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# **Chief Financial Officers Handbook for Municipalities**

**National Treasury  
(1<sup>st</sup> Edition)**

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# Part I:

## Introduction to government and the CFO

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## **1. Overview**

The Municipal Finance Management Act, Act 56 of 2003 (MFMA) is a key driver of financial reforms in the sphere of local government. The Act provides a framework for the functions, roles and responsibilities of the Chief Financial Officers (CFOs) however there appears to be a gap between what the Act prescribes for CFOs and the actual implementation thereof. This limits the effectiveness of the Act in bringing about improvements in public finance management.

### **1.1 Purpose of the CFO Handbook**

The CFO Handbook has been developed to address the gaps by providing a comprehensive outline of the roles and responsibilities of the CFO with the aim of optimising the provisions of the MFMA and what it seeks to achieve.

The Handbook serves to guide CFOs to give effect to the requirements of the applicable financial management legislation by interpreting the legislative requirements and explaining what the CFO is required to deliver, the relevance of the outputs and the timing thereof. The execution or “how to” compile the outputs is at the discretion of the CFO and his team of finance professionals.

It must be noted that the content of the CFO Handbook is characteristic of an ideal municipal environment where the municipality is operating optimally. Given that municipalities, depending on the municipal category, capacity and constraints, may be at different levels of performance or competence, the CFO Handbook serves to guide CFOs on what they should aspire to achieve within the municipal environment.

Furthermore, the CFO Handbook is a “living” document that will evolve over time to accommodate changes that may arise in the municipal environment.

### **1.2 Design Principles**

The CFO Handbook is divided into three parts comprising the functional areas of the CFO’s financial management responsibilities. The functional areas are derived from the CFO’s job description which is in accordance with the role and responsibilities of the CFO as prescribed by the MFMA. The CFO Handbook interprets the legislative requirements so that the CFO is guided as to the intensity of his/her involvement in delivering the necessary.

It is noted that CFOs may be operating at different levels of competency and capacity however the CFO Handbook serves to remind CFOs of the legislative requirements applicable to all municipalities regardless of constraints that prevail.

## 2. Legislative Framework

The MFMA is the key driver of financial reforms in the sphere of local government. A cornerstone of the Act is its sound financial governance framework that separates and clarifies the roles and responsibilities of the mayor, executive and non-executive councillors and officials. It consequently serves to maximise the capacity of municipalities to deliver services to all its residents, customers and users.

### ***Five underlying principles of the MFMA***

The five underlying principles in the MFMA, which form the basis of the key reforms envisaged in the Act, are consistent with the other legislation applicable to local government<sup>1</sup>. These underlying principles and related reforms are intended to encourage a robust, better managed and more accountable sphere of local government that is well positioned to meet the emerging demands and challenges of the diverse communities that it serves.

The five principles are as follows:

- i) Promoting sound financial governance by clarifying roles;
- ii) A more strategic approach to budgeting and financial management;
- iii) Modernisation of financial management;
- iv) Promoting co-operative government; and
- v) Promoting sustainability

In addition, the MFMA gives effect to the constitutional principle that recognises local government as a “*distinctive*” and “*independent*” sphere, with the power to determine its own budget and policies.

Municipalities are a distinctive government, with the right to determine its own budget priorities and to collect revenue such as municipal property taxes, levies and utility charges.

In terms of section 139 of The Constitution the provincial or national sphere of government may intervene in a municipality only if there is an executive failure or a budget or financial crisis.

## 3. Municipal Structure

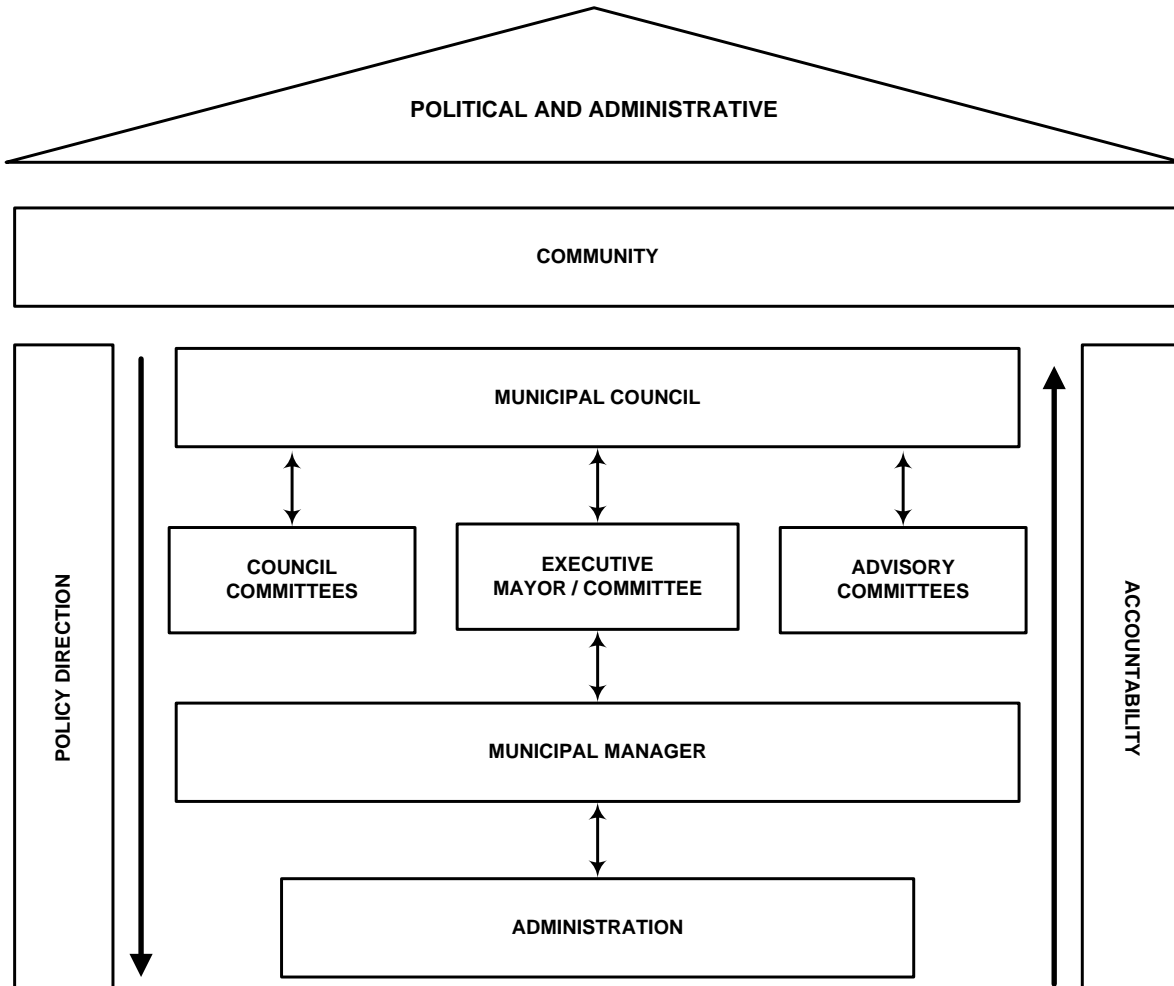
The MFMA defines and separates the role and responsibilities of mayors, councillors and officials in terms of empowerment, accountability and oversight. Sound governance arrangements are integral to municipal finance management. A culture of transparency that includes regular reporting is necessary.

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<sup>1</sup> Modernising Financial Governance, Implementing the MFMA, updated August 2004

It is important to clarify who is responsible for accountability and oversight so that confusion or duplication is avoided as it may tend to weaken accountability and oversight mechanisms.

The diagram below illustrates the political and administrative structures required for decision-making and accountability.



### Categories of municipalities

The Constitution, section 155 (1), defines the categories of municipalities according to categories A, B and C. The Local Government Municipal Structures Act, 1998 further defines the types of municipalities, based on the need to provide equitable and sustainable municipal services, within each of these categories as follows:

- **Category A:**

a municipality that has exclusive municipal executive and legislative authority in its area, namely a **metropolitan municipality**;

- **Category B:**

a municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls namely, a **local municipality**; and

- **Category C:**

a municipality that has municipal executive and legislative authority in an area that includes more than one municipality namely, a ***district municipality***.

The principles of sound governance apply to all municipalities however the structures may differ across the various municipal categories defined above.

## **4. Roles and Responsibilities**

In accordance with the financial governance principles, the MFMA clearly establishes a separation of roles and responsibilities between the mayor and council and between the mayor and the municipal manager and other senior officials thereby creating a clearer and single line of authority between the council, which must approve council policy; the mayor, who must provide political leadership and manage the implementation of the policy; and the municipal manager, who is accountable to the mayor and council for implementing policy.

The role of councillors in municipal finance management is policy-making and oversight while the role of officials is administrative and implementation. The various roles are described in greater detail below.

### **4.1 Municipal Council**

The MFMA recognises the municipal council as the highest authority in the municipality; the council's power is strengthened by significant vested powers of approval and oversight.

The municipal council serves the residents and it is accountable to residents and to other stakeholders like businesses, customers and users of municipal services.

The municipal council delegates its executive authority to the executive mayor or executive committee, but it retains its legislative power and its power to approve policy and budgets and to exercise oversight over the mayor in the implementation of policy, budgets and by-laws.

The approach of the MFMA is also consistent with the Code of Conduct set out in the Municipal Systems Act, which clearly requires councillors to disclose conflicts of interest and prohibits councillor involvement in tender boards or the boards of municipal entities.

The municipal council distinguishes between councillors and non-executive councillors as explained below.

### **4.2 Councillors**

Councillors provide the critical political linkage between the executive mayor or executive committee and the community. Therefore councillors can facilitate the consultative processes prescribed by both the MFMA and the Municipal Systems Act, particularly with regard to budgets, IDPs, budget-related policies, tariff-setting for services, indigent policies, long-term borrowing and contracts.



The Municipal Systems Act and the MFMA expand the role of councillors to include the following:

1. An **oversight** role through council (or committee) meetings; as overseers, they must refrain from involvement with the implementation of policies, procedures and directions that they have determined necessary for the community.

***The oversight role of councillors may be summarised as follows:***

- setting the direction for municipal activities;
- setting policy parameters to guide municipal activities;
- setting strategic objectives and priorities stating the outcomes and outputs to be achieved;
- monitoring the implementation of policies and priorities by evaluating reports of outputs and outcomes;
- ensuring that corrective action is taken where outputs deviate from plans; and
- accountability to the community for performance in terms of predetermined objectives.

In terms of the Municipal Systems Act and MFMA councillors are not permitted to be members of the boards of entities, audit committees and a tender or bid committee; councillors should not serve on planning tribunals and other approval forums.

The MFMA suggests that municipal councils strengthen their oversight role by forming portfolio committees within the council. The Municipal Structures Act allows the council to form a budget and finance committee, a public accounts committee and a municipal services committee (to include water, electricity, refuse removal).

2. A role in ensuring the establishment of effective operational and financial policies and procedures that will yield desired outcomes.

The **financial management tasks** that council is required to undertake so that it fulfils its oversight function include the following:

- Consider and approve the annual budget and ensure that the budget and IDP are aligned;
- Approve budget-related policies on relevant taxes, user charges, indigency policies, credit control and supply chain management;
- Consider the views of the community and government regarding the budget and establishment of municipal entities;
- Review the budget and performance of entities under council control;
- Review of audit and annual reports, and adopt an oversight report once these are received;
- Consider capital projects and contracts with financial implications of more than three budget years;
- Take responsibility for incurring debt and determining security over debt (although some aspects of this may be delegated for short-term debt, subject to certain conditions);

- Consider the sale, disposal or transfer of all capital assets (although this may be delegated to the municipal manager to a value determined by the council);
- Review unauthorised and unforeseen expenditure and reporting on unauthorised, irregular and fruitless and wasteful expenditure; and
- Investigate allegations of financial misconduct and take appropriate action where necessary.

Councillors cannot have an operational role, as this would interfere with the role of the executive mayor or executive committee and also weaken the accountability of officials to the council. This is in line with the role of elected representatives in Parliament and the provincial legislatures, who do not become involved in the day-to-day activities of the executive.

Councillors need to fully understand their oversight responsibilities to be effective in their role. Given the importance of this oversight role, both the Municipal Systems Act and the MFMA protect councillors' policy-making role by separating it from the implementation role of officials.

### **4.3 Non-executive councillors**

Apart from the Speaker, non-executive councillors generally function in a part-time capacity and are expected to play a political role in representing residents and other stakeholders in the municipality.

The Municipal Systems Act and the MFMA provide non-executive councillors with important recommendation and approval roles, i.e. they are expected to review, debate, modify and approve the policies recommended by the executive mayor or executive committee; these include by-laws and policies on priorities that impact on council service delivery.

### **4.4 Executive Mayor or Executive Committee**

As the executive authority of the council, the executive mayor or committee must provide political guidance over the policy, budget and financial affairs of the municipality and must ensure that the municipality complies with its legislative obligations.

The mayor should, without interfering in the day-to-day administration of the municipality, monitor and oversee the municipal manager and senior managers to ensure that they are carrying out their duties appropriately.

The key tools for doing so are the annual Service Delivery and Budget Implementation Plan (SDBIP) and the performance agreements which should specify clearly defined and measurable outputs.

The mayor remains accountable to council for proposing and formulating policy and overseeing the administration's implementation thereof.

The Mayor's specific responsibilities are to:

- Provide political guidance on the budget process;
- Co-ordinate the budget process with the municipal manager;
- Review IDP and budget-related policies and ensure consistency with the budget;
- Ensure that the municipality complies with the legislative deadlines for the tabling and approval of the municipal budget;
- Approve the service delivery and budget implementation plan within twenty-eight (28) days after the approval of the budget, and approve the performance agreements of the municipal manager and senior management;
- Monitor the financial performance of the municipality through monthly financial reports submitted by the municipal manager;
- Provide council with quarterly budget reports and take action where necessary;
- Report instances of potential or real non-compliance with the budget chapter of the MFMA or in relation to issues that may necessitate provincial intervention;
- Table an adjustments budget if necessary;
- Report instances of unforeseeable or unavoidable expenditure;
- Guide the municipality in its dealings with its municipal entities; and
- Table an annual report to council each year.

#### **4.5 Municipal Manager (Accounting Officer)**

The MFMA establishes a major role for the municipal manager, who is the accounting officer of the municipality. The accounting officer's fiduciary and other responsibilities are in addition to all the regular management responsibilities expected of the municipal manager as head of the administration.

The municipal manager is responsible for the implementation of approved council policies and the achievement of the objectives set out by the mayor.

##### ***Accountability***

The municipal manager is firstly accountable to the mayor for the implementation of specific agreed outputs and secondly the municipal manager is accountable to the council for the overall administration of the municipality.

The municipal manager is therefore the key officer responsible to the mayor and council for the successful implementation of the relevant legislation. In this capacity, the municipal manager must be fully aware of the reforms required in order to provide the mayor, councillors, senior officials and municipal entities with the appropriate guidance and advice on finance and budget issues.

## **Staffing**

The municipal manager must, at the highest level, project manage the change management process, establish appropriate objectives for senior staff, project milestones, timeframes and responsibilities whilst managing those outputs effectively and regularly reporting back to the mayor and council on progress.

It is recommended that a skilled and well-rounded senior management team, complemented with general financial management knowledge, is appointed. The senior management team's roles and responsibilities, depending on the extent of delegations by the municipal manager, will greatly support the expeditious implementation of good financial management practices and governance.

It is also appropriate to have the chief financial officer regularly update senior management on finance-related policies and areas of relevance.

In terms of the MFMA the municipal manager is required to take on a number of specific responsibilities, including certifying the correctness of the reports, which includes, but is not limited to, the following:

- Assisting the mayor in preparing the budget;
- Assisting in conducting community participation meetings;
- Making public the draft budget;
- Assisting the mayor in preparing the adjustments budget;
- Assisting in the preparation of budget-related policies;
- Budget Implementation and other administrative roles;
- Making public the approved budget;
- Implementing the approved budget;
- Manages assets and liabilities effectively;
- Implements effective systems of control and risk management;
- Developing and submitting the service delivery and budget implementation plan; and
- Ensuring revenue collection and expenditure is in line with the budget:
  - o Certifies where necessary to shift funds across budget years
  - o Administers all municipal bank accounts
  - o Submits annual performance agreements for all senior managers
  - o Develops and implements a supply chain management policy
  - o Provides an assessment of municipal performance for inclusion in the annual report
  - o Reports unauthorised, irregular or fruitless and wasteful expenditure

- Reports impending shortfalls or overspending, and any overdraft position
- Reports on monthly and mid-year budget progress
- Reports other matters as prescribed, including staff expenditure
- Makes public and invites comment on draft contracts with a term greater than three years
- Ensures information is supplied to council and the public on debt proposals
- Makes public any proposal to establish or participate in a municipal entity
- Prepares the annual financial statements for audit, verifies salaries and benefits paid
- Makes public the annual report and the council's oversight report
- Monitors entities to ensure that their reporting obligations are met

The municipal manager, in his/her capacity as accounting officer, is responsible for the financial management of the municipality, ultimately ensuring that all financial systems are in place and are properly maintained.

The MFMA expects the municipal manager to share these responsibilities with other senior managers and, to this end; the Act recommends a senior management structure.

*Recommended structures will however not be discussed in the CFO Handbook; it is left to the discretion of the municipality.*

Note that the accounting officer of a municipal entity is the chief executive officer (CEO). The accounting officer/CEO must act with honesty and in the best interests of the entity and disclose all available facts that may influence the decisions of the council and board of directors. The position may not be used for personal gain or to improperly benefit others.

### **Delegations**

Although the MFMA vests responsibilities in the municipal manager as the accounting officer, the MFMA anticipates that such responsibilities will be shared with the top management team; delegations provide for this; however, the delegation of financial management tasks to junior officials should be avoided.

Where an **accounting officer delegates** any of the accounting officer's responsibilities to the senior management team, and where they are properly qualified and have the necessary experience to play this role, senior managers will be held primarily accountable for any transgressions in exercising these delegated responsibilities.

The accounting officer must ensure that the delegations are reasonable and appropriate, and the accounting officer must actively monitor the performance of the senior managers, including acting in terms of the monthly budget monitoring system.

In terms of the MFMA the accounting officer is not divested of the responsibility for duties executed by officials exercising their delegated powers.

The **accounting officer may delegate** tasks assigned in terms of the MFMA to the CFO with the exception of tasks relating to maintaining municipal bank accounts and developing the municipal budget.

The **chief financial officer may in turn delegate** certain tasks to other senior officials.

All delegations must be in writing and signed by the relevant parties.

