municipality familiarised itself with the table of rates (provided in the circular) for domestic hotel accommodation?
- Does the municipality ensure that overnight accommodation is limited to officials travelling a distance of over 500 km to and from the destination?
- Does the municipality make use of shuttle services if the cost of kilometres claimable by an employee and the cost of parking are higher than the shuttle services?
- Does the municipality have a policy in place addressing the utilisation of petrol and garage cards for municipal vehicles?
- Is the policy of addressing the utilisation of petrol and garage cards effectively implemented?
- Does the municipality incur catering expenses for meetings where only municipal officials are in attendance?
- Does the municipality incur catering expenses for meetings that lasts for less than 5 hours?
- Does the municipality ensure that team building and social functions, including year-end functions, are not financed from the municipal budgets or by any suppliers or sponsors?
- Does the municipality utilise municipal funds for hosting farewell functions for employees that have been dismissed, elected to resign or leave by accepting severance packages or approached the end of their contractual term?

Cost Containment Measures (MFMA Circular 82)

Compliance with MFMA circular 82



- Joburg, Ekurhuleni, Tshwane, Sol Plaatje and Mahikeng did not submit the information
- Mbombela answered one out of 15 questions

Recommendations on Cost Containment Measures

- Municipalities to adopt MFMA Circular 82 with their annual budgets;
- Municipalities to review finance related policies to ensure consistency with MFMA Circular 82;
- Municipalities to develop appropriate oversight mechanisms to monitor implementation of cost containment measures;
- Implementation of such measures will assist in giving effect to sections 62 and 167 of the MFMA with reasonable steps taken to ensure effective, efficient, economical and resources allowed in the best interests of the local community;
- Minister announced in MTBPS that these measures are to be regulated.

FINANCIAL MANAGEMENT GRANT (FMG) AND FINANCIAL MANAGEMENT CAPABILITY MATURITY MODEL (FMCMM)



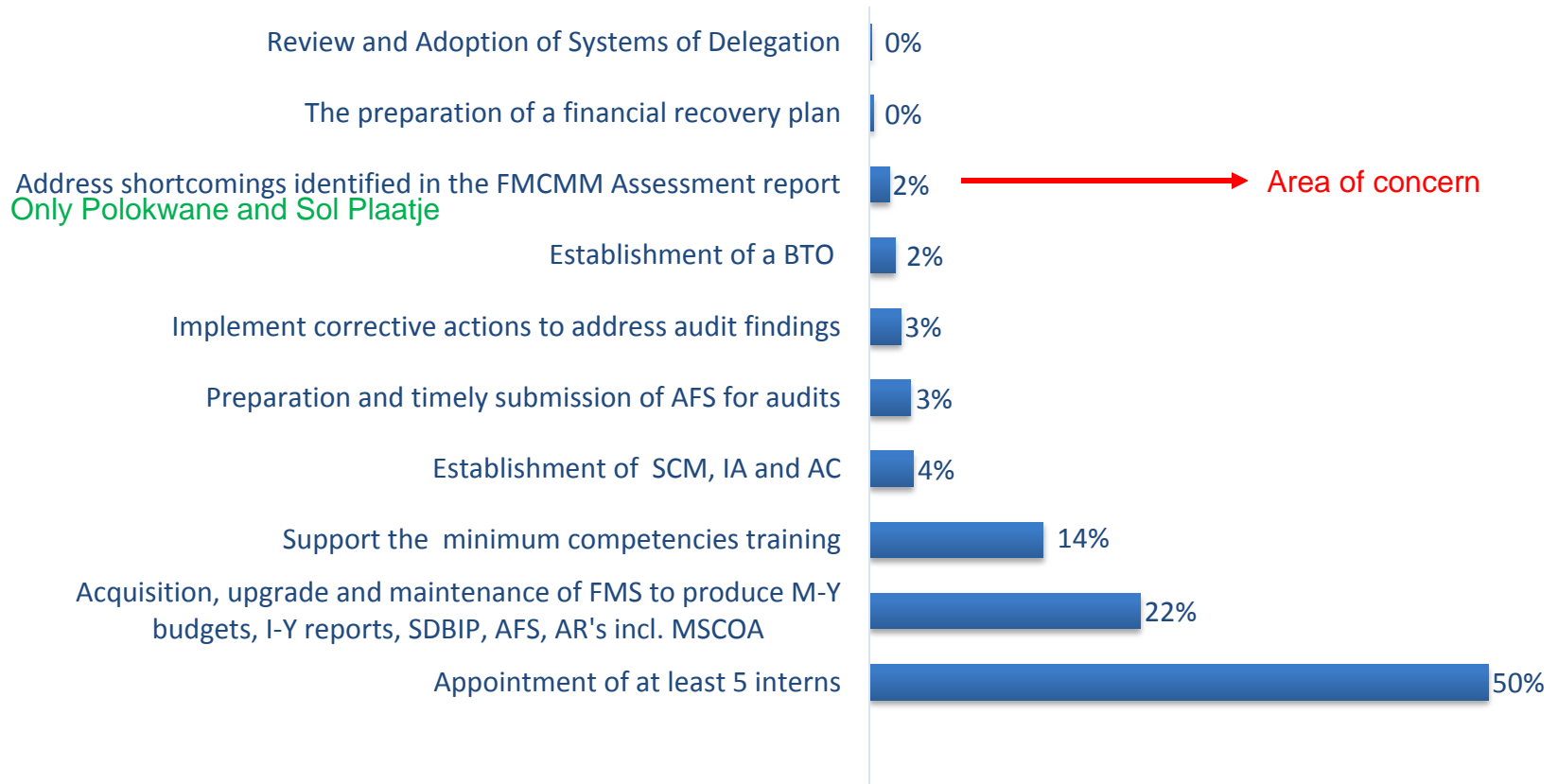
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FMG support plan analysis