#### 4.6 Chief Financial Officer (CFO)

In terms of section 81(1)(a) of the MFMA, the CFO is administratively in charge of the budget and treasury office.

The CFO has an essential function in assisting the accounting officer to carry out his or her financial management responsibilities (see delegations above), in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control policies and procedures.

The CFO plays an integral role in implementing the financial reforms at the direction of the accounting officer with the assistance of appropriately skilled finance staff.

In terms of the MFMA the CFO is expected to be part of the top management team reporting to the municipal manager, together with other senior managers who are heads of department (and responsible for key service delivery budget programmes or votes like water and electricity).

##### **Profile of the CFO**

The CFO must be a professional with strong management and leadership skills; the CFO must provide leadership for the municipality's strategic planning and budget process; this requires skills in addition to accounting.

The Guidelines for Municipal Competency Levels: Chief Financial Officers, July 2007, issued by the National Treasury serves as reference for the information presented below.

<b>Competencies of the CFO:</b>
<ul style="list-style-type: none"> <li>• Strategic leadership and management</li> <li>• Strategic financial management</li> <li>• Operational financial management</li> <li>• Governance, ethics and values in financial management</li> <li>• Financial and performance reporting</li> <li>• Risk and change management</li> <li>• Project management</li> <li>• Legislation, policy and implementation</li> </ul>

<ul style="list-style-type: none"> <li>• Stakeholder relations</li> <li>• Supply chain management</li> <li>• Audit and assurance</li> <li>• Leadership ability and managerial experience</li> <li>• Audit and risk management experience</li> </ul>	
Key Focus Performance Areas	Performance Indicator
<ul style="list-style-type: none"> <li>• Financial management system</li> </ul>	<p>Implement and effective financial management system inclusive of, but not limited to:</p> <ul style="list-style-type: none"> <li>• Implementation of financial management policies and procedures;</li> <li>• Implementation of an effective Supply Chain Management System;</li> <li>• Implementation of internal control mechanisms and anti-corruption measures;</li> <li>• Implementation of approved and signed delegations of authority; and</li> <li>• Ensure compliance to the municipal legislative framework</li> </ul>
<ul style="list-style-type: none"> <li>• Financial management support</li> </ul>	<ul style="list-style-type: none"> <li>• Provide timely and relevant financial management reports to all stakeholders; and</li> <li>• Provide sound financial management advice to the accounting officer and senior line managers in terms of their financial management responsibility and delegated authority.</li> </ul>
<ul style="list-style-type: none"> <li>• Integrated Development Plan (IDP)</li> <li>• Budget</li> <li>• Service Delivery and Budget Implementation Plan (SDBIP)</li> </ul>	<p>Implementation of effective processes, support and co-ordination for the compilation of the Integrated Development Plan, Budget and Service Delivery and Budget Implementation Plan.</p> <p><i>Note that the IDP process may not be driven by the CFO however support and input is required. This may vary across the different categories of municipalities.</i></p>
<ul style="list-style-type: none"> <li>• Finance &amp; performance monitoring &amp; reporting</li> </ul>	<p>Compilation and timely submission of accurate information in accordance with prescribed standards and formats.</p>
<ul style="list-style-type: none"> <li>• Manage resources</li> </ul>	<ul style="list-style-type: none"> <li>• Effective, efficient and economical use of financial and other resources;</li> <li>• Prevention of unauthorised, irregular and fruitless and wasteful expenditure;</li> <li>• Maintaining high levels of revenue collection;</li> <li>• Safeguarding assets; and</li> <li>• Effective management of liabilities.</li> </ul>
<ul style="list-style-type: none"> <li>• Performance Management</li> </ul>	<ul style="list-style-type: none"> <li>• Manage staff and administer the performance management system for all direct reports to the CFO; and</li> <li>• Responsibility for the execution and timely delivery for outputs in the CFO's signed performance contract; accountability to the accounting officer.</li> </ul>
<ul style="list-style-type: none"> <li>• Risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake a risk assessment and implement and maintain an effective risk management strategy; and</li> <li>• Strategically engage with auditors and provide appropriate and timely responses to audit queries.</li> </ul>

**Additional requirements:**

- The CFO as a member of the municipality's senior management team may be assigned additional responsibilities over and above the core requirements of the CFO's job description.
- The CFO may, from time to time, be requested to **"act"** on behalf of the accounting officer or other senior manager when they are unable to fulfil their responsibilities due to absence as a result of illness, suspension, termination or resignation. Such "acting" responsibilities should not be for unreasonable time periods and should not interfere with the CFO's financial management responsibilities.  
  
Similarly, when the CFO is unable to fulfil his/her responsibilities the accounting officer may designate another senior manager to temporarily **"act"** as CFO.
- The CFO should ensure adequate leave planning so that neither, the CFO or key finance staff from the budget and treasury office, is on annual leave at critical times during the budget cycle.

*The CFO profile described above is the minimum requirements for the role and this may differ across the various categories of municipalities.*

## 5. Oversight and Governance

The CFO is required to provide good governance, effective oversight and to address operational matters that constitute sound financial management.

The King report identifies the following primary characteristics of good governance:

• Discipline	Management commitment to accepting standards of correct proper behaviour.
• Transparency	The ease with which outsiders can meaningfully analyse the organisation's actions and performance.
• Independence	The extent to which conflicts of interest are avoided, such that the organisation's best interests prevail at all times.
• Accountability	Addressing the shareholders' rights to receive information relating to the organisation's performance.
• Responsibility	Acceptance of all the consequences of the organisation's behaviour and actions including commitment to improvement
• Fairness	Acknowledgement of, respect for and balance between the rights and interests of the various stakeholders.
• Social responsibility	The organisation's demonstrable commitment to ethical standards and its appreciation of the social, economical and environmental impact of its activities on the communities in which it operates.

Oversight and governance necessary for sound financial management is further discussed in Part 2: CFO Core Responsibilities.



## 5.1 Professional ethics and organisational standards

The CFO's role is inclusive of creating and sustaining integrity and honesty in their profession. The legislative framework includes guidance on how to achieve professional ethics and organisational standards. These are summarised below:

### ***Ethics***

The ethics applicable to municipal officials is no different from the ethics that we apply in our daily lives as regular persons living in a moral society. It is however common practice for certain professions to have a specific code of ethics applicable to the profession.

In the public service issues of transparency, equity, anti-corruption and the like are often referred to and while these may be addressed in the relevant Code of Conduct the issue of ethics may not be referred to.

It should go without saying that professional ethics is a given in the role of a municipal official however there are those who do not act ethically when executing their official roles and responsibilities.

The English dictionary definition of ethics is “ ... dealing with values relating to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and ends of such actions...”

The definition assumes that everyone has a sense of right and wrong and that regular persons living in a moral society are automatically guided by right and wrong and therefore will act accordingly. Unfortunately, the world we live in is not an ideal place and it is a known fact that crime, corruption and similar wrong doings are rife internationally.

Municipal officials are reminded to act ethically when they conduct themselves in the workplace in executing their duties and making decisions. The MFMA refers to “... acting negligently ... “ and “... knowingly...” committing wrongdoings. The consequences are facing disciplinary action, suspension, dismissal and having to pay back monies in the event of an official misappropriating municipal funds.

Closely linked to the Code of Conduct, municipal officials are required to perform their duties in the best interest of the community that they serve by acting responsibly and exercising good judgement when executing their duties.

Chapter 10 of The Constitution, section 195, describes the democratic values and principles applicable to all spheres of government, organs of state and public enterprises. These are:

1. A high standard of professional ethics must be promoted and maintained.
2. Efficient, economic and effective use of resources must be promoted.
3. Public administration must be development-oriented.
4. Services must be provided impartially, fairly, equitably and without bias.

5. People's needs must be responded to, and the public must be encouraged to participate in policy-making.
6. Public administration must be accountable.
7. Transparency must be fostered by providing the public with timely, accessible and accurate information.
8. Good human-resource management and career-development practices, to maximise human potential, must be cultivated.
9. Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.

The CFO must uphold the principles of the Constitution when performing the required financial management responsibilities within the span of his/her control.

### **Code of conduct**

Schedule 2 of the Municipal Systems Structures Act prescribes the Code of Conduct applicable to ALL municipal staff members. A copy of the municipality's code of conduct must be issued to municipal staff members when they are appointed.

Pertinent aspects of the code of conduct are summarised below for the benefit of the CFO's role.

The CFO is generally expected to **act in the best interest of the municipality** by acting with credibility, performing the required functions of the position diligently, in good faith, honestly, transparently thereby ensuring that the integrity of the municipality remains uncompromised.

The CFO is required to **act in the interest of the community** that the municipality serves by meeting performance standards and service delivery targets.

Inherent in the CFO's role in financial management and as a member of the senior management team is the need for **confidentiality and discretion**. The CFO may not disclose municipal information to any unauthorised parties.

"privileged and confidential" information ...

The CFO must **not misuse the privileges** of the position in the municipality i.e. the CFO must act in a manner in which he/she or his/her partner or other municipal officials or their partners may improperly benefit from decisions taken in respect of the municipalities business.

Where the CFO, his/her partner or other municipal officials or their partners are to provide goods or services to the municipality or benefit directly or indirectly from such business consent from the municipal council is required and, if permission is granted, full written disclosure must be provided by the affected parties.

The CFO may not use his/her position to unduly influence or attempt to influence council or mislead or attempt to mislead council decisions for the purpose of furthering his/her personal gain or that of his/her family, friends or associates.

The CFO is required to obtain written consent from the municipal council if he/she intends to conduct other business interests or such ventures with other council officials or municipal councillors.

**Rewards, gifts and favours** are not permitted i.e. the CFO may not request, solicit or accept gifts or favours in return for breaching his/her duties and responsibilities to the municipality.

Where the CFO is approached or the CFO is aware that other municipal officials have been approached in terms of rewards, gifts and favours, such incidents must immediately be reported to the municipal council.

In relation to rewards, gifts and favours circumstances may arise, when the municipality employs the services of an external service provider, senior officials may be tempted to make requests for “favours” or “special consideration” because such service provider has been awarded a contract of considerable monetary value; such requests may be for the service provider to “sponsor” a golf day for municipal officials or to provide tickets to major sports events or to finance new uniforms for the staff soccer team. Municipal officials are expected to act with integrity.

The CFO must uphold the principles of Batho Pele and outside vendors must not be made to feel that they have an advantage if they should voluntarily offer sponsorships to the municipality.

The CFO may not use **council property** or resources for his/her personal gain.

Where the CFO has a **rates and services account** with the municipality he/she is not permitted to be in arrears for more than three months; the municipality may deduct outstanding amounts directly from the CFO's salary.

### ***Batho Pele***

All public service officials are required to uphold the principles of Batho Pele when executing their responsibilities in the workplace. The CFO is required to uphold these principles by applying them when executing financial management responsibilities. The Batho Pele principles are aligned with the ideals expressed in The Constitution; the principles, with reference to the CFO, are explained below.

- The CFO must promoting and maintain high standards of professional ethics when executing his/her duties as the head of the budget and treasury office;
- The CFO must providing services impartially, fairly, equitably and without bias;
- The CFO must utilise *ALL* resources, not just money, efficiently and effectively;
- The CFO must responding to people's needs, externally and in the workplace, i.e. to recipients of the financial management and other services provided by the CFO and the budget and treasury office; and

- The CFO must provide an accountable, transparent, and development-oriented administration of financial management services to all relevant stakeholders.

The eight Batho Pele principles are summarised below:

### **1. Consultation**

Consultation is a powerful tool that enriches and shapes government policies such as the Integrated Development Plans (IDPs) and its implementation in Local Government sphere. Various methods of consultation can be applied and sometimes more than one method is necessary to ensure comprehensive and representative consultation.

### **2. Setting service standards**

Setting service standards is necessary to ensure that citizens are satisfied with the service or products that entities deliver. Working towards making South Africa globally competitive means that standards should be benchmarked internationally, where applicable, taking into account South Africa's current level of development.

Service standards should be measurable so that citizens can judge for themselves whether they are receiving acceptable service delivery.

Setting service delivery standards also plays a critical role in the development of Service Delivery Improvement Plans (SDIPs) to ensure a better life for all South Africans; citizens should be involved in the development of service standards.

### **3. Increasing access**

Increasing access is about delivering public services to the many South Africans who do not have access to them. This principle aims to address past inequalities in the distribution of basic services.

### **4. Ensuring courtesy**

Ensuring courtesy requires service providers to empathise with the citizens and treat them with as much consideration and respect, as they would like to be treated with; this goes beyond a polite smile, “please” and “thank you”.

The public service is committed to continuous, honest and transparent communication with citizens.

Ensuring courtesy by adequately communicating relevant information about products and services, if correctly applied, should help to demystify the general negative perceptions that the citizens have about the *attitude* of the public servants.

## **5. Providing information**

Providing information is about making information about services available at the point of delivery. It is also necessary for managers and employees to make information about the organisation, and all other service delivery related matters available to public service officials.

## **6. Openness and transparency**

Openness and transparency means that the public should know more about the way national, provincial and local government institutions operate, how well they utilise the resources they consume, and who is in charge. It is anticipated that the public will engage with government if they are better informed.

## **7. Redress**

Redress is about acting quickly and efficiently to rectify shortcomings in meeting service delivery promises when identified. This should be done at the individual transactional level with the public, as well as at the organisational level, in relation to the entire service delivery programme.

Public service officials are encouraged to welcome complaints as an opportunity to improve service delivery.

## **8. Value for money**

Value for money can be explained in more than one way but the end result is the same i.e. saving money. Examples: Doing the job correctly the first time as having to repeat the task takes time and costs money; failure to give a member of the public a simple, satisfactory explanation to an enquiry may for example, may result in an incorrectly completed application form, which will cost time to rectify and assessing quotations to decide on the best price to pay.

## **5.2 Financial misconduct**

Municipalities are requested to operate in an accountable and transparent manner. Good governance requires that the municipal council or manager institutes disciplinary action in accordance with the prescriptions of the relevant legislation.

It is recommended that disciplinary action, when undertaken, should be within the bounds of “grossly negligent or wilful transgressions” and the National Treasury should be consulted on such matters.

The MFMA, section 171, distinguishes between financial misconduct committed by the accounting officer, chief financial officer, senior manager or other official responsible for financial management and officials. The circumstances are similar in that an act of financial misconduct is committed if the relevant party deliberately or negligently does the following:

- Contravenes any provision of the MFMA;
- Does not comply with a duty imposed by the MFMA or delegated in terms of the MFMA;
- Makes, allows or issues instruction in respect of an unauthorised, irregular or fruitless and wasteful expenditure; or
- Presents incorrect or misleading information in terms of the provisions of the MFMA to the administrative or political office bearers or the public.

The municipality must act in accordance with the provisions of section 172(3) of the MFMA, when financial misconduct is committed. If the investigation of alleged misconduct finds that financial misconduct has indeed been committed the municipality must proceed with disciplinary action which may result in criminal proceedings depending on the severity of the offence.

### ***Mismanagement of resources***

Further to financial misconduct there is mismanagement of resources, financial and other.

### ***Mismanagement of financial resources***

Municipal officials must be mindful of mismanagement when exercising their duties. Financial mismanagement is what happens when officials use municipal funds inefficiently, carelessly, badly whether or not such actions are deliberate. When municipal funds are misdirected it negatively impacts service delivery as the funds do not reach the intended recipients.

### ***Mismanagement of other resources***

Other resources for the purpose of this discussion, refers to assets, inventory or people. When municipal officials use municipal assets or inventory for purposes other than municipal business or services they are impeding service delivery as the intended recipients will not get the benefit thereof.

When the municipal posts are filled with inappropriate or unsuitable candidates who are not competent to perform the functional responsibility of the post it equates to inefficiency in respect of human resource management and poor service delivery; when the official's behaviour is deemed incompetent it reflects negatively upon the reputation of the municipality.

### ***Fraud and corruption***

In the context of public service corruption includes embezzlement of public funds, theft, bribery or any attempt to steal or unlawfully obtain or misuse any asset or power. Corruption is what happens when the right or correct manner of doing things is forsaken for the improper manner and this negative choice is usually motivated by internal or external influences that involve a third party and bribery.

While the concepts of “*fraud*” and “*corruption*” are often used interchangeably, they must be distinguished and understood. Simply explained, corruption is mainly associated with the public service; it arises when public service officials misuse their positions.<sup>2</sup>

Fraud is committed by employees or by persons external to the public service environment; it lacks third party involvement and it is harder to detect than corruption. In the case of fraud the public service official or external person acts of their own accord.

When municipal resources are misdirected or not appropriately allocated because of mismanaged due to incompetence amongst other reasons, the consequences are that service delivery is impeded and the municipality is labelled as being inefficient.

The municipal code of conduct, code of ethics and the Batho Pele principles are rules that guide municipal employees to act appropriately and appeals to their moral and social conscience so that they do not abuse their positions in the public service or misuse public resources, financial and other, when executing their duties.

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<sup>2</sup> Combating Corruption in Africa: The Role of Whistle Blowers, *Karibu Dandago Isa, Associate Professor: Department of Accounting, University Kano-Nigeria*

## 6. Reference Material

### Applicable legislation

1. Municipal Budgets and Reporting Regulations, 17 April 2009
2. Local Government Municipal Finance Management Act No. 56, 2003
3. Local Government Municipal Systems Act, Act No. 32, 2000
4. Local Government Municipal Structures Act, Act No. 117, 1998
5. The Constitution

### Other

6. Modernising Financial Governance, Implementing the Municipal Finance Management Act, 2003  
*(Updated edition, August 2004)*
7. Northern Cape, Growth and Development Strategy, 2004 to 2014
8. Guideline for Municipal Competency Levels, Chief Financial Officers issued in terms of the Local Government MFMA, 2003 *(1 July 2007)*
9. Municipal Regulation on Minimum Competency Levels for the CFO in terms of the MFMA *(1 July 2007)*
10. Combating Corruption in Africa: The Role of Whistle Blowers, *Kabiru Dandago Isa, Associate Professor: Department of Accounting, University Kano-Nigeria*
11. [www.dpsa.gov.za](http://www.dpsa.gov.za)
12. [www.treasury.gov.za](http://www.treasury.gov.za)
13. [www.cogta.gov.za](http://www.cogta.gov.za)



# Part II:

## The Role of the CFO

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## 1 Overview

In Part One of the CFO Handbook the municipal structure, roles and responsibilities and oversight and governance were discussed. The role of the Chief Financial Officer (CFO) was described in terms of the job profile and attributes of the CFO.

Part Two further examines the role of the CFO with reference to the CFO's core responsibilities described in the Municipal Finance Management Act, Act 56 of 2003 (MFMA) and functional responsibility inherent in the role.

Certain sections of Part 2 include a “*checklist*” that serves as a tool to guide the CFO with achieving the minimum requirements of the relevant functions.

It must be noted that the content of the CFO Handbook is characteristic of an ideal municipal environment where the municipality is operating optimally. Given that municipalities, depending on the municipal category, capacity and constraints, may be at different levels of performance or competence, the CFO Handbook serves to guide CFOs on what they should aspire to achieve within the municipal environment.

Furthermore, the CFO Handbook is a “*living*” document that will evolve over time to accommodate changes that may arise in the municipal environment.

## 2 CFO Core Responsibilities

The MFMA, section 81, states that the CFO is “... administratively in charge of the budget and treasury office...”. The CFO is responsible for establishing the budget and treasury office as this is the financial management hub of the municipality where the core finance functions are performed.

### 2.1 Establishing the budget and treasury office

The establishment of the budget and treasury office (BTO) by the municipality in terms of the MFMA was delayed until 1 July 2007 to allow municipalities to build the necessary capacity to adequately staff the BTO.

The MFMA prescribes that the CFO heads the BTO and that competent finance officials must support the CFO in his role. The competencies of municipal officials assigned to the budget and treasury office must meet the minimum prescribed financial competency levels.

The Act does not specify or propose a structure for the budget and treasury office as this is for the municipality to determine however, in so doing, the following minimum functions must be provided for:

- Budget planning, monitoring and reporting
- Revenue management
- Expenditure management

- Supply chain Management
- Payroll administration
- Risk management

Sound governance arrangements are integral to municipal finance management. A culture of transparency that includes regular reporting is necessary.

It is important that professional standards and best practices are implemented and complied with throughout the municipality.

## **2.2 Budget Planning**

The budget planning process is described in detail in Part Three of the CFO Handbook. The role of the CFO is to assist the accounting officer with budget preparation and budget implementation amongst other financial management duties in terms of section 81 (1) of the MFMA. The CFO is duty bound to assist senior managers with their duties and responsibilities inferred on them in terms of section 78 and with duties delegated to them by the accounting officer in terms of section 79 of the Act.

The CFO, in terms of the written delegations from the accounting officer, is accountable to the accounting officer for ensuring that the municipality complies with the budget preparation, budget compilation, including the required consultation processes and budget implementation requirements of the MFMA.

The CFO must ensure that the timelines and deliverables in respect of the municipal budget schedule as tabled by the mayor are achieved. The CFO will have to ensure that the necessary systems, processes and policies are in place to assist senior managers with their contributions to the budget compilation process.

The CFO must ensure that he/she has complete knowledge of the legislative requirements and supporting regulations, guidelines and budget formats so that he/she can compile an accurate and credible budget within the legislative timeframes.

*Refer to Part Three of the CFO Handbook for a summary of the budget planning activities and timelines stipulated in the MFMA.*

**Checklist: Budgeting**

Purpose: To ensure that budgets are credible

	Description	YES	NO	Action Required
1.	Is there a risk assessment of the material items of income and expenditure included in the budget?			
2.	Are major budget risks and the financial consequences reported to council?			
3.	Does the municipality have a process in place for an annual review of fees and charges in respect of the sources of municipal revenue?			
4.	Are budgets prepared in accordance with the National Treasury's prescribed formats?			
5.	Does the budget process include achieving cost reduction options for expenditure budgeting?			
6.	Are expenditure commitments, including full-year effects of decisions taken during the preceding year, reflected in budget planning?			
7.	Are proposals for significant capital investment accurately assessed in terms of anticipated costs and benefits?			
8.	Does the municipality have an asset register that is reliable and up to date?			
9.	Are reasons for previous under- or overspending taken into account during the budget planning process?			
10.	Is there a clear audit trail of changes to plans and budgets?			
11.	Are budgets reviewed by management and council according to the prescriptions of the MFMA?			
12.	Is the budget preparation in accordance with the budget planning schedule tabled by the Mayor?			

**Checklist: Budget management**

Purpose: To ensure that managers are accountable for managing their budgets

	Description	YES	NO	Action Required
1.	Are line managers aware of their budget management responsibilities (i.e. are revenue and expenditure budgets assigned to individual managers)?			
2.	Are budget and managerial responsibilities aligned and linked to performance contracts?			
3.	Have delegations in respect of budget management responsibilities signed and in place?			
4.	Have line managers been involved in determining their budgets; do they take ownership?			
5.	Are line managers notified of their approved budgets prior to the start of the financial year?			
6.	Do line managers comply with their budget management responsibilities in terms of the MFMA?			

	Description	YES	NO	Action Required
7.	Are line managers aware of the impact of their budget management decisions on the overall municipal budget?			
8.	Are line managers held accountable for variances and deviations between actual and budgeted expenditure?			
9.	Are budget managements responsibilities incorporated in the performance assessments of line managers?			

### 2.3 Expenditure management

The MFMA prescribes that the accounting officer must take reasonable steps to ensure that “... the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds ...”

Issues relevant to expenditure management with reference to the MFMA requirements are explained below.

All expenditure must be done in terms of the municipality’s Supply Chain Management Policy referred to below; supply chain processes must be fair, equitable, transparent, competitive and cost effective.

#### ***Creditors/Accounts payable***

When the municipality owes money in respect of goods and services purchased the municipality must settle such outstanding amounts within thirty days of date of invoice or statement unless it is prescribed otherwise.

The payment of creditors or accounts payable must be reconciled monthly according to the statements received from service providers.

#### ***Expenditure monitoring and reporting***

It is important to compare actual expenditure to budgeted expenditure monthly. Reasons for variances must be explained; corrective action must be implemented to keep expenditure in line with budget estimates.

Further information on monitoring and reporting is in Part Three of the CFO Handbook.

**Checklist: Expenditure management**

Purpose: To determine whether all line managers are fulfilling their responsibility and achieving value for money.

	Description	YES	NO	Action Required
1.	Are managers aware of and complying with the procurement practices according to the Supply Chain Management Policy?			
2.	Are line managers monitoring the expenditure and providing monthly reports with variance explanations?			
3.	Are efficiency and cost-effectiveness gains routinely part of the objectives of reviews?			
4.	Are finance staff routinely involved in service reviews?			
5.	Are there targets to measure performance (including financial performance)?			
6.	Are charging policies, subsidies and concessions justified by policy considerations and reviewed regularly?			
7.	Is outsourcing part of the portfolio of ways of improving efficiency?			
8.	Does the organisation work across departmental and organisational boundaries to achieve improvements (e.g pooled resources)?			
9.	Is action taken to eliminate inefficient workflow processes (e.g. using standard processes, eliminating re-keying, reducing duplication)?			
10.	Does the organisational culture recognise and reward efficiency and cost reduction?			
11.	Do finance staff attend management meetings, so that they are connected to service departments			

**2.4 Revenue management**

Revenue management and efficient and effective systems of revenue management are necessary to enable the municipality to collect all monies due in respect of the common sources of revenue such as property tax, electricity, water and refuse collection.

In terms of the Municipal Systems Act, chapter 9 prescribes necessities for “*customer service and management*”; the Act specifies that the municipality “... *must, within it’s financial and administrative capacity..*” provide the following in respect of levying rates and other taxes and fees in respect of municipal services provided:

- establish a sound customer management system so that a positive relationship is fostered between the municipality and the customer;
- establish a feedback system that allows the customer to comment on the quality of the services provided and the performance of the municipality;

- make a reasonable effort to inform customers of the costs of services and of how the municipality will utilise the monies collected;
- the municipality must ensure that billing information for metered services is accurate and verifiable;
- the municipality must provide correct billing information with a breakdown of how the amounts due are calculated, on time to the customer;
- establish an effective query handling system that allows for timely response and redress in the case of inaccurate billing information and a monitoring system to track the efficiency with which queries are resolved; and
- provide accessible pay points and mechanisms to facilitate payment for municipal services provided.

The Municipal Systems Act is specific about the above requirements and today it is widely publicised that municipalities often fall short of these requirements hence revenue collection is not optimal.

### ***Billing and revenue collection***

While municipalities may be considering new or additional source of revenue it may be beneficial to closely examine existing revenue collection and customer relationship management processes and procedures as this may require improvement if the municipality is going to maximise the potential of existing sources of revenue.

Business processes that comprise the revenue value chain must be closely examined so that improvements can be made to ensure an efficient and effective billing and revenue collection function; data integrity for metered services and assessment rates is critical to ensuring the accuracy of the statement of account presented to the customer.

When the municipality is confident that it is distributing accurate statements of account on time to customers it must further examine the payment facilities in terms of location of paypoints and the payment options available to the customer.

Considerations such as third party payment channels and electronic payment facilities should be investigated. Since cheque payments are susceptible to fraud, alternative methods of payment such as credit card, debit card or electronic transfer facilities must be considered so that the customer have more than one payment option.

### ***Intergovernmental amounts due***

It is recommended that the municipality must take reasonable steps to amicably and promptly resolve disputes over payments due to the municipality from another government department or agency. The municipality is expected to consider the available options and to negotiate with the relevant officials or

political office bearers. The municipality is advised to refer the matter to the National Treasury if the dispute cannot be resolved; in terms of section 44 of the MFMA National Treasury may be called upon to mediate the dispute (*also consult DoRA 2005 provisions that support co operative governance between the spheres, and between Category B and C municipalities*).

### ***Debtors/Accounts receivable***

The MFMA, section 64, speaks of the municipality's credit control and debt collection policies that must be adopted; section 97 of the MSA specifies the minimum content of these policies.

It is of paramount importance that the municipality has reliable billing information that it can trust if the credit control policy is implemented. The customer relationship management system must not only be able to respond to billing related queries but also to *resolve* such queries timeously so that erroneous action against the customer in respect of outstanding amounts due is avoided.

It is recommended that municipalities address the issue of data integrity, billing and collection processes and customer relationship management before they employ the services of debt collection agencies to recover outstanding monies due and before they consider debt write-offs in terms of the credit control policy they have in place.

When the municipality is owed money in respect or assessment rates, provision of basic services or other taxes it must make every effort to recover the monies due. The municipality's credit control policy should allow for payment arrangements in the case of customers who default on the municipal accounts.

Debtors must be managed and appropriate steps must be taken in accordance with the municipality's credit control policy. The municipality must ensure that the outstanding monies due can be verified and that the billing information is correct before taking action in terms of the municipality's credit control policy.

The municipality must take the necessary steps to recover monies due from officials who fail to pay their municipal accounts.

The debtor's book must be reconciled monthly and aged accordingly as this information is important when credit control action or debt write-offs are considered.

### ***Data integrity***

Data integrity is what gives users the assurance that the information they see is trustworthy. In the case of billing information customers need to accept their statement of account as accurate and correct i.e. that the bill correctly reflects the amount payable for the services they have consumed or the assessment rates due. Data integrity issues for the main revenue sources are briefly discussed below.



### *Metered services*

Data integrity in respect of metered services requires the municipality to have complete knowledge of *where* all meters in respect of water and electricity are located on the property. In addition to the location of the meter, in the case of electricity, the *type of meter* is important to determining the nature of the electricity supplied e.g. in the case of three phased supply there is more than one meter on the property supplying electricity and all the meter numbers and units of electricity consumed should ideally be reflected on the statement of account.

Metered information, once entered on the municipal customer database should not be tampered with or altered unless the user has the necessary authorisation to do so, e.g. when electricity or water meters are replaced on the property because they are faulty or damaged the municipal database must be updated timely.

The municipality may employ the services of external meter reading companies who supply the consumption information. The validity and accuracy of this information is of utmost importance as it is a component of determining the amount due from the customer. The municipality should put checks in place to regularly “*test*” the reliability and accuracy of information supplied by external service providers.

### *Assessment rates*

Components of the assessment rates account is the municipal value of the property and the applicable assessment rates tariff assigned in terms of the usage of the property. Data integrity of property information is about ensuring that the correct information is maintained on the municipal billing system e.g. the owner of the property; the address of the property; whether the property is residential, commercial, an agricultural holding or vacant land; the municipal property value and the applicable assessment rates tariff. When the property changes hands or changes its status e.g. when vacant land is developed into residential property, the municipal billing system must be updated with the new information.

### *Information security*

Information security in the case of the municipal billing database is about ensuring that access to certain functions are limited to a select group of users who have the necessary authorisation to update or change information. Predetermined user profiles will guard against unauthorised access to the various functions among user groups working on the billing system.

Where information such as meter readings are automatically uploaded to the billing system from third party sources or system interfaces, security measures must be in place to ensure that the source of the information is safe and secure so that the municipal billing database is not compromised.

Maintaining accurate billing information is fundamental to issuing correct billing information on customer accounts.

### **Checklist: Revenue management**

Purpose: To ensure that programme managers are accountable for managing their revenue management responsibilities where applicable

	Description	YES	NO	Action Required
1.	Does the municipality have a process in place to annually review tariffs and fee structures where applicable?			
2.	Are internal controls in the revenue collection processes complied with?			
3.	Does the municipality have segregation of duties in place that are reviewed at regular intervals?			
4.	Does the municipality have reconciliation processes in place to ensure that revenue collected is banked?			

## **2.5 In-year monitoring and reporting**

In-year monitoring and reporting is described in detail in Part Three of the CFO Handbook. The CFO must ensure that financial reporting is done as legislatively required. The CFO is duty bound to assist senior managers with the financial management duties and responsibilities in terms of section 78 of the Act and with duties delegated to them by the accounting officer in terms of section 79.

The CFO, in terms of the written delegations from the accounting officer, is accountable to the accounting officer for ensuring that the municipality complies with the in-year monitoring and reporting requirements of the MFMA.

The CFO must therefore put the necessary systems, processes and policies in place to ensure that senior managers are adequately equipped to execute their delegated duties and financial management responsibilities in terms of section 78 of the Act.

The CFO is responsible for consolidating the relevant financial and performance information required by the MFMA and ensuring the accuracy and correctness thereof before presenting it to the Accounting Officer.

It must be noted that the line managers are accountable for the achievement of KPIs and they are required to submit the necessary progress reports. The CFO's responsibility is to consolidate the reports received from the line managers for presentation to the accounting officer.

The CFO's responsibility is to ensure that in-year monitoring and reporting is of a good quality and timeously submitted to the relevant authorities.

*Refer to Part Three for a summary of the in-year monitoring and reporting activities and timelines stipulated in the MFMA.*

**Checklist: Budget monitoring and reporting**

Purpose: To ensure that budget spending and projected spending reports provide an “early warning” and inform sound budget management practices

	Description	YES	NO	Action Required
1.	Do line managers monitor their budgets regularly i.e. at least monthly?			
2.	Does expenditure monitoring and forecasting take into account commitments?			
3.	Are budget monitoring and forecasting reports accurate and reliable?			
4.	Are budget monitoring and forecasting in respect of capital projects capital accurate and reliable?			
5.	Is the municipality complying with the prescribed formats and legislative reporting requirements?			
6.	Are the municipality's in-year monitoring reports accurate, timely, consistent, understandable and submitted to the relevant parties as required?			
7.	Is the monitoring: a) predictive rather than backward looking? b) focused on large, high risk or volatile budgets? c) related to operational activity indicators that are lead indicators of spend? d) informed by a risk assessment?			
8.	Are reported variances analysed and used as a basis for taking corrective action?			
9.	Are action plans implemented effectively and monitored and reported?			
10.	Do reports link financial and non-financial performance information to give an overall picture of the municipality's performance?			

**2.6 Risk management**

Risk management acknowledges that all the activities of an organisation involve some element of risk. Management must decide on an acceptable level of risk (*given the cost and other social factors*) by objectively assessing the risk factors that may prevent a particular activity from meeting its objective; e.g. the risk of delay the construction of a new clinic may be offset or managed by ensuring that the stock level of building material is adequately monitored; or, the risk of an asset such as a photocopier breaking down will be reduced by ensuring that it not misused.

The elements of risk management include:

- assessing the nature and extent of the risks associated with the municipality's operations;
- deciding on an acceptable level of loss or degree of failure;
- deciding how to manage or minimise the risk; and

- monitoring, reporting and, from time to time, reassessing the level and implications of the risk exposure

National Treasury's Public Sector Risk Management Framework serves to guide the public sector on risk management practices. The objective of the Framework is to ensure that public sector institutions share a common approach to risk management whilst providing sufficient scope for institutions to adapt certain aspects to suit their unique institutional requirements.

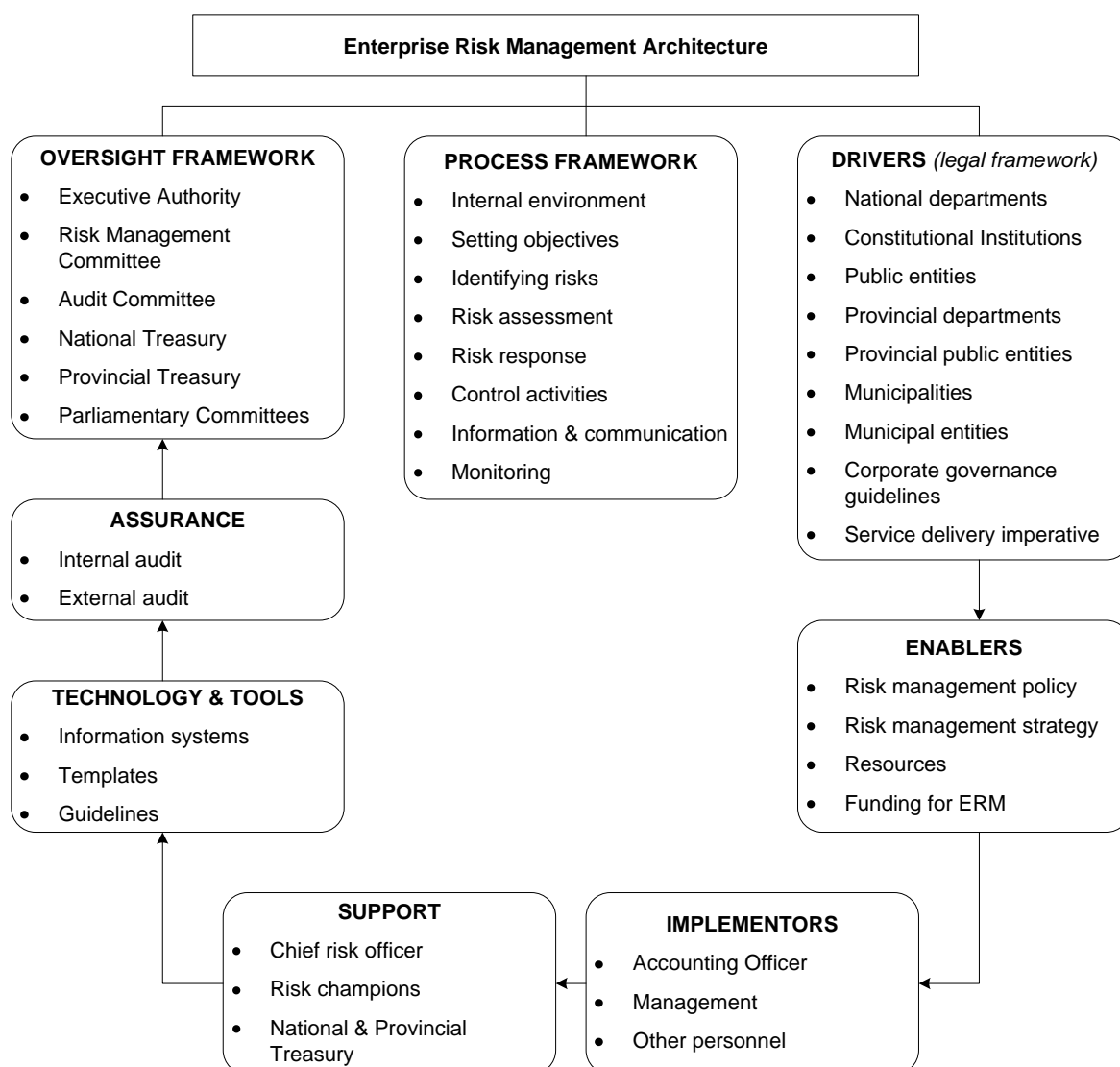
The Risk Management Framework adopts the following definitions:

*"a risk is any threat or event that is currently occurring, or that has a reasonable chance of occurring in the future, which could undermine the institution's pursuit of its goals and objectives";*

*"risk management is a systematic process to identify, evaluate and address risks on a continuous basis before such risks can impact negatively on the institution's service delivery capacity"*

*"Enterprise Risk Management (ERM) is the application of risk management throughout the institution rather than only in selected business areas or disciplines. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing institution-wide risks in a comprehensive and integrated way"*

The Enterprise Risk Management Architecture is depicted below:



The process framework is as follows:

*Internal environment:* Establishing a conducive environment in which ERM can function

*Setting objectives:* Establishing objectives that are aligned to the municipality's mission; this becomes the reference point for identifying and assessing risks

*Identifying risks:* Determining the risks that threaten the achievement of municipal objectives.