Non-delegated municipalities

FMG Support plan analysis



Quarter one FMG Performance Evaluation Report 2016/17 FY

List of outstanding Quarter 1 FMG Performance Evaluation Reports - 2016/17 FY

Due date was 31 October 2016:

- ❖ O.R. Tambo
- ❖ Mangaung
- ❖ Msunduzi
- ❖ Polokwane
- ❖ City of Mbombela
- ❖ Sol Plaatje
- ❖ Mafikeng

Future Due Dates

Quarter 2 – 31 January 2017

Quarter 3 – 28 April 2017

Quarter 4 – 31 July 2017

Annual – 31 August 2017

FMCMM - Metro

September FMG Monthly report

Municipality	FMCMM and Ratio action plan		Focus areas	Items on action plan		
	<i>Developed</i>	<i>Submitted to NT</i>		<i>Total</i>	<i>Completed</i>	<i>Outstanding</i>
Buffalo City	Yes	No	Capacity Building, HR, AFS, Asset Management, ICT, Internal Audit and Reporting	226	175	51
Nelson Mandela	Yes* Draft	Yes	Compensation, ICT, HR, Risk Management, BTO, Asset Management, AFS, Annual Reports, SCM, Revenue Management	149	0	149
Mangaung	Yes	No	No Information provided			
Ekurhuleni	No	n/a	Municipality requested a workshop on the assessment results and the development of the action plan			
City of Johannesburg	Yes	No	Two separate financial systems and reconciliation issues	2	0	2
City of Tshwane	No	n/a	In the process of developing plan – No date provided when it will be developed			
eThekweni	Yes	No	Various	184	24	160
City of Cape Town	Yes	No	Action Plan to be tabled at council meeting in October			

FMCM - Secondary Cities

September FMG Monthly report

Municipality	FMCMM and Ratio action plan		Focus areas	Items on action plan		
	<i>Developed</i>	<i>Submitted to NT</i>		<i>Total</i>	<i>Completed</i>	<i>Outstanding</i>
O.R. Tambo	Did not submit September FMG monthly report					
Msunduzi	No	n/a	The Municipality has not developed a FMCMM plan due capacity constraints. Once the posts will be filled, the plan will be drawn up to address the FMCMM and ratios. Currently some ratios are being addressed.			
uMhlathuze	Did not submit September FMG monthly report in the updated template					
Polokwane	Yes	No	Bank, Cash and Investments, Liability management. Capacity Building, HR, BTO, Annual Financial Statement and Expenditure management.	214	159	55
City of Mbombela	Yes	No	Creditors payment period, UIFW, Repairs and maintenance ,Distribution losses and liquidity management	10	0	10

FMCM - Secondary Cities

September FMG Monthly report

Municipality	FMCM and Ratio action plan		Focus areas	Items on action plan		
	<i>Developed</i>	<i>Submitted to NT</i>		<i>Total</i>	<i>Completed</i>	<i>Outstanding</i>
Sol Plaatje	Yes* Draft	Yes	All 21 Modules, Ratios: Repairs and maintenance, Collection Rate, Bad debts written-off, Net debtor days, distribution losses, creditors payment period, UIFW and Capital Expenditure	172	8	164
Rustenburg	Did not submit September FMG monthly report					
Mafikeng	Did not submit September FMG monthly report in the updated template					
George	No	n/a	No Information provided			