*Risk assessment:* Determining the magnitude of the risk exposure by assessing the likelihood of the risk materialising and the impact thereof.

*Risk response:* Determining how the municipality will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance, reduction, risk sharing or acceptance.

*Control activities:* Establishing policies and appropriate procedures such as approvals, authorisations, segregation of duties, reconciliations and physical safeguards to ensure that the agreed risk responses are implemented.

*Information & communication:* Identifying, capturing and communicating information to enable municipal officials to carry out their responsibilities.

*Monitoring:* Monitoring and assessing the presence and functioning of the various components over time.

The Accounting Officer must develop and publish a risk management policy that explains the organisation's commitment to risk management. This should ensure that the municipality cultivates a conducive control environment where officials adopt an overall attitude, awareness and behaviour that is in line with the municipality's vision towards internal controls and their importance.

The high level risk management responsibilities of the CFO should include:

- identifying and managing the organisation's financial risks to protect its fiscal well-being;
- proactively participate in identifying the organisation's key risks, including regular monitoring and updating of the profile;
- quantifying trades-off between different policy options in order to ensure that financial and risk implications related to each policy initiative are fully assessed and addressed adequately and that resources are allocated to options that provide the greatest benefit at the least cost;
- empowering senior management team by providing detailed information on the true lifetime costs attached to particular decisions such that future obligations are fully understood and programme funding is prioritised accordingly;
- instilling financial mind-set among officials in the institution in order to root out financial management inefficiencies;
- proactively seeking out areas within the organisation in which financial insight among managers can benefit the organisation's mission;
- assessing the financial risk management skills required of the senior managers in the institution and enhance those skills to enable the managers to discharge their roles and responsibilities effectively;
- providing guidance to senior management regarding threshold of operating losses that the organisation has the capacity to bear;
- driving organisational behaviour by using his or her position of influence as a catalyst for change i.e. assist to embed a culture of risk management in the organisation;
- support the development and implementation of a risk management policy and strategy meant to ensure effective governance of risk in organisation.

### ***Risk Management Maturity***

The CFO together with the senior management team should regularly monitor and assess the risk management practices in the organisation in order ensure continuous improvement thereof. The Financial Management Capability Maturity Model (FMCM) developed by National Treasury should be used to assess the institution's risk management maturity at least once annually. The risk management sub-set (questionnaire) of the FMCM with all recommended practices is available on the following website: <http://rm.treasury.gov.za/fmcm/ng/default.asp>

**Checklist: Risk management**

Purpose: To ensure that proper arrangements are in place to identify and manage key business risks.

	Description	YES	NO	Action Required
1.	Are the senior management team and the accounting officer involved in determining key risks and responses?			
2.	Does the municipality have a risk register that is linked to municipal objectives?			
3.	Is municipality's risk register updated regularly?			
4.	Does the municipality have an updated risk management strategy or policy document in place?			
5.	Has the municipality identified and designated a risk manager?			
6.	Does the municipality's risk management arrangements include the following: a) formal identification and assessment of risks? b) action plans to mitigate and manage risks? c) changing resource allocation in response to managing risks? d) monitoring the effectiveness of risk management through indicators and early warning signs? e) assigned managers with responsibility for identified risks? f) benchmarking with similar organisations?			
7.	Does the municipality provide for risk management awareness training for all staff?			
8.	Does the municipality effectively manage key business risks identified by the risk assessment?			
9.	Does the municipality's senior management team regularly review the risk management system?			
10.	Does the municipality have adequate risk financing (external and self-insurance) based on records of incidents/claims and a value for money assessment?			
11.	Does the municipality have a process in place to effectively manage insurance claims?			

**3 Supply Chain Management**

Managing the supply chain is an integral part of financial management hence it is recommended that the supply chain management unit operates under the supervision of the CFO.

It is recommended that the supply chain management team report to the CFO in terms of the reporting structure. In municipalities where the supply chain management function is not accommodated in the office of the CFO, the responsibilities of the CFO in respect of supply chain management may be less intensive.

A parent municipality and a municipal entity under sole or shared control may establish a joint supply chain management unit to implement their respective supply chain management policies.

## **Legislative Framework**

In addition to The Constitution and other national and local government legislation mentioned previously, the following have a direct or indirect impact on supply chain administration:

- *Intergovernmental Fiscal Relations Act* establishes the process of consultation for budget allocations, including the role of the budget forum; it is during this planning process that the objectives of supply chain should be formulated.
- *Division of Revenue Act* provides three-year financial allocations for municipalities; the allocation of funds is indicative of implementation feasibility of the municipality or municipal entity's supply chain strategies.
- *Municipal Systems Act (Act 32 of 2000): Section 80 & 81* of the MSA applies when supply chain planning involves outsourcing of a municipal service to an external service provider.
- *Preferential Procurement Policy Framework Act, No. 5 of 2000*: Parliament approved the Preferential Procurement Policy Framework Act (PPPFA) in adherence to the requirements of The Constitution. This Act is applicable to all organs of state in the national, provincial and local spheres of Government.

The Act incorporates an 80/20 (*for the procurement, sale and letting up to a Rand value of R500 000*) and 90/10 (*for the procurement, sale and letting with a Rand value of above R500000*) preference systems.

All organs of the state should apply the prescribed preference points system and refrain from using set-aside practices.

- *Broad-based Black Economic Empowerment Act (BBBEEA), Act 53 of 2003*: The Act provides for the that the Minister of Trade and Industry to develop broad-based charters to promote BEE, and issue codes of practice which may could include qualification criteria for preferential procurement and other economic activities.
- *Preferential Procurement Regulations of August 2001*, issued in terms of the PPPFA and published in the Government Gazette (10 August 2001). The following are important aspects of the Regulations:
  - o Organs of state must ensure that proper planning and calculations of the estimated costs are done prior to prescribing the appropriate preference system in the bid invitation;
  - o Penalties or other remedial actions may be applied for furnishing false information or not achieving the goals for which an undertaking was given;
  - o No contracts will be awarded to bidders who do not present a tax clearance certificate; and
  - o The preference points system which will be applied as well as the goals to be achieved, must be clearly explained in the bidding documents;



- Bids must be awarded to the bidder scoring the highest number of points. In the event that two or more bidders have scored equal total points, the successful bidder must be the one scoring the highest number of points for specified goals. Should there be equal bidders in all respects, the award shall be decided by the drawing of lots;
- A contract may on reasonable and justifiable grounds be awarded to a bidder that does not score the highest number of points. The reasons must, however, be defensible in a court of law.
- Preference points stipulated in respect of a bid must at all times include points for equity ownership by a HDI as contemplated in paragraph 1(h)(1) of the Preferential Procurement Regulations

### ***Other policy issues relating to Supply Chain Management***

In addition to the National Treasury's Supply Chain Management Policy discussed above there is a broad range of other policies and regulations that also influence supply chain management. This necessitates alignment between supply chain management and the broader Government policies that impact supply chain management activities.

The accounting officer and the CFO should be aware of the following issues:

- *Competition Law*

The Competition Act (89 of 1998), regulates business practices with the purpose of outlawing anti-competitive business practices (*such as price-fixing and collusive bidding*) between businesses, their supplier(s) and customers.

- *The National Small Business Act, Act No. 102 of 1996*

The National Small Business Act establishes the National Small Business Council (NSBC) and the Ntsika Enterprise Promotion Agency (Ntsika) whose main function is to enable small businesses to compete successfully in the economy.

- *Anti-corruption Measures and Practices*

The Constitution and related financial management legislation emphasises high standards of ethics within public administration, transparency and anti-corruption measures that strengthen the public sector's ability to combat corruption serves to protect employees from making disclosures against their employers.

- *State Information Technology Agency (SITA) Act, (Act No. 88 of 1998, as amended by Act No. 38 of 2002)*

This Act makes provision for SITA to assist municipalities and municipal entities with the acquisition of all IT related goods and services. This arrangement requires a Service Level Agreement between

SITA and the municipality (or municipal entity) that incorporates the payment to SITA for services rendered to the municipality (or municipal entity); the accounting officer is accountable.

- *Trade Policy*

Government's commitment to trade liberalisation should be evident in its supply chain practices; foreign companies should not be excluded from bidding for government contracts;

- *Labour Issues*

Accounting officers should ensure that suppliers/contractors comply with the prevailing provisions of Labour Law as government subscribes to international best practice principles of equitable and fair labour practices. Suppliers, service suppliers or contractors that do not comply with the country's labour standards should be designated as "non-preferred" service providers.

- *Safety, Health & Environment*

A policy of zero tolerance should be adopted in terms of occupational health and safety standards. Occupational health and safety issues should be considered for employees and employees of contractors who are performing work on site at any municipality/municipal entity.

- *Public-Private Partnerships*

The applicable Treasury Regulations should be complied with goods, works and/or services are procured by means of public private partnerships.

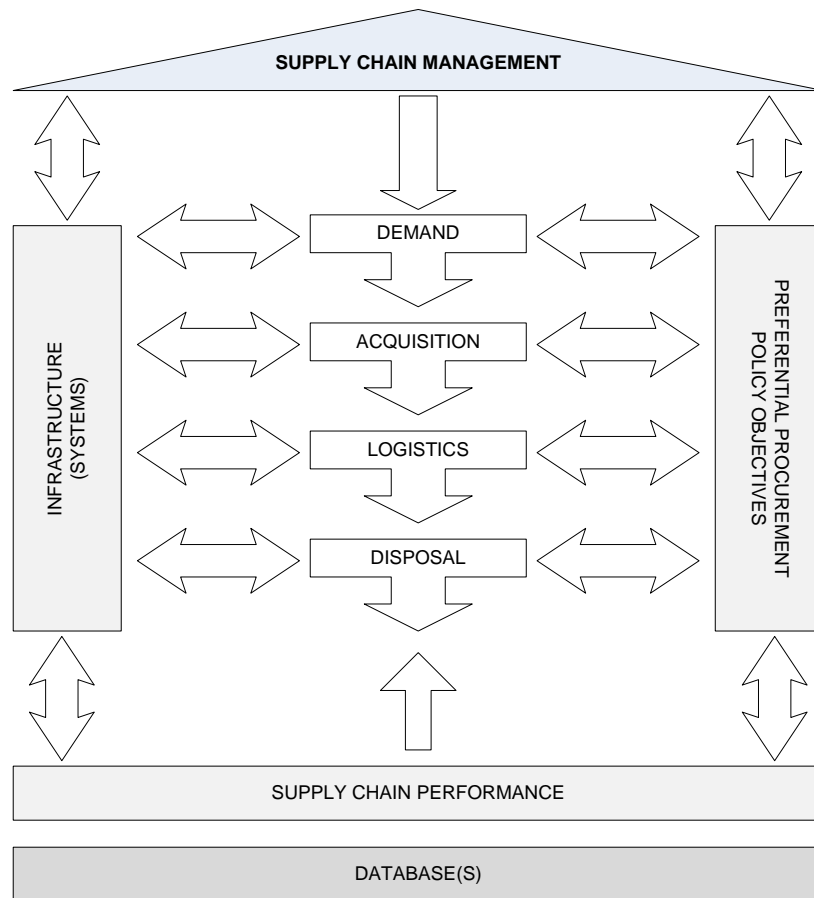
- *New Partnership for Africa's Development (NEPAD)*

Supply Chain Management practices should strive to support NEPAD objective of recognising global interdependence in respect of production and demand, the protection of the environmental base that sustains the planet, reversal of the skills-loss from the continent and a global financial architecture that rewards good socio-economic management and global governance.

- *Proudly South African*

The Department of Trade and Industry is a key sponsor and strategic partner of the "*Proudly South African*" campaign that encourages South African companies to promote locally produced products. The government's supply chain management should support this campaign if and when appropriate opportunities arise.

The diagram below depicts the elements of the supply chain; brief explanations are provided (*this information is relevant to the municipality and the municipal entity*).



*Note that the diagram above depicts a functional structure and is not indicative of a staffing structure for supply chain management; staffing the function is at the discretion of the municipality*

### **Demand Management**

Demand management is at the start of the supply chain; the following takes place:

- a proper needs assessment of the required goods, works and/or services is done;
- specifications are determined;
- the industry is analysed; and
- requirements are linked to the budget.

This phase brings the supply chain practitioner closer to the end user, to ensure that value for money is achieved.

Note that this phase assumes that the municipality's goods and services requirements have been determined during the strategic planning and IDP processes and that the goods and services have been accordingly budgeted for.

### **Acquisition Management**

This phase is about managing the municipality's procurement; the following takes place:

- the manner in which the market will be approached is decided;
- the total cost of ownership of a particular type of asset is established;
- the completeness of bidding documentation and evaluation criteria is ensured;
- bids are evaluated in accordance with published criteria; and
- the signing of legitimate contract documents is ensured.

### **Logistics Management**

Logistics management addresses the following:

- determining the levels of inventory;
- receiving and distributing material;
- stores, warehouse and transport management; and
- reviewing the vendor's performance

The financial system should be activated to generate payments stemming from these processes.

### **Disposal Management**

This is the final phase in the supply chain process when consideration is given to the following:

- obsolescence planning;
- maintaining a database of redundant material;
- inspecting material for potential re-use;
- determining a disposal strategy; and
- executing the physical disposal process.

### **Supply Chain Performance**

This is the monitoring process whereby a retrospective analysis is done to determine whether the supply chain processes have been complied with and whether the desired objectives have been achieved. The following issues are generally reviewed:

- compliance to policy objectives;
- cost efficiency of SCM process (i.e. the cost of the process itself);
- whether supply chain practices are consistent with Government's broader policy focus; and

- opportunities for improving the supply chain management system.

The Municipal Supply Chain Management Regulations issued by National Treasury in terms of section 168 of the MFMA prescribes minimum norms and standards for supply chain management practices at municipalities and municipal entities.

### **Checklist: The procurement process and “value for money”**

Purpose: To determine whether the procurement process delivers value for money environment and professional standards

	Description	YES	NO	Action Required
1.	Does the municipality have a published procurement policy?			
2.	Is there a guide available to suppliers on how to apply for contracts?			
3.	Does the municipality have a forward plan of contract renewals?			
4.	Are there strong contract management processes in place?			
5.	Is e-procurement used as a means of reducing transaction costs?			
6.	Are opportunities taken to aggregate purchases to access better terms?			
7.	Does the municipality have sufficient expertise in purchasing and negotiating contracts to secure value for money?			
8.	Are back-office processes for ordering, receipting and generating payment designed to minimise manual handling of invoices through effective IT systems?			

### **Fraud and Corruption**

The definitions of fraud and corruption for the purpose of supply chain management are as follows:

**“corrupt practice”** means the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the selection process or in contract execution; and

**“fraudulent practice”** means a misrepresentation of facts in collusive practices among bidders/contractors (*prior to or after submission of proposals*) designed to establish prices at artificial, non-competitive levels and to deprive the accounting officer of the benefits of free and open competition.

In terms of government policy bidders and/or contractors, including consultants, must observe the highest standard of ethics during the selection and execution of contracts.

**Checklist: Fraud and corruption**

Purpose: To ensure that proper arrangements are in place to prevent and detect fraud and corruption.

	Description	YES	NO	Action Required
1.	Does the municipality have an anti-fraud and corruption policy in place?			
2.	Does the municipality have dedicated staff for anti-fraud and corruption work?			
3.	Is the work of the fraud and corruption team informed by a formal risk assessment?			
4.	Does the municipality have a “whistle-blowing” policy and are the staff aware of it?			
5.	Is there a code of conduct in place for councillors?			
6.	Are staff aware of the code of conduct in terms of the Municipal Systems Act?			
7.	Does the municipality have formal procedures to facilitate the investigation of alleged or suspected fraud?			
8.	Are staff aware of the internal procedures to follow if they suspect that fraud has taken place?			
9.	Does the municipality regularly review the arrangements for preventing and detecting fraud and corruption?			
10.	Has external audit indicated that arrangements to detect and prevent fraud are adequate?			
11.	Are all allegations of fraud and corruption pursued?			
12.	Are the procedures for investigating alleged fraud and corruption complied with throughout the investigation?			

**4 Contract Management**

Once the contract has been awarded through the procurement process there are activities carried out to determine whether the service provider and the municipality are performing adequately to meet the contract requirements; this is called contract management.

Contract management is designed to ensure that the municipality gets what it paid for; to this end all dealings between the municipality and the service provider, from beginning to end are managed in terms of the contract.

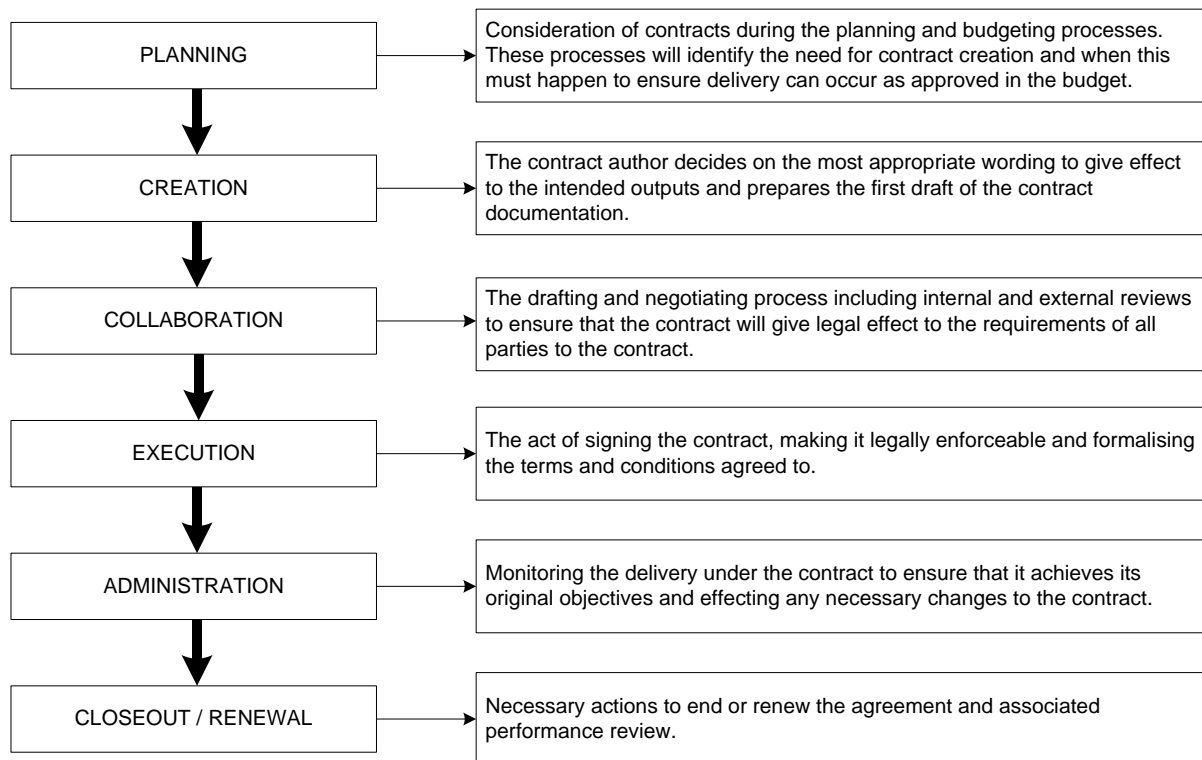
Contract management focuses on the timely delivery of the required goods or services of quality and within the available budget. The legal aspects of the contract guide officials to the proper course of action should the service provider fail to deliver.

The activities necessary to manage the contract will depend on the nature of the work required, the type of contract and the experience of the relevant parties to the contract and those responsible for delivery.

Contracts should be managed throughout the Contract Life Cycle so as to maximise value for money through:

- identifying and maximising opportunities;
- maximising revenue and minimising costs through efficient operations;
- minimising risk;
- ensuring compliance with policies, procedures, regulations as well as terms and conditions; and
- monitoring and evaluating performance of the parties to the contract.

The Contract Life Cycle is illustrated in the diagram below:



Example of steps to follow in the contract management process:

**Step One:** Make a list of all the key delivery dates, deliverables and associated payment terms stipulated in the contract. Important timeframes include dates for authorisation of claims, expected payment dates and sign-off required; failure to comply with these contract stipulations may result in sanctions such as penalties or termination of the contract.

**Step Two:** Assign responsibility for overseeing the contract to a municipal official who understands the contract specifications, the deliverables agreed and who can manage the day-to-day performance in terms of the contract delivery. The municipal official should be responsible for overseeing the basic activities such as tracking compliance and information dissemination.

**Step Three:** Compliance and oversight is necessary to ensure that work done in accordance with the agreed deliverables for which the service provider is contracted to deliver; this must be managed so that deviations or non delivery can be detected and necessary options for recourse can be assessed.

Regular progress reports should be compiled by the service provider and this should specify the progress with achieving the deliverables; whether the timeframes for such delivery is being met and in the case of delays, the steps taken to bring the delivery timeframes back on track must be explained; risks and mitigating factors and responsibility for the various items should be stipulated. These are the minimum reporting requirements and additional specifications for reporting may be itemised in the contract between the municipality and the service provider; such requirements must be complied with.

The municipality must take action when service providers fall short of delivery in term of their contractual obligation; the municipality must ensure that they get value for money and comply with the expenditure management stipulations of the MFMA and supply chain management regulations hence the accounting officer must ensure that contracts are properly managed.

#### **Checklist: Contract management**

Purpose: To determine whether there is an effective contract management system in place

	Description	YES	NO	Action Required
1.	Are the contracts signed; have any amendments been agreed by the parties to the contract?			
2.	Have amendments to the contract been considered and authorised on the grounds of value for money?			
3.	Are the relevant delegations of authority in place for the purpose of contract management and related authorisation of expenditure?			
4.	Is there a process in place to periodically review long term contracts?			
5.	Are payments linked to delivery of outputs committed to in the signed contract?			
6.	Is there a process in place to review delivery of the contracted outputs; is corrective action taken if the contractual commitments have not been met?			
7.	Is there adequate record keeping of the issues relating to managing the contract?			
8.	Are stakeholders involved in feedback with regard to the contract implementation and management?			
9.	Does the municipality have a process in place whereby contracts are reviewed in terms of extensions and re-tender processes where required?			
10.	Is there a process in place to ensure regular meetings with the contracted parties to monitor progress on delivery?			



## 5 Asset Management

The purpose of asset management is to manage the life cycle of an asset so that the municipality derives the maximum benefit from the asset in the most cost effective manner.

### ***Principles of effective asset management***

- the level of service required as identified in the municipality's IDP process should drive asset management practices and decision-making;
- asset management plans should be incorporated in the municipal planning process;
- the decision-making to acquire assets must be informed by an evaluation of alternative options, demand management and non-asset solutions (activities in the supply chain process);
- proposals for acquiring assets must include a complete business case that factors in the costs, benefits and risks for the life cycle of the asset;
- responsibility and accountability for performance, safekeeping and utilisation of the asset must be defined upfront;
- decision-making for the disposal of the asset at the end of its useful life must ensure that the municipality gets the best return in terms of the provisions of the MFMA; and
- effective internal controls to mitigate risks.

### ***Benefits of effective asset management***

- the potential of the asset will be realised during its useful life when it is well maintained;
- minimum demand for new or replacement assets when existing assets are optimally utilised; and
- well defined accountability and responsibility for performance is established.

### ***Approach to asset management***

An integrated approach to asset management is recommended. The following requirements will contribute to achieving an integrated approach to asset management:

- use the municipal strategy to inform the asset management strategy and formulate asset management plans based on an analysis of available service delivery options;
- the municipality's asset management strategy must comprise guidelines for acquisitions and replacements, operation and maintenance and asset disposals in accordance with the municipality's policies;
- the asset management strategy must be considered during the IDP and annual budget compilation processes;
- the budget must provide adequate funding for the approved asset management plan;

- measurable objectives and targets for the asset management plan must be incorporated in the Service Delivery and Budget Implementation Plan (SDBIP);
- report on the performance of assets, measured in terms of the service delivery objectives achieved in terms of the approved SDBIP, budget and IDP.

### ***Logistics management***

The municipality's asset management policy should include logistics management which considers day to day activities relating to asset management. These activities include tagging assets, determining appropriate inventory levels, timing of placing orders and delivery, receiving and distributing inventory, managing the warehouse or stores function, transport management and tracking the performance of vendors amongst others.

In the context of the CFO Handbook the issue of inventory management is further discussed with reference to the mismanagement of resources in Part One.

### ***Inventory management***

When processes whereby orders for goods are placed, followed up, delivered, tagged and distributed must take cognisance of minimum quantities, lead times for delivery, and internal distribution channels and timeframes.

Delays in delivery from the supplier or in the process whereby the goods are distributed internally must be managed so that the quality or condition of the goods is not compromised.

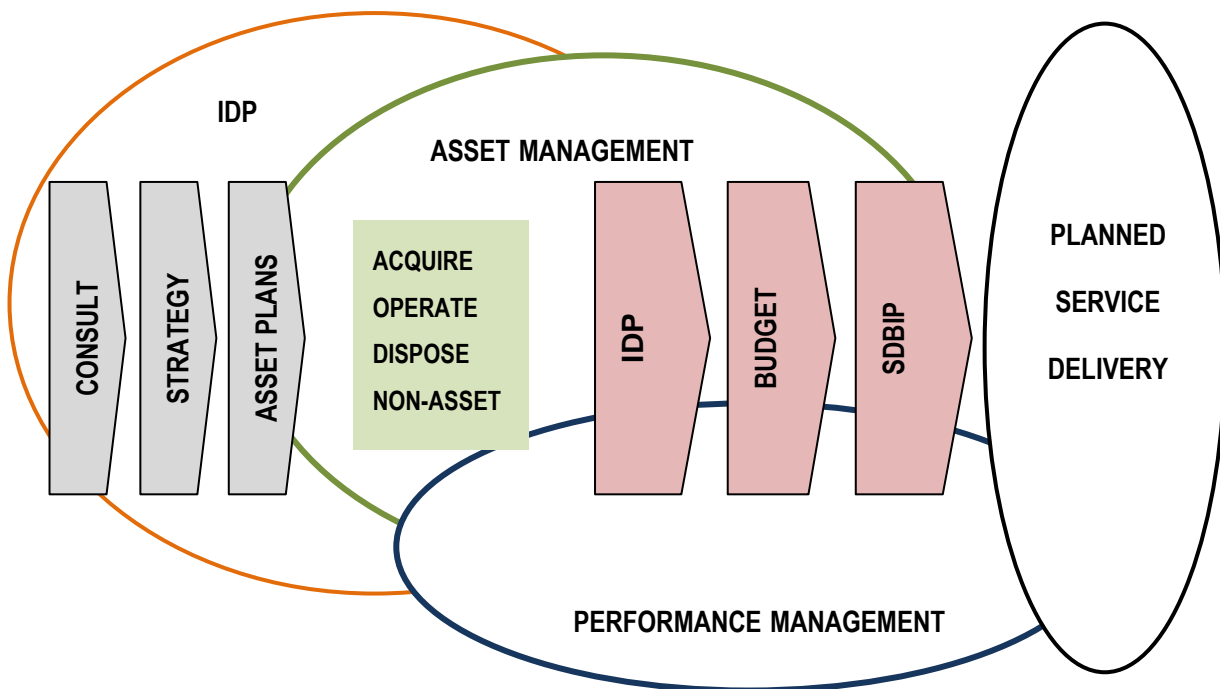
The safekeeping of the goods received is of importance as the municipality must comply with legal requirements and safety regulations applicable to the category of goods that is kept in storage e.g. flammables, poison, explosives and medical supplies. Shelf-life of such goods must be taken into consideration so that damage, exposure, deterioration and perishing are avoided.

When goods expire, perish or become redundant due to ineffective inventory management practices is tantamount to mismanagement of resources.

The municipality must safeguard inventory to minimise shrinkage or losses due to theft.

Other components as legislatively required to be included in the municipality's supply chain management policy are guided by the Supply Chain Management: A Guide for Accounting Officers of Municipalities & Municipal Entities (October 2005) which is available at [www.treasury.gov.za](http://www.treasury.gov.za).

The diagram below illustrates how the asset management function integrates with the municipality's IDP and performance management processes.



The National Treasury's Local Government Capital Asset Management Guideline, National Treasury (October 2008), available at [www.treasury.gov.za](http://www.treasury.gov.za), provides detailed information about the elements of an effective asset management system.

**Checklist: Asset management**

Purpose: To determine whether there is an effective asset management system in place

	Description	YES	NO	Action Required
1.	Does the municipality have an asset management plan?			
2.	Is the asset management plan linked to the IDP planning process?			
3.	Does the municipality's supply chain process evaluate alternative options when acquisition decisions are made?			
4.	Does the asset disposal process ensure that the municipality gets the best return?			
5.	Does the municipality have a process in place to tag or code all assets timely?			
6.	Does the municipality maintain an updated asset register that fairly represents all municipal assets?			
7.	Does the municipality comply with statutory requirements for safekeeping and storage of supplies that are hazardous?			
8.	Is there a policy in place for managing, safeguarding and maintaining assigned municipal assets?			

	Description	YES	NO	Action Required
9.	Has the discrepancies identified by the annual stock take been finalised and authorised on the asset register?			
10.	Is there a process in place to “spot check” stock takes at regular intervals?			
11.	Is there a process in place to track movement of assets; is the process complied with?			
12.	Is the asset register updated with information in respect of movement of assets?			
13.	Are there delegations in place whereby the asset manager assigns asset management responsibilities to the line manager who is custodian of the asset?			
14.	Is there a process in place whereby orders are placed so that adequate stock levels are maintained at all times?			

## 6 Internal Control

In terms of chapter 8 of the MFMA the CFO has an important functional responsibility to assist the accounting officer to carry out his/her financial management responsibilities that include budget preparation, in-year monitoring and reporting and the development, implementation and maintenance of internal control procedures.

The Act requires that the accounting officer takes responsibility for managing revenue and expenditure; cash and banking; investments and borrowings and assets and liabilities, including the establishment of appropriate internal controls and financial management systems, subject to certain delegations of responsibility. The CFO’s responsibility for internal controls arises from the accounting officer’s delegations of responsibility.

The CFO must ensure that appropriate direction is provided to achieve the sound financial management practices and this is done by implementing relevant policies and procedures to guide municipal officials when executing their responsibilities. It is important that monitoring systems are in place to ensure compliance to such guidelines.

Effective internal controls require that policies and procedures are documented and communicated to all relevant staff. Changes in the municipal environment and to the legislative framework will inform the review of the municipality’s system of internal control e.g. a municipal policy of procedure may have to be updated or revised.

The CFO must evaluate whether existing controls are appropriate, assess the risks facing the municipality, and introduce the necessary changes to the system of internal control. Internal controls must be evaluated to ensure that they are appropriate for the specific circumstances and, most importantly, are operating as intended.

When designing internal controls they should provide reasonable assurance that:

- goals are met with economical and efficient use of resources

- financial and operational information is reliable and useful
- assets are accounted for and protected from losses

The CFO, in terms of the accounting officer's delegated responsibility, should review the operation of the internal controls within the municipality, in accordance with the following basic principles:

- high quality internal control systems at a reasonable cost;
- adequate controls over the operations and resources entrusted to managers and continuous review of the effectiveness of such controls; and
- benefits must outweigh the cost of operating internal controls.

### ***Responsibilities for internal control***

The responsibilities of the various stakeholders for internal control can be summarised as follows:

- Management is ultimately responsible for the implementation, compliance and ownership of the system of internal control.
- The members of legislative bodies, in their capacity as representatives of taxpayers, are exercise governance, guidance and oversight.
- The Auditor-General has a role in making recommendations when any weaknesses in internal control are identified.
- The audit committee should be able to identify and act on instances where management may override internal control or otherwise seek to misrepresent reported financial results.
- Hence, the independence of the audit committee from management, the extent of the committee's involvement with and scrutiny of activities, and the appropriateness of its actions will strongly influence the control environment in the municipality.

### ***Checklist: Internal control***

Purpose: To ensure that proper arrangements are in place for effective internal controls.

	Description	YES	NO	Action Required
1.	Are there adequate job descriptions for all accounting or finance positions?			
2.	Are the level of competence and the requisite knowledge and skills carefully defined for each job in the finance department?			
3.	Does the municipality have a written Accounting / Financial Policies and Procedures Manual; Is the manual up to date? Do all employees have a copy and are they compliant?			

	Description	YES	NO	Action Required
4.	Has the finance staff been appropriately trained in the use of the accounting system, including the chart of accounts and other system controls?			
5.	When employees assigned to financial duties are on leave, does another employee assume their responsibilities?			
6.	Is there a written policy whereby employees are required to report suspicious activities, conflicts of interest, or unethical behaviour to the appropriate level of management?			
7.	Does the municipality have a whistleblower protection policy prohibiting retaliation against whistleblowers?			
8.	Are delegations of authority and responsibility to individuals properly signed and approved? Are the delegations complied with?			
9.	Are ongoing reviews of the internal controls for key processes and activities being performed and are suggestions for improvement acted on promptly?			
10.	Do the municipality's internal controls adequately protect the entity's assets from fraudulent and/or inappropriate use?			
11.	Do the municipality's financial controls incorporate, where relevant, the following: <ul style="list-style-type: none"> <li>• approval and authorisation of transactions;</li> <li>• timely reconciliation of balances;</li> <li>• review of reconciliations;</li> <li>• production and review of exception reports;</li> <li>• segregation of duties; and</li> <li>• restricted access to financial management systems and data.</li> </ul>			
12.	Are computers, and electronic data adequately protected from improper use, loss or destruction?			
13.	Have all recommendations by internal and external audit, made within the past twelve months, to address identified weaknesses in internal controls and systems been implemented?			
14.	Does the municipality have an action plan to address shortcomings of the annual audit opinion?			

### ***Internal audit and the audit committee***

The purpose of the municipality's internal audit and an audit committee is to strengthen the separation of functions relating to financial management. Internal audit and the audit committee are structures, permitted by the MFMA, to ensure that the municipality properly manages public resources entrusted to it; it also provides an opinion of whether the municipality's internal controls are effective.

The CFO is required to provide administrative support for the effective functioning of the internal audit unit and the audit committee; this includes making available the relevant financial records as required. The CFO is expected to analyse the reports compiled by internal audit and the audit committee and to

distribute the findings across the municipality or municipal entity so that corrective action can be implemented where necessary.

*Internal audit [section 165 of the MFMA]*

The internal audit function may be outsourced if the municipality does not have the capacity to perform this function internally and if the council or board in the case of a municipal entity has established that outsourcing is a feasible and cost effective option.

Internal audit advises the accounting officer and reports to the audit committee on matters pertaining to matters in accordance with section 165(2)(b) of the MFMA.

*Audit committee [section 166 of the MFMA]*

The audit committee is an independent advisory body that gives independent advice to the municipal council and to the board of directors of a municipal entity. The audit committee serves to review financial statements, to respond to the council on audit queries, to conduct investigations into specific financial problems and to assist council as required.