Resolutions

- Municipalities to revise their 2016/17 FMG support plans so that they can address FMCMM shortcomings.
- All outstanding FMG monthly reports/ missing information on reports/ outstanding quarterly reports to be submitted by 11 November 2016 to fmg@treasury.gov.za
- Submit the developed FMCMM and ratio action plan by 30 November 2016 to fmg@treasury.gov.za
- Municipalities to indicate when priority FMCMM modules will be reassessed and submitted – Indicate dates to NT by 30 November 2016 to mfma@treasury.gov.za

2015/16 Annual Financial Statements

2015/16 Annual Financial Statements

17

NDMs

submitted their
AFS to the AG by
31 August 2016

9 NDMs

tabled their 2015/16 Annual
Report to Council by 31 August 2016

(eThekweni and Polokwane **did not**
table their 2015/16 Annual
Report to Council by 31 August
2016).

10 NDMS

presented their
AFS to Internal
Audit units for
review except
Mahikeng and
Rustenburg.

9 NDMS

presented their
AFS to Audit
Committees
for review except
Mahikeng,
Rustenburg and
uMhlathuze.

Note: City of Johannesburg, City of Tshwane, Ekurhuleni, Mangaung and Mbombela did not provide responses to the reporting requirements.

Municipalities Affected by Demarcations

Pre-election municipality	Post-election municipality
<p>Preparation of 2016/17 AFS and Performance report</p> <p>Period covering: 01 July 2016 – day before the post-election municipality comes into effect</p> <p>This must be approved, signed and submitted by the MM or Acting MM of the post-election municipality</p>	<p>Preparation of 2016/17 AFS, Annual performance report and Annual Report</p> <p>Period covering: Date when post-election municipality comes into effect – 30 June 2017</p>
<ul style="list-style-type: none"> • Date when post-election municipality comes into effect – Refer to s12(2)(b) of the MSA • Similarly, this will be applicable to the affected municipal entities and consolidated AFS, performance report and annual report, as applicable. 	

- The guideline issued by NT on Re-demarcations recommends that municipalities and entities affected by the demarcations submit both the 2015/16 and 2016/17 AFS (pre-elections) covering the period 1 July 2016 to the date of disestablishment, to the AG by 31 August 2016 or 30 September 2016 for entities.
- At Sept 2016, Affected NDMS (Mangaung, Polokwane and uMhlathuze) submitted the 2015/16 AFS to AG, for the former municipality, as required.
- **None of the affected munis have submitted 2016/17 AFS for the period covering 1 July to date of disestablishment.**

Addressing FMCMM Assessments in the Preparation of AFS and Annual Reports

6 of the 17 NDMs conducted bank reconciliations on a weekly basis in the 2015/16 financial year. These municipalities are: Buffalo City, eThekweni, Msunduzi, uMhlathuze, Polokwane and George

9 of the 17 NDMs reconciled the valuation roll to the financial system on a monthly basis in the 2015/16 financial year. These municipalities: Nelson Mandela, Buffalo City, eThekweni, Msunduzi, uMhlathuze, Polokwane, Sol Plaatje, City of Cape Town and George

Mangaung, City of Johannesburg, City of Tshwane, Ekurhuleni, Mbombela and Rustenburg have not provided responses.

Addressing FMCMM Assessments in the Preparation of AFS and Annual Reports

5 of the 17 NDMs included Appendix F (ward) in the 2015/16 annual report. These municipalities are: OR Tambo, Buffalo City, Msunduzi, Mafikeng and City of Cape Town.

6 of the 17 NDMs included Appendix O (Ward Capex projects) in the 2015/16 annual report. These municipalities are: OR Tambo, Buffalo City, Msunduzi, uMhlathuze, Mafikeng and City of Cape Town.

2 of the 17 NDMs included Appendix P (Service backlogs to Schools and Clinics) in the 2015/16 annual report. These municipalities are: Buffalo City and City of Cape Town.

2 of the 17 NDMs included Appendix R (loans and grants made by muni) in the 2015/16 annual report. These municipalities are: Msunduzi and City of Cape Town.

Mangaung, City of Johannesburg, City of Tshwane, Ekurhuleni, Mbombela and Rustenburg have not provided responses.



Resolutions on Annual Financial Statements

- City of Johannesburg, City of Tshwane and Ekurhuleni to provide information on submission of AFS;
- Mangaung, City of Johannesburg, City of Tshwane, Ekurhuleni, Mbombela and Rustenburg to provide responses on all questions relating to the FMCMM assessments in the preparation of GRAP Compliant AFS;
- Municipalities who had indicated problems that caused delays in submitting AFS must put measures in place early to ensure timely submission of AFS;
- Reflect these in the revised FMG support plans.

Submission and Preparation of 2015/16 Audit Files

Submission and Preparation of 2015/16 Audit Files

Financial Official

- Progress made in that all non-delegated municipalities had delegated a finance official to coordinate information contained in audit files.

Significant Findings

- OR Tambo and Mafikeng had received significant findings on poor records and source documents in support of transactions.

Prior Matters

- Progress made in that during preparation of the audit file, all NDMs had given attention to matters that were qualified in the prior year.

Consultants

- OR Tambo, Mafikeng, Rustenburg used the services of consultants to prepare audit files.

Submission and Preparation of 2015/16 Audit Files

Internal Audit Unit

- 8 out of 17 municipalities (Nelson Mandela Bay, Ekurhuleni, eThekweni, Msunduzi, Polokwane, Sol Plaatje, City of Cape Town and George) presented their audit files to the Internal Audit unit for review prior to submitting to AG.

Audit Committees

- 6 out of 17 municipalities (Ekurhuleni, eThekweni, Msunduzi, Polokwane, City of Cape Town and George) presented audit files to the Audit Committee for review prior to submitting to the AG

Submission to AG

- All non-delegated municipalities submitted Audit Files to AG.

Resolutions on Audit Files

- NT to follow up more vigorously on submission of outstanding information to ensure comprehensive reporting;
- Non delegated municipal representatives to escalate this matter to CFO and MM to ensure full compliance;
- NT requests municipalities to make changes to ensure quality of AFS is improved, preparation process updated to ensure submission of Audit Files to Internal Audit and Audit Committees for review prior to submission to AG.
- Free e-GRAP training planned for first 1000 officials registered with the National School of Government. Further details to follow.

Supply Chain Management Reforms



Introduction

- ❑ SCM Regulation 2.1(b) promotes compliance by municipalities to improve accountability, transparency and update measures required to combat fraud in supply chain management practices in municipalities and municipal entities. The following SCM reforms should be expedited:
 - Implementation of Annual Procurements Plans
 - Implementation of Contract Management and monitoring of contractual agreements within SCM; and
 - Modelling SCM Policy for Infrastructure Procurement and Delivery Management within the Municipality.

- ❑ This information is consolidated and analysed Quarterly.

2016/17 Annual Procurement Plans

NDM's with an adopted APP for 2016/17:

- ✓ OR Tambo District Municipality
- ✓ Ekurhuleni Municipality
- ✓ Msundusi Municipality
- ✓ uMhlatuze Municipality
- ✓ City of Cape Town
- ✓ George Municipality

Missing information on NDMs with regards to adoption of 2016/17 APP:

- Nelson Mandela Bay Municipality
- Buffalo City Municipality
- Mangaung Municipality
- City of Johannesburg Municipality
- City of Tshwane Municipality
- Polokwane Municipality
- Mbombela Municipality
- Sol Plaatje Municipality
- Mafikeng Municipality
- Rustenburg Municipality
- eThekweni

2016 /17 Contract Management

NDM's with a Contract Register for 2016/17:

- ✓ OR Tambo District Municipality
- ✓ Ekurhuleni Municipality
- ✓ eThekweni Municipality
- ✓ Msundusi Municipality
- ✓ uMhlatuze Municipality
- ✓ City of Cape Town
- ✓ George Municipality

NDM's without Contract Registers and missing information:

- Nelson Mandela Bay Municipality
- Buffalo City Municipality
- Mangaung Municipality
- City of Johannesburg Municipality
- City of Tshwane Municipality
- Polokwane Municipality
- Mbombela Municipality
- Sol Plaatje Municipality
- Mafikeng Municipality
- Rustenburg Municipality

Msunduzi and uMhlatuze municipalities reported that their MM monitor performance of contracts, as per Section 116(2) (b).

MFMA Circular 77: Model SCM Policy for Infrastructure Procurement and Delivery Management:

4 NDM's aligned their SCM Policies to Circular 77

- › *OR Tambo District*
- › *eThekweni*
- › *Msunduzi*
- › *Polokwane*

Note country wide workshops being undertaken to raise aware and assist with roll out of CDIMS.

When will your municipality align their SCM policies to Circular 77 ?

Resolutions on Supply Chain Management

- Municipalities that did not submit report or submitted incomplete responses to NT are requested to send information as highlighted in the previous slides (MFMA September 2016 Reporting Requirements, by 11 November 2016;
- Municipalities are urged to display updated information on their websites, such as bids advertised, cancelled and awarded;
- Municipalities are requested to utilise the E Tender Portal.

THANK YOU