**Checklist: Audit committee**

Purpose: To ensure that proper arrangements are in place to ensure the effectiveness of the audit committee.

	Description	YES	NO	Action Required
1.	Does the municipality advise the Audit Committee advised in a timely manner of all significant issues that may have impacted the financial statements?			
2.	Does the audit committee charter articulate the committee's roles and responsibilities; and provide the committee with the necessary authority to fulfil them?			
3.	Does the committee have access to appropriate internal and/or external resources to assist it in understanding and dealing with complex and difficult matters on a timely basis?			
4.	Does the committee receive agenda items and supporting papers in sufficient time prior to meetings?			
5.	Are the committee agenda and supporting papers of sufficient clarity and quality to make informed decisions?			
6.	Have all recommendations by the audit committee, made within the past 12 months, been implemented?			
7.	Did the committee review the internal audit charter to ensure that appropriate structures, authority, access and reporting arrangements are in place?			
8.	Did the committee review external audit reports and management letters and consider management responses to findings and recommendations?			

**Checklist: Internal audit**

Purpose: To ensure that proper arrangements are in place to provide for an effective internal audit function

	Description	YES	NO	Action Required
1.	Does the municipality have an updated internal audit plan?			
2.	Is the internal audit plan linked to the municipality's risk management processes?			
3.	Are the internal audit staff appropriately qualified and trained to perform an effective internal audit function?			
4.	Does the internal audit function comply with the regulatory framework for internal audit?			
5.	Does internal audit have unlimited access to records or scope of activities?			
6.	Does the municipality's internal audit unit perform an annual assessment of the need to review key financial systems? (i.e. a key financial system is one which is significant for the compilation of the annual financial statements.)			
7.	Is the independence of internal audit safeguarded?			
8.	Is the internal audit plan monitored so that the key activities are prioritised?			
9.	Does the municipality's internal audit team effectively complete the audit plan?			
10.	Is external audit able to reduce the work required to complete the audit by using the work of internal audit?			
11.	Does the municipality have a formal process whereby the recommendations of internal audit are accepted for implementation?			
12.	Does the municipality have a process whereby directorates can request the services of the internal audit team?			
13.	Does internal audit have a role in, and provide advice about risk management?			



## 7 Policies and Procedures

Policies and procedures are applicable to all employees at the municipality; these are the guidelines that govern the day to day operational requirements of the municipality. Policies and procedures are necessary to establish internal controls thereby mitigating risks.

The legislative framework provides guidance or parameters for consistency and, in most cases, allows the municipality to exercise discretion when formulating policies and procedures. Municipalities are most likely to follow best practice when compiling these policies and procedures.

### ***Compiling policies and procedures***

When compiling internal policies and procedures the CFO should ensure that:

- It is written in simple English that everyone can understand;
- It provide specific and relevant information; that it is not *“open to interpretation”*;
- It is available/accessible to relevant municipal officials;
- It is subject to periodic review;
- It is applicable and aligned to the legislative framework and related policies and procedures i.e. it must not contradict;
- It can be implemented as required and complied with;
- Any negative consequences of implementing such policies and procedures have been considered; and
- There is a system in place to monitor implementation and the effectiveness thereof.

## 8 Reference Material

### Applicable legislation

1. The Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)
2. Treasury Regulations Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (*April 2001*)
3. Public Service Regulations, *January 2001*

### Other

4. Guide for Accounting Officers, Public Finance Management Act, *October 2000*
5. Supply Chain Management Guide for Accounting Officers/Authorities, National Treasury (*February 2004*)
6. Risk Management Framework, National Treasury
7. A Guide to Best Practice for Contract Administration, Office of Federal Procurement Policy (*October 1994*)
8. Financial Management Capability Maturity Model, 2009, Office of the Accountant-General, National Treasury
9. [www.treasury.gov.za](http://www.treasury.gov.za)
10. [www.dpsa.gov.za](http://www.dpsa.gov.za)

# Part III:

## The Accountability Cycle

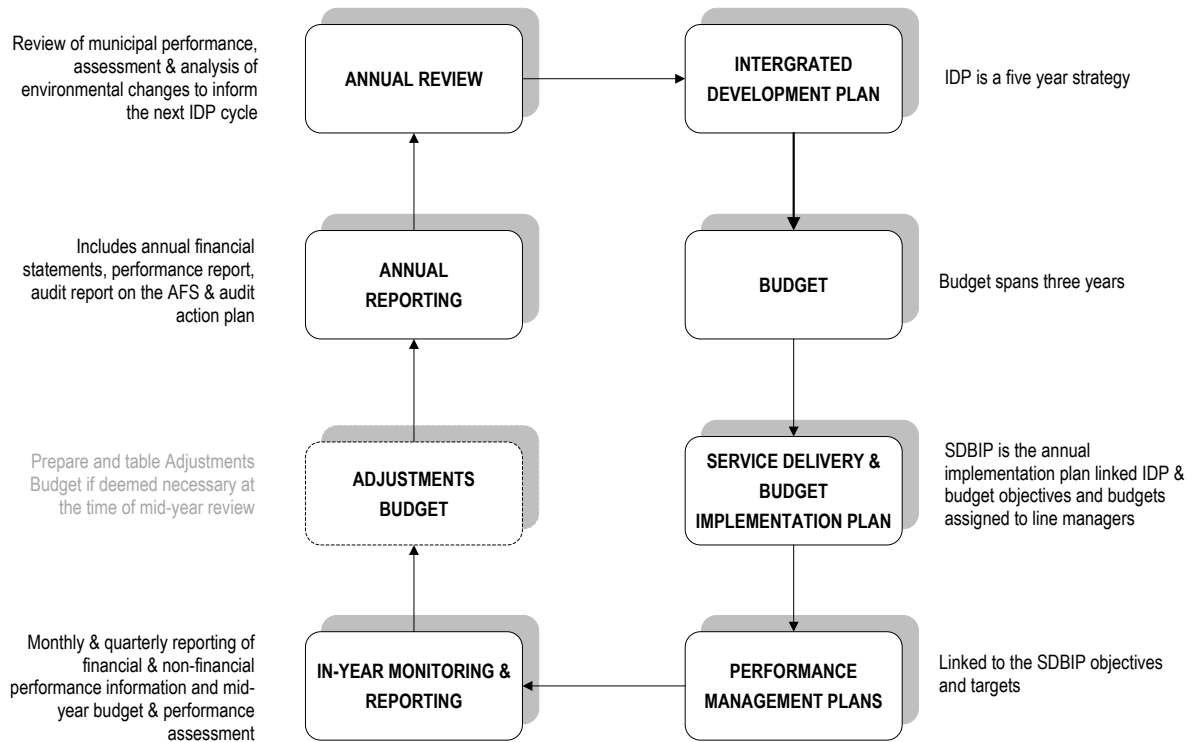
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## 1. Overview

The Municipal Finance Management Act, Act No 56, 2003 (MFMA), prescribes the financial management responsibilities of the municipality. The various financial management reports each have a purpose, specific timeframes for processes and submission of reports, prescribed formats and guidelines as issued in the form of circulars the National Treasury. The municipal financial management reforms will further refine the accountability cycle requirements in terms of the MFMA.

The diagram below illustrates the various financial management tasks and reports required.



## **2. Integrated development plan**

The nature of the Integrated Development Plan (IDP) is developmental as it focuses on building communities socially and economically by providing free basic services and involving them in municipal affairs through consultation processes; the IDP is the strategic development plan of the municipality.

Municipal planning and the IDP must take cognisance of development strategies of other organs of state so that municipal planning is aligned and complementary as these required of the co-operative government principles referred to in The Constitution.

The municipality's IDP is at the core of municipal service delivery and should ideally be supported by a credible municipal budget that adequately funds the achievement of objectives committed to in the IDP.

The IDP sets out the strategic direction of the municipality. It is the principal strategic planning instrument that guides and informs all decisions relevant to municipal planning, management, development and service delivery to local communities.

### **2.1 Legislative framework**

The Local Government Municipal Systems Act, 2000, prescribes the IDP framework, process, core components with reference to The Constitution and cooperative governance arrangements.

Municipalities are required to comply with the legislative framework and other relevant guidelines and regulations issued by the National Treasury, the Department of Cooperative Governance and Traditional Affairs (CoGTA) and provincial treasury.

### **2.2 Compiling the integrated development plan**

The IDP is the end product of the municipality's integrated development planning process whereby the municipality prepares a five year strategic development plan. The IDP is the municipality's strategic planning tool that guides municipal budgeting, management and decision-making.

The municipality's IDP must be supported by the municipal budget because funding is necessary to give effect to the IDP. The two processes should not be managed separately as municipal service delivery priorities described in the IDP must be funded by the municipal budget.

The following are necessary requirements for compiling a sound Integrated Development Plan:

- The municipality must ensure that the municipal priorities are linked to the National priorities alluded to in the President's State of the Nation's address;
- The municipality's priorities must be derived from an analysis of the community's service delivery requirements;

- The IDP must take cognisance of public opinion gathered during the community participation process;
- The IDP must be achievable in terms of the municipality's available funding; budgetary constraints and capacity to deliver; and
- The IDP must include measurable key performance indicators and targets which will form the basis of performance contracts for service delivery managers.

The compilation of the IDP should ideally be approached systematically and the IDP process should include community participation throughout. The recommended steps or methodology to follow is explained below in terms of five steps which serve as the core components of the process whereby the IDP is compiled.

### ***Step 1: Conducting an analysis of the municipal environment***

The present circumstances are assessed and problems faced by local communities are identified; e.g. lack of basic services, crime and unemployment. These problems are prioritised in order of importance or urgency; this analysis is informed by facts and figures as well as the communities' perceptions.

The assessment should identify the root cause of problem areas, not only the symptoms, so that informed decisions are made and appropriate solutions are found. Addressing the root cause of the problems is important as this will ensure that it does not recur.

Prioritisation assists the municipality in allocating the limited available resources to the problem areas that are more important and/or urgent. This means that budget trade-offs will have to be considered i.e. allocating resources to one problem area versus another so that the limited resources are effectively utilised; not all problems can be dealt with at once due to limited resources.

At the end of this analysis the municipality would have achieved the following:

- Assessed the present level of development;
- Prioritised key problem areas; and
- Gathered information of available resources.

### ***Step 2: Determining the municipal strategies***

The municipality will determine the strategies required to address the problem areas identified in step 1, the analysis. When developing strategies the municipality must ensure alignment to the National and provincial service delivery priorities and transformation imperatives. This means that council must formulate the municipal objectives and development priorities bearing in mind the National and provincial agendas.

Formulating the municipal strategies involves the following:

- formulating the municipality's vision i.e. the ideal situation that the municipality aspires to achieve in the longer term
- translating the municipal priorities into objectives i.e. statements of what the municipality wants to achieve in the medium term to address the problems identified and in so doing, contribute to realising the municipality's vision
- developing appropriate strategies to give effect to the municipality's vision and objectives i.e. "how" the municipality will achieve its objectives
- identifying projects that will give effect to achieving the strategies that are formulated

These issues must be determined within the mean of the municipality i.e. with the limited financial and human resources available to the municipality.

During step 2 of the IDP process public participation takes place in the form of a public debate on the appropriate "ways and means" to address the problems identified in Step 1: The Analysis.

At the end of this step the municipality would have achieved the following:

- Formulated the municipal vision;
- Derived the objectives; and
- Identified and formulated strategies to resolve the problems identified.

### **Step 3: Identifying projects for implementation**

This step is about identifying and determining the design and specifications of projects for implementation. It is important that the projects are directly linked to the priority areas and municipal objectives identified in the previous steps. Lastly, adequate resources must be allocated to the projects.

Stakeholders and communities affected by a particular project will participate in this phase so that they may ask questions and get clarity on issues relating to the project design, implementation, timeframes and delivery.

The resource allocation for the projects identified for implementation must be communicated to all parties and roles and responsibilities for delivery on the project must be clarified.

In addition, targets and performance indicators must be agreed so that the impact of the project can be measured; this will also facilitate reporting on the project deliverables.

At the end of this step the municipality would have achieved the following:

- Developed performance indicators;
- Determined project outputs, targets, location; and



- Compiled project plans, including project related activities, time schedules, resource allocation and cost estimates.

#### ***Step 4: Achieving integration***

This step is about ensuring that the identified projects are in line with the municipality's objectives, strategies, resource framework and that it complies with the legislative requirements.

The municipality must integrate its spatial development framework; municipal disaster management plan; financial plan inclusive of capital and operating budgets; other relevant programmes and key performance indicators and performance targets.

Furthermore this phase is an opportunity for the municipality to harmonise the projects in terms of content, location and timing in order to arrive at consolidated and integrated programmes e.g. a local economic development programme.

At the end of this step the municipality would have compiled an operational strategy that includes the following:

- a five year financial plan;
- a five year capital investment programme
- Integrated Spatial Development Framework;
- Integrated sectoral programmes (LED, HIV, poverty alleviation, gender equity etc);
- A consolidated monitoring/performance management system;
- A disaster management plan;
- An institutional plan; and
- Reference to sector plans.

#### ***Step 5: Obtaining approval for the IDP***

When the IDP has been completed, it must be submitted to the municipal council for consideration and approval. Council must interrogate the IDP and establish whether it adequately addresses the problem areas identified.

Council must also ensure that the IDP complies with the legislative framework before it is approved. In addition, the municipality must give an opportunity to the public to comment on the draft IDP before it is finally approved. Once the IDP is amended according to the input from the public, the council considers it for approval.

At the end of this step the municipality would have an approved IDP for the municipality.

### 2.3 Summary of timelines for the IDP process

A summary of the requirements and timeframes for compiling the IDP is presented in the table below.

*Note:*

1. *The Mayor’s responsibilities may be delegated to the accounting officer who may in turn delegate the responsibility to the CFO.*
2. *Where the column “legislation” refers to “MFMA Guidance” the activities listed guide municipalities to achieve compliance to the IDP requirements stipulated in the Act.*

LEGISLATION	DESCRIPTION	MONTH	CFO’s ROLE	INTENSITY	RESPONSIBILITY
MFMA 87 (4)	Ensure board of directors of municipal entity approves the entity budget after taking into account outcomes of any hearings or recommendations of council.	JUN	Where applicable the municipal CFO must follow-up with the CFO of the municipal entity to ensure compliance.	High	Accounting Officer
MFMA 16(1), 24(2), 53(1)(c)(i)	Approve annual budget by council resolution, including taxes, tariffs, measurable performance objectives, changes to the IDP and budget related policies and where appropriate, service delivery agreements and long-term contracts.	JUN	CFO must ensure that all information in support of the municipality’s annual budget submission is presented to council for approval.	High	Council
MFMA Guidance	Financial year commences; implementation of new budget.	JUL	CFO must ensure that line managers are notified of their available budgets for the new financial year & that they have access to budget reports.	High	Accounting Officer
MFMA 62(1)(f) & 79 (1) (c) MFMA Guidance	Commence process to review delegations & all budget related policies including reviews of tariff, rates, credit control and supply chain management & cash management or investment policies.	JUL	CFO must implement the necessary process to ensure that the municipality’s delegations are reviewed, updated and signed by all affected parties.	High	Accounting Officer
MFMA 75(1)(a) & (b)	Place approved annual budget & policies on the municipal website.	JUL	CFO to ensure that the annual budget and policies are presented accurately and timely for uploading onto the municipal website.	Medium	Accounting Officer

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA Guidance	Print and distribute the current year final approved budget, SDBIP & IDP.	JUL	CFO to ensure that all the relevant documentation is presented accurately and timely for printing and distribution.	High	Accounting Officer
MFMA Guidance	Ensure internal analysis of financial & non-financial performance over year are prepared, analyse gaps between actual & planned performance, assess impacts of plans. Determine financial position & assess financial capacity against future strategies.	AUG	CFO must put the necessary process in place, assign the tasks required to the finance team so that the internal analysis can be done. CFO must collate the information and make the assessment required.	High	Accounting Officer
MFMA Guidance	Conclude first budget draft & policies for initial council discussion.	OCT	CFO must collate the information received from line managers and review submissions.	High	Accounting Officer
MFMA Guidance	Commence community & stakeholder consultation process, review inputs, financial models, assess impacts on tariffs & charges & consider funding decisions including borrowing. Adjust estimates based on plans & resources. Further council & management discussion & debate.	NOV	The CFO may have limited involvement in the community & stakeholder consultation process however; the impact of the outcomes on the budget plan and resources must be factored into the budget process and presented to council for discussion & debate.	High	Accounting Officer
MFMA Guidance	Finalise inputs from bulk resource providers (and NER) & agree on proposed price increase.	DEC	CFO to follow up with relevant line managers and factor in the proposed price increases.	Medium	Accounting Officer
MFMA Guidance	Review whether bulk resource providers have lodged a request with National Treasury & SALGA seeking comments on proposed price increases of bulk resources.	DEC	CFO to follow-up.	Medium	Accounting Officer
MFMA Guidance	Ensure any written comments made to bulk resource providers by the municipality on the proposed increase of bulk resources are included in any submission made by bulk resource providers to the required organs of state	JAN	CFO to follow-up.	Medium	Accounting Officer

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA Guidance	Note the President's "State of the Nations Address" for further budget priorities	JAN	CFO to be aware of the content of the President's address and the impact it may have on the municipality's budget.	Medium	Mayor
MFMA Guidance	Review whether comments from National Treasury & SALGA have been received on proposed price increases of bulk resources	JAN	CFO to follow-up.	Medium	Accounting Officer
MFMA 20	Further review of all aspects of budget including any unforeseen & unavoidable expenditure in light of the need for an Adjustments Budget.	JAN	CFO to make the necessary assessment and recommend to the Accounting Officer if there is a need for an Adjustments Budget.	High	Mayor
MFMA 28	Where necessary consider tabling and approval of an Adjustments Budget.	JAN	CFO to follow-up on the outcome of Council's decision and prepare for the Adjustments Budget if necessary. CFO to communicate with line managers and collate and interrogate their inputs.	High	Mayor
MFMA 22 (b)	Submit the tabled Adjustments Budget to the provincial treasury, National Treasury & other affected organs of state.	JAN	CFO to ensure that the Adjustments Budget is tabled timely as required.	High	Accounting Officer
MFMA 24 (3)	Submit the approved Adjustments Budget to the provincial treasury & National Treasury.	JAN	CFO to submit documents as required.	High	Accounting Officer
MFMA Guidance	Finalise detailed operating & capital budgets in the prescribed formats incorporating National & provincial budget allocations, integrate & align to IDP documentation & draft service delivery & budget implementation plan, finalise budget policies including tariff policy	JAN	CFO must support and offer guidance to line managers who must make an input into the relevant processes; CFO must make necessary templates available, collate inputs, interrogate the information and follow-up with line managers to ensure correctness and accuracy.	High	Accounting Officer
MFMA Guidance	Report to Council on status of next 3-year budget, previous year's annual report (including annual financial statements, audit report) & summarise overall findings of previous year's annual performance report – reinforce upcoming process for budget approval and oversight	JAN	CFO to update council as required; CFO must have internal processes in place to ensure timely presentation of correct information.	High	Mayor

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA 87(1)	Receive proposed budget from the board of directors of any municipal entity under the sole or shared control of the municipality.	FEB	CFO to follow-up and ensure timely receipt of information required.	Medium	Accounting Officer
MFMA 87(2) MFMA Guidance	Consider proposed budget of municipal entity & assess entity's priorities & objectives, & make recommendations to the board of directors as necessary.	FEB	CFO to review information where applicable.		Council
MFMA Guidance	Note National budget for provincial & National allocations to municipalities for incorporation into budget.	FEB	CFO to follow-up.	Low	Accounting Officer
MFMA 37(2)	Receive notification of any transfers that will be made by the municipality to other municipalities in each of the next three financial years.	MAR	CFO to follow-up.	Low	Accounting Officer
MFMA 37(2)	Provide notification of any transfers that will be made by the municipality to other municipalities in each of the next three financial years.	MAR	CFO to notify relevant parties	High	Accounting Officer
MFMA 42	Receive bulk resource providers' price increases as tabled in Parliament or the provincial legislature.	MAR	CFO to follow-up.	Medium	Accounting Officer
MFMA 87(2)	Receive revised budget of municipal entity from board of directors.	MAR	CFO to follow-up.	Medium	Council
MFMA 31 (2) MFMA Guidance	Incorporate transfers to be made or received from other municipalities.	MAR	CFO to follow-up.	Medium	Accounting Officer
MFMA 42 MFMA Guidance	Incorporate changes in prices for bulk resources & finalise tariff proposals for all charges.	MAR	CFO to follow-up and make the necessary changes to the budget information.	High	Accounting Officer

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA Guidance	Print & distribute all budget documentation prior to meeting at which budget is to be tabled	MAR	CFO to ensure that the budget information is provided timely so that it can be printed and distributed as required.	High	Accounting Officer
MFMA 16(2), 17 & 87(3)	Table in Council the annual budget and all supporting documents.	MAR	CFO to ensure that the budget information is provided timely so that it can be tabled in council.	High	Mayor
MFMA 22	Make public the tabled annual budget and accompanying budget documentation, invite the community to submit representations & submit to the provincial treasury, national Treasury and other affected organs of state.	MAR	CFO to ensure that the budget information is provided timely so that it can be made public.	High	Accounting Officer
MFMA 23 MFMA Guidance	Commence process of consultation on tabled budget, publicise & conduct public hearings and meetings with wards, provincial treasury, National Treasury & other organs of state making a budget submission.  Publish ward based information for ward councillors.	APR	CFO to ensure that ward councillors receive accurate information so that they can adequately prepare.	Medium	Accounting Officer
MFMA 23 MFMA Guidance	Confirm provincial and National budget allocations.	APR	CFO to follow-up	Medium	Accounting Officer
New & amended legislation	Review provincial and National legislation including DoRA to establish potentially new reporting requirements including annual, monthly & quarterly grant and performance reports for specific new allocations and programmes – note ten working days reporting deadline.	APR	CFO to ensure that he/she is aware of ALL reporting requirements and that timelines for submission are complied with.	High	Accounting Officer
MFMA 68 MFMA Guidance	Conclude process of consultation on tabled budget with community and other stakeholders & assist the mayor to revise budget following feedback, taking into account the results of the third quarterly (MFMA section 52) report	APR	CFO to revise the budget based on input received where the impact is material.	High	Accounting Officer

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA 23 (1)	Consider views of the community & other stakeholders	APR	CFO to collate information for presentation to council	Medium	Council
MFMA 23 (2)	Respond to submissions received & if necessary revise the budget and table amendments for council consideration	APR	CFO to revise the budget as required based on submissions received.	High	Mayor
MFMA 68 MFMA Guidance	Assist the mayor in preparing final budget documentation for final approval by council. Review any other comments from National or provincial government or organ of state	MAY	CFO to consolidate all comments and advise the accounting officer.		Accounting officer
MFMA Guidance	Print & distribute all budget documentation including draft IDP and SDIP documentation prior to meeting at which budget is to be approved	MAY	CFO must ensure that the information is prepared and submitted timely for printing and distribution.	Medium	Accounting Officer
MFMA 24(1)	Consider approval of the annual budget.	MAY	CFO to present the annual budget for approval.	High	Council

## 2.4 Challenges in compiling the IDP

During the execution of steps one to five, core components of compiling the IDP, the municipality may face difficulties that require further guidance. Examples of such challenges are presented below:

- *Smaller municipalities may not have many senior managers to participate and contribute to the IDP planning, preparation and compilation.*

Municipal structures may differ depending on the municipal area, the category of municipality and the human resources funding available. The legislative prescriptions however apply to all municipalities irrespective of size or structure.

The IDP processes, planning, preparation and compilation must be adhered to regardless of the number of senior managers who make a contribution; the municipality must work within this resource constraint and ensure compliance the legislative requirements.

- *When the analysis of the municipal environment identifies problem areas that are not in line with National service delivery imperatives; what does the municipality do?*

The municipality is at the forefront of service delivery and has direct contact with the voting public. The municipality has an obligation to provide service delivery to the local communities within its municipal area. While the municipality must ensure that their strategies are in line with national service delivery imperatives; the municipality is obligated, in terms of The Constitution, to provide service delivery to the local communities that it serves.

The needs of the local community are usually informed by the municipal environment. The analysis of the municipal environment, supported by facts and figures should adequately reflect problem areas to be addressed even if these needs are unique to the local community i.e. not in line with national imperatives.

The municipality's IDP is a five year plan and, national imperatives should be addressed over the five year period even if year one provides for the unique requirements of the local communities within the municipality's area of responsibility.

- *What happens when the municipality's budget is not sufficient?*

It is unlikely that there will ever be sufficient budget to fund all the municipality's service delivery initiatives hence budget trade-offs must be considered.

Budget trade-offs are about making decisions on what priorities will be delivered in year one of the IDP and what will have to be delayed due to the limited budget funding. The decision about trade-offs should be informed by the nature of the problems to be addressed, the urgency thereof and the implications of addressing it later and not immediately.

The budget is limited unless revenue collection can be improved or additional sources of revenue explored but this usually involves payment from consumers who already have a low propensity to pay.

- *When the local community communicates that the municipality's IDP does not address the problem areas in the order that they feel is appropriate; what does the municipality do?*



The municipality may decide that there is merit in the community's case for addressing problem areas in a different order to that originally proposed by the municipality. It is important that the municipality considers such arguments made by the community; this is another scenario where budget "*trade-offs*" must be considered.

If the municipality should decide to concede to the suggestion of the community the impact of such changes must be considered and factored into the resource planning process i.e. the budgetary implications, the impact on human resources and the implications of delaying the originally order of addressing the problem areas. If the impact or "*knock-on*" effect of such changes can be reasonably dealt with by the municipality then the municipality can go along with the community's suggestion to address the problem areas in a different order.

## 2.5 Principles of public participation

The IDP process includes stakeholder engagement and the municipality must ensure that effective structures are in place to facilitate it.

The elected council is the ultimate decision-making forum on the IDP. Community involvement is to inform, negotiate and comment on council's decisions during the course of the planning and decision-making process.

The following principles should be considered for an effective community participation process:

- Set clear minimum requirements for participation procedures by means of regulations that apply to all municipalities; and provide a legally recognised organisational framework. This serves to *institutionalise* public participation so that all residents may have an *equal* right to participate.
- Ensure a *structured participation* where the municipality is too big in terms of population size and geographic area to allow for direct participation of the majority of the residents. This is achieved by providing clear rules and procedures that specify who must participate or be consulted, on behalf of whom, on which issue, when and through which organisational mechanism.
- The manner in which public participation is institutionalised and structured should make adequate provision to accommodate *diversity*, i.e. for different participation styles and cultures. While a common regulatory framework for institutionalised participation is recommended, this framework must allow for location-specific adjustments to be made by provinces and municipalities as and when required.
- In the municipality's effort to promote public participation the municipality must distinguish between:
  - o *creating conditions* for public participation, which, in accordance with the Municipal Systems Act, is a definite requirement; and

- *encouraging* public participation, which should be done with consideration for disadvantaged or marginalised groups and gender equity in accordance with the conditions and capacity of the municipality.

These principles are minimum requirements and serve as a guideline; municipalities, depending on the environment and capacity, may have different frameworks in place for community participation in the IDP process.

### **3. Planning and Budgeting**

There have been significant improvements in the municipal planning and budgeting process since the introduction of the MFMA. The National Treasury has issued several circulars (*see reference list at end of the chapter*) in terms of the MFMA to guide municipalities with the budget process and how to compile a credible budget.

It is important that the approved municipal budget is achievable within the municipality's available revenue allocation. While the fundamental budget principles remain in place municipalities are required to align their budgets to the annual national political imperatives and service delivery commitments.

Municipalities have to carefully prioritise their spending and trade-offs have to be considered. The municipal budget must be aligned to the Integrated Development Plan as stipulated in the Municipal Systems Act.

The CFO has a daunting task at hand as the municipal manager (accounting officer) relies on the CFO to provide the necessary information such as trend analysis, revenue and expenditure projections, amongst other inputs required for budgetary decision-making.

The CFO Handbook makes reference to budget guidelines and circulars issued in terms of the MFMA as issued by the National Treasury; these are to assist municipalities with planning and budgeting so that they comply with the stipulations of the Act.

Reporting formats or templates are however not included in the CFO Handbook as these are issued by National Treasury and are subject to change. The introduction of municipal budget reforms is supported by the more recent MFMA circulars issued in 2008 and 2009. It is recommended that CFOs access these documents issued by the MFMA unit on the National Treasury website: [www.treasury.gov.za](http://www.treasury.gov.za).

#### **3.1 Purpose for planning and budgeting**

Compiling the Medium Term Revenue and Expenditure Framework (MTREF) according to the prescriptions of the MFMA and formats required by the National Treasury satisfies the conditions of compliance however, the purpose of planning and budgeting extends to supporting service delivery by ensuring that the MTREF is aligned to the municipality's IDP.

The purpose of planning and budgeting is to make available the necessary funding required to achieve performance objectives specified in the municipality's IDP as prescribed by the Municipal Systems Act.

### 3.2 Legislative Framework

The MFMA prescribes the budget, reporting requirements and timelines for the MTREF that municipalities must comply with.

The Municipal Budgets and Reporting Regulations, Government Gazette 32141, dated 17 April 2009 provides all the necessary guidance to ensure that municipalities comply with the stipulations of the MFMA budget formulation requirements. It is applicable to all municipalities and municipal entities.

The Municipal Budget and Reporting Guidelines establish uniform norms and standards and other requirements necessary to ensure transparency and accountability in the municipal budgeting and reporting processes. This is intended to secure sound and sustainable management of the budgeting and reporting practices of municipalities and municipal entities.

In addition National Treasury has issued several MFMA Circulars that guide the various steps in the budget process (see reference listing at end of chapter). The content below makes reference to these and similar documents.

### 3.3 Medium Term Revenue and Expenditure Framework (MTREF)

The MTREF is a three-year capital and operating budget that takes into account, and is linked to, the municipality's current and future development priorities (*in accordance with the IDP*) and other finance-related policies (*such as those relating to provision of free basic services*).

These budgets must clearly set out revenue by source and expenditure by vote over the three year Medium Term Strategic Framework and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and particulars on borrowing, investments, municipal entities and service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (*the latter for capital items only*).

#### **The MTREF must meet the following requirements:**

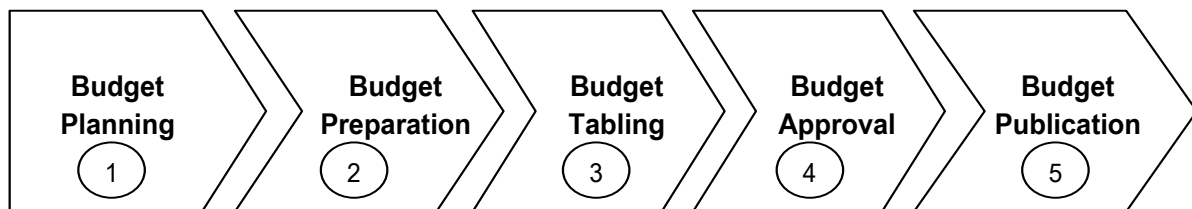
- Give effect to national and/or provincial priorities
- Align to the IDP and the budget
- Include real and effective community consultation
- Have comparable growth rates to the estimated outcome for the previous financial year (*with the exclusion of once-off expenditure items*)

- Affordable, credible and sustainable
- Comply with formats and budget reforms

### 3.3.1 The municipal budget cycle

The budget compilation process should ideally take place between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time for preliminary consultation and discussion on the draft budget during January, February and March.

The generic municipal budget cycle is explained in MFMA Circular 19, Budget Process 2006/2007. The budget cycle and key steps are summarised below:



#### 1. Budget Planning

Budget planning commences with the mayor tabling the budget process schedule in council. The municipal manager (*accounting officer*) assists the mayor with co-ordinating the budget preparation process which includes the following:

- Review of council's IDP and budget-related policy.

The mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure;

- A strategic review of the IDP and service delivery objectives for the MTREF period (*it is recommended that the IDP review process and the budget process is combined into a single process*);
- Consultation in respect of tariffs, indigency, credit control and free basic services; and
- An assessment of the previous year's performance and the current economic and demographic trends; the President's annual State of the Nation Address signals national government priorities which are relevant to municipalities service delivery imperatives.

### *Budget planning timelines*

The mayor table a schedule of key deadlines for the budget and IDP for the next three year budget in council during August of the present financial year.

## **2. Budget Preparation**

When developing the municipal budget, the management team must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament.

The mayor must consult with the relevant district council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget.

## **3. Budget Principles**

The municipal budget must be linked to the IDP as it provides the “*means*” for achieving the municipal priorities committed to in the IDP.

The allocation of the municipal budget allocation must be made to specific service delivery programmes where there is responsibility and accountability for spending and managing expenditure of the programme; there should not be any “*discretionary*” budget allocations in respect of anticipated special projects or events that cannot be *truthfully* explained at the time of budgeting.

The municipal budget must be appropriately funded in terms of the legislative requirements; estimated expenditure should not exceed anticipated municipal revenue.

The municipality must take cognisance of the country’s economic climate and the community’s circumstances that impact their ability to pay, when proposing tariffs for assessment rates and basic services.

A sound and credible municipal budget should meet the resource requirements of the IDP and serve the community by providing adequate funding, to deliver basic services.

## **4. Budget Tabling**

When the proposed budget, IDP revisions and budget policies are submitted to council inputs from national, provincial and local government are considered by way of a consultation process. It is during this time that public hearings, council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities take place.

After considering all views and submissions, council must provide an opportunity for the mayor to respond to the submissions received and if necessary to revise the budget and table amendments for council's consideration.

*Budget tabling timelines*

The Mayor must table the initial draft budget by 30 March before council for review. National, provincial, local and public comments are considered during the months of April and May and during this time the necessary revisions are made.

## **5. Budget Approval**

The process of obtaining council approval for the municipal budget allows thirty day window for council to revise and reconsider the draft budget before final approval.

*Budget approval timelines*

Council must consider the approval of the budget by 1 June and must formally adopt the budget by 30 June; this allows thirty days for council to revise the budget several times if necessary, before final approval.

## **6. Budget Publication**

The final approved budget, Service Delivery and budget Implementation Plan (SDBIP) and performance agreements must be made available on the municipal website and through appropriate channels of communication.

*Budget publication timelines*

The municipal manager must place the final approved budget on the municipality's website so that it is accessible to the public, within five days of final approval.

### 3.3.2 Summary of Timelines for Budget Implementation

A summary of the budget process and legislated timelines are presented in the table below. The municipal financial year commences on 1 July and the budget cycle for the following three years commences almost immediately.

*Note:*

1. *The Mayor's responsibilities may be delegated to the accounting officer who may in turn delegate the responsibility to the CFO.*
2. *Where the column "legislation" refers to "MFMA Guidance" the activities listed guide municipalities to achieve compliance to the budget requirements stipulated in the Act*

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA 24(3)	Submit approved budget	JUN	Verify and interrogate budget submissions and ensure accurate consolidation so that a credible municipal budget is submitted.	HIGH	Accounting Officer
MFMA 21(1) MFMA Guidance	Commence planning for next 3-year budget, reviews of IDP & budget policies & consultation in accordance with the budget process co-ordination role:-  Review previous year's budget evaluation checklist, council delegations & budget time schedule of key deadlines	JUL	Prepare budget time schedule that allows adequate time for budget planning and preparation as required.  Communicate the budget schedule requirements to line managers.	HIGH	Mayor
MFMA Guidance	Establish departmental budget committees to include portfolio councillors and officials & delegate tasks in accordance with delegation policies.	JUL	Prepare the terms of reference for the establishment of budget committees and guide implementation.	MEDIUM	Accounting Officer
MFMA 21(1)(b) & 53(1)(b)	Table in council budget & IDP time schedule of key deadlines <i>(including timing for development of policies &amp; process of consultation)</i>	AUG	Linked to MFMA 21(1) above	HIGH	Mayor
MFMA Guidance	Establish appropriate committees & consultation forums & plan programme of internal & public meetings, to update community needs analysis & obtain feedback on past year's	AUG	Prepare the terms of reference; compile the programmes for consultation and work jointly with the stakeholder engagement or communication team to consolidate	MEDIUM	Mayor

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
	performance.		information gathered.		
MFMA Guidance	Conclude initial consultation & review, establish direction & policy, confirm priorities, identify other financial & non-financial budget parameters including government allocations to determine revenue envelope & financial outlook to identify need to review fiscal strategies	SEP	CFO must lead the this process, interrogate the information and propose the way forward	HIGH	Accounting Officer
MFAM Guidance	Implement budget & IDP time schedule of key deadlines	SEP	Ensure that line managers adhere to the budget and IDP time schedule	MEDIUM	Accounting Officer
MFMA Guidance	Commence preparation of departmental operational plans & SDBIP aligned to strategic priorities in IDP & inputs from other stakeholders including government & bulk service providers (and NER)	OCT	Manage the process whereby operational plans are compiled by line managers; CFO to interrogate and consolidate plans	HIGH	Accounting Officer



### 3.3.3 Budget indicators

The effectiveness of the budget cycle can be measured in terms of the following indicators:

1. Tabling and approving the budget within the prescribed timeframes

The timelines are important as it allows for a genuine consultation process and provides adequate time to ensure that the budget is considered for approval at least ninety days before the financial year commences.

2. Establishing a strategic orientation in budgeting

The new municipal budget formats (*proposed in 2008*) requires that revenue budget information is presented by revenue source and functional area thereby allowing for integration of financial planning and IDP activities. This also allows the municipality to consider the medium term implications of expenditure decisions and respond to community needs over time.

3. Credibility of approved budgets relative to actual expenditure

Assessing the credibility of a budget is a difficult task however a fair test is to compare the budget of capital and operating expenditure and operating revenue to the actual expenditures and revenue. A variance of twenty percent or more when comparing actual to budget estimates signifies a less than credible budget.

### 3.3.4 Funding the municipal budget

According to section 18(1) of the MFMA an annual budget may only be funded from the following:

- realistically anticipated revenues to be collected
- cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- borrowed funds, but only for the capital budget referred to in section 17 of the Act.

The MFMA and related budget guidelines and circulars all refer to a "**credible**" municipal budget. Characteristics of a credible budget are described below.

A credible budget should:

- Fund only activities consistent with the revised IDP and ensure that it is achievable within the municipality's financial constraints;
- Be achievable in terms of agreed service delivery and performance targets;
- Comprise revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions;
- Ensure that the municipality's financial position is maintained within generally accepted and prudent limits and that short, medium and long term financial obligations are met; and

- Provide managers with appropriate levels of delegation that adequately meets their financial management responsibilities.

Budgets are not credible when municipal revenue collection falls short of the estimated revenue collection targets; this means that there is insufficient revenue to fund municipal service delivery initiatives i.e. the expected revenue collection targets may have been unrealistic.

In conclusion, an approved budget is credible if it can be implemented; revenue collection targets must be achievable so that the municipality has adequate funds for expenditure.

### ***The Funding Compliance Assessment***

In terms of the MFMA municipalities are required to assess their financial position to determine whether or not they have sufficient revenue and are financially stable to fund their proposed budgets.

In addition, municipalities are encouraged to objectively assess the credibility of their proposed budgets with reference to their spending and capacity to spend.

National Treasury's Funding Compliance Assessment procedure, presented in MFMA Circular 42, dated 30 March 2007 guides municipalities to assess whether their budgets are compliant with the MFMA's funding of expenditure stipulated in section 18 of the Act. Also available is the *MFMA Funding Compliance Guideline*, which is available at on the National Treasury website at [www.treasury.gov.za/legislation/mfma/guidelines/default.aspx](http://www.treasury.gov.za/legislation/mfma/guidelines/default.aspx).

It is imperative that municipalities comply with the MFMA's funding requirements because National and Provincial Treasuries will exercise their oversight authority in terms of The Constitution and Section 5 of the MFMA, by referring back to municipalities those budgets that are not funded in accordance with the MFMA.

### **3.3.5 MTREF requirements**

In light of the recently introduced budget reforms National Treasury has issued MFMA Circular 51, Municipal Budget Circular for the MTREF 2010/2011. It must be noted that the budget cycle specified in MFMA Circular 19 is still relevant and that Circular 51 provides guidance in terms of the current economic environment. Budget formats, supporting documentation and schedules described in the Municipal Budget and Reporting Regulations still apply.

The MTREF requirements in terms of content, supporting schedules and formats must be compiled in accordance with the prescribed budget timelines.

The decision-making with regard to funding choices and management issues is more difficult as municipalities have to consider trade-offs so that they can deliver more within the constrained resource envelope.

Circular 51 provides some guidance to assist the CFO and accounting officer with making the necessary recommendations to inform the municipal decision-making processes that ultimately contribute to the compilation of a credible MTREF.

### **Revenue Estimates**

Revenue estimates must take cognisance of the country's prevailing economic climate. This means that the municipality must adapt its approach in accordance with state of the economy.

A conservative approach is required when the country is experiencing an economic downturn; in the case of an economic downturn economic activity slows down and spending declines as consumers are weary of a recession. The state of the economy will adversely impact revenue collection targets as consumers who are struggling financially will be less likely to pay their municipal accounts.

An economic upturn is when there is booming economic activity coupled with economic growth and consumers are likely to spend more readily. Municipal collections may be better during this time and consumers will be less inclined to default on the municipal accounts.

Municipalities should effectively manage revenue collection regardless of the state of the economy i.e. the debtor's book must be aggressively managed at all times.

### **Expenditure Estimates**

The economic climate has similar influences on the municipality's expenditure patterns. When the economy is experiencing a downturn municipal spending should be curtailed and this could be achieved by cutting back on non-essential spending such as travel abroad, teambuilding and breakaways at resorts, catering for meetings, advertising, public relations spending, consultancy services, freebies and perks for staff and councillors.

Priority should be given to supporting meaningful local economic development initiatives that target micro and small business opportunities and job creation.

Capital budgets must be geared towards addressing the backlogs in basic services and the maintenance of the existing service network.

### **Discretionary Budget Allocations**

In some cases the municipality's budget allocations makes provision for sub-votes or allocations to "*special projects*", "*special events*" or "*mayoral discretionary funds*"; this is frowned upon by the National Treasury. Discretionary budget allocations are discouraged for the following reasons:

- The alignment to The Constitution's requirement in terms of section 153(a), that municipalities structure their budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community is unclear;

- They do not provide for the appropriation of funds for the purposes of a department or functional area of the municipality in terms of the definition of “vote” in section 1 of the MFMA;
- They undermine the budget consultation processes because the intended use of such discretionary funds is not transparently reflected in the tabled budget; and
- There is a risk that discretionary funds will be misappropriated for personal gain or to inappropriately benefit another person or organisation.

It is good budget practice to ensure that the municipal budget transparently indicates the purpose of municipal funds and where they are allocated.

It is likely that discretionary allocation of public money will raise suspicion of impropriety and corruption. In terms of section 52(a) of the MFMA the Mayor “*must provide general political guidance over the fiscal and financial affairs of the municipality*” hence the mayor provides direct input into the budget and he/she should not require a “*discretionary budget allocation*”.

### **Virement Policies**

The purpose of municipal virement policies is to give municipal programme heads more flexibility in managing their budgets. This requires that the municipality must put in place a council approved virements policy that provides clear direction to programme managers for the shifting of funds between items, programmes, projects or votes. The CFO must not allow officials to persuade him/her to act outside of the municipality’s virement policy.

The municipal virements policy should **allow** for the following:

- Virements between votes where the proposed shifts in funding facilitate sound risk and financial management; and
- Prudent limits on the value of funds that may be moved to and from votes and sub-votes (e.g. not more than five percent of the budget may be moved to or from a vote, programme, project etc.)

The following virements should be **disallowed**:

- Moving funds relating to the revenue side of the budget;
- Moving funds from the capital budget to the operating budget;
- Moving funds to towards personnel expenditure;
- Virements to or from the following items: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT; and
- Virements of conditional grant funds to purposes outside of that specified in the applicable conditional grant framework.

Note that virements should not result in adding “new” projects to the capital budget. The municipal virement policy must also indicate how the virements process must be managed within the municipality so that the shifting of funds can be tracked and reported.

### 3.3.6 Implementing the MTREF

The municipal manager must within fourteen days of the approval of the annual budget i.e. by 14 July at the latest, submit a draft Service Delivery and Budget Implementation plan and draft annual performance agreements for all pertinent senior staff to the mayor for approval.

#### ***What is the Service Delivery and Budget Implementation Plan?***

It is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget; it should show the monthly revenue and expenditure projections and quarterly service delivery targets and key performance indicators (KPIs).

The mayor must approve the draft service delivery and budget implementation plan within 28 days of the approval of the annual budget i.e. by 28 July at the latest.

The mayor is responsible for monitoring the service delivery and budget implementation plan and regular reporting of progress must be made to council.

#### **Managing the implementation process**

The municipal manager (*accounting officer*) is responsible for the budget implementation. In addition, the municipal manager must take steps to ensure that all spending is in accordance with the approved budget and that revenue and expenditure are properly monitored.

#### **Variation from budget estimates**

Municipalities may incur expenditure in terms of the approved budget only and within the budget limits appropriated against each budget vote.

In the case of capital expenditure the expenditure may only be incurred if the project has been approved by council.

When expenditure is incurred outside of the approved budget parameters such expenditure may be deemed to be ***unauthorised, irregular or fruitless and wasteful***.

In terms of section 32 of the MFMA unauthorised, irregular or fruitless and wasteful expenditure must be reported to the relevant authority and may result in criminal proceedings.

### 3.4 Budgets and municipal entities

The Municipal Systems Act defines a municipal entity as “a company, co-operative trust, fund or any other corporate entity established in terms of any applicable national or provincial legislation and which operates under the ownership control of one or more municipalities and includes, in the case of a company under such ownership control, any subsidiary of that company; or a service utility”.

Budget requirements for a municipal entity above are as follows:

- The board of directors of a municipal entity must submit a proposed budget to the municipality by 31 January, or earlier if agreed
- The municipality must consider the budget and return any recommendations to the board of directors, who may submit a revised budget not later than the middle of March
- The revised budget of the entity must then be tabled by the mayor at the same time as the municipal budget is tabled
- The board of directors must approve the budget by 1 June, and it must then be made public
- The board of directors may revise the budget with the approval of the mayor.

## 4. In-year monitoring and reporting

The MFMA empowers managers to manage and at the same time the Act holds managers accountable; to this end the MFMA prescribes regular and consistent reporting requirements so that management information is available to assist managers with improving the effectiveness and efficiency of the municipality.

The MFMA requires municipalities to put in place robust in year monitoring and reporting arrangements.

The reporting requirements specified in the Act are many and include;

- Monthly budget statements
- Quarterly budget statements
- Mid-year budget and performance assessment
- Adjustment budgets

Other general in year reporting obligations

Reports must contain both financial and non-financial information so that performance information is reported effectively. Consequently reports will need to include the following information for example:

- subjective narratives on service delivery backlogs;
- the number of electricity and water connections;
- explanations of council policy on indigents and free basic services; and

- subjective narrative must be supplemented by objective performance data.

This chapter provides guidance for complying with the in-year monitoring and reporting requirements of the MFMA and, in addition, offers further information to assist CFO's with the analysis and interpretation of this financial information as a basis for decision-making. It highlights the various legislative requirements and considers the needs of the various users. Some elements of the reporting regime are prescriptive whereas the municipality will have more discretion over the format of other reports.

Note that reference is made to reporting formats or templates however these are not included in the CFO Handbook as those issued by National Treasury are subject to change and, where there is no National Treasury reporting formats municipalities will design suitable templates of their own.

#### **4.1 Purpose of in-year monitoring and reporting**

It has been noted that, in some cases, in-year monitoring and reporting is complied with in that such reports are compiled on time in accordance with the prescriptions of the MFMA and the reporting templates issued by the National Treasury.

The in-year monitoring and reporting mechanisms were in fact established to monitor the financial position of the municipality and to review ongoing progress towards achieving performance objectives.

The in-year monitoring and reporting system is intended to act as an "early warning system" for budget spending and to guide corrective action or control measures necessary to ensure that budget spending is effectively managed.

Over spending on budget allocations is evidence of ineffective budget management however under spending is not necessarily desirable as it can represent ineffective use of resources and shortcomings in service delivery due to objectives not being met or poor budgeting for example.

Budget monitoring is at the heart of effective financial management and the budget and performance monitoring report is an integral part of the municipality's ongoing performance management and cost effectiveness.

Officials entrusted with budgets must exercise effective financial control within their areas of responsibility and this requires careful monitoring of the financial position and accountability.

National and Provincial Government also have their own reporting requirements and use the information to monitor the financial position of municipalities as well as compiling comparative statistical information for the country.

## 4.2 Legislative framework

The MFMA prescribes the in-year monitoring and reporting requirements that municipalities must comply with. The following of sections of the Act are applicable:

- *Section 71: Monthly budget statements*

The municipal manager must submit to the mayor and Provincial Treasury a budget monitoring statement no later than ten (10) working days after the end of each month.

- *Section 72: Mid-year budget and performance assessment*

The municipal manager must assess the performance of the municipality and submit a report to the mayor, National Treasury and Provincial Treasury no later than the 25 January. When compiling this assessment the accounting officer must recommend whether an adjustments budget in terms of section 28 is necessary.

- *Section 74: General reporting obligation*

The municipal manager must submit to National Treasury, Provincial Treasury, Department of Cooperative Governance and Traditional Affairs (CoGTA) and the Auditor General information and documents as may be required.

- *Section 28: Municipal Adjustments Budget*

A municipality may revise an approved budget through an adjustments budget.

The adjustments budget must contain certain prescribed information and should be limited in timing and frequency during the course of the financial year.

Although the adjustments budget is not a regular reporting requirement under sections 71, 72 and 74 above, compilation of the adjustments budget is closely linked to the regular reporting requirements such as the monthly monitoring reports and the mid-year budget and performance assessment which may determine the need for the tabling of adjustments budget.

The Act specifies the minimum content of the reports stipulated in sections 71, 72, 74 and 28 and timeframes for such reporting.

The Municipal Budgets and Reporting Regulations, Government Gazette 32141, dated 17 April 2009 provides guidance to municipalities so that they may achieve service delivery objectives. The Municipal Budgets and Reporting Regulations are applicable to **all** municipalities and municipal entities and intended to facilitate improved financial sustainability and better medium term planning.

The Municipal Budgets and Reporting Regulations are available on the national treasury website, [www.treasury.gov.za](http://www.treasury.gov.za). The Regulations guide municipalities to comply with the budget and reporting requirements prescribed by the MFMA; to this end the Regulations include budget and reporting formats for budget preparation, in-year monitoring and reporting and the adjustments budget.



### 4.3 Internal reporting mechanisms

The in-year monitoring and reporting requirements stipulated by the Act are minimum requirements. Municipalities may find that they require additional information to assess performance for the various directorates and design management reports for internal use. Examples of such reporting requirements are briefly discussed below.

- Budget monitoring reports per directorate; a combination of financial and non-financial information whereby service directorates are report on their performance against budget and service delivery objectives.
- Where directorates are under spending or over spending they should provide explanations for these variances and details of planned corrective action to remedy the shortcomings.
- Effective monitoring of capital expenditure will allow the CFO to identify “*slippage*” timeously thereby allowing for the reallocation of resources within the municipality’s multi-year capital programme budget.

The compilation of reports is but one aspect of providing management information; more important is the analysis and interpretation of such reports that translates into meaning information for decision-making by the executive team, councillors and other stakeholders.

There is definitely a need for relevant, accurate and timely management information that will adequately inform decision-making within the municipality.

The municipality must develop reporting mechanisms to facilitate monitoring the financial position of the municipality and to review ongoing progress toward performance objectives; problems must be identified and reported as they arise so that prompt remedial action may be taken by the relevant provincial or National Treasury.

#### 4.3.1 Monthly Budget Monitoring Statement

As mentioned previously, the monthly monitoring statement must be submitted to the Mayor and Provincial Treasury within ten (10) working days of the end of each month.

In terms of section 71 (1) of the MFMA, stipulates the minimum information that must be reported in the monthly monitoring statement according to the prescribed format.

When reporting the expenditure and revenue information explanatory information must be provided for in respect of:

- any **material variances** from the municipality’s proposed revenue by source, and from the municipality’s expenditure projections per vote;
- any material variances from the service delivery and budget implementation plan; and
- any **remedial or corrective steps** taken or to be taken to ensure that projected revenue and expenditure remain within the municipality’s approved budget.

The Act prescribes a **monthly budget statement** rather than a report however, the statement will require projections and variance explanations and this necessitates a degree of analysis and judgement. It is also likely that the budget statement requires input such as projections of expenditure, including capital expenditure and revenue from non-financial managers *i.e. managers responsible for service delivery functions*.

The CFO and the finance team will have to interrogate the financial projections for reasonability while at the same time ensuring that “ownership” of the projections remains with the service delivery manager; a delicate balance is necessary as it is crucial for the purpose of accountability.

#### 4.3.2 Mid-year Budget and Performance Assessment

By the 25<sup>th</sup> January each year, the municipal manager must submit a mid-year budget report and performance assessment (*based on the council’s service delivery and budget implementation plan*) to the mayor, National Treasury and relevant provincial treasury. This report may be used to inform the mayor of any need to consider an adjustments budget and should be used to inform the budget process for the following year.

The mid-year budget and performance assessment should take cognisance of the information reported in the monthly budget and monitoring statement of the municipality. Revenue collection and expenditure targets should be assessed in terms of trend analysis so that the accounting officer can make recommendations about whether to proceed with an adjustments budget.

Where CFOs analyse and interrogate the monthly budget monitoring statement they should be able to anticipate the findings of the mid-year budget and performance assessment. The recommendations should not be difficult to make as the accounting officer should be equipped with adequate knowledge of the entity’s financial position.

#### 4.3.3 General Reporting Obligations

In addition to the legislated and prescribed reporting requirements that municipalities must comply with the municipality is obligated to respond to other requests for information from the National Treasury, the relevant provincial treasury, the provincial Department of Cooperative Governance and Traditional Affairs or the Auditor-General.

Where the municipality is unable to comply with such requests for information the relevant authority must be notified and the reasons for non-compliance must be reported.

The following are examples of requests for information from various users:

- The municipal manager must report to council, the provincial treasury and the Auditor-General the details of certain prescribed withdrawals each quarter.
- The municipal manager must report any unauthorised, irregular or fruitless and wasteful expenditure as it occurs and on any impending budget shortfalls or overspending.

- Details of expenditure on staff benefits must be reported to council regularly.
- The mayor must report to the MEC for local government any issue that necessitates provincial intervention as it arises.
- The chief executive officer of a municipal entity must provide the municipal manager of the parent municipality with regular reports on finance and performance.

#### **4.3.4 Municipal Adjustments Budget**

The results or findings of the municipality's mid-year budget and performance assessment are indicative of whether an adjustments budget is necessary.

An adjustments budget may allow for the following:

- Where revenue collection is less than the budget estimate revenue and expenditure can be adjusted to less than the annual budget allocation;
- Where additional revenue is available it can be allocated to accelerate delivery of existing budgeted programmes;
- Authorise unforeseeable or unavoidable expenditure within a prescribed framework as recommended by the Mayor;
- Correct errors in the annual budget;
- Provide for other expenditure within a prescribed framework; and
- Authorise spending of unspent funds as at the end of the previous financial year; conditions apply (Section 28(1)(c)).

The tabling of an Adjustments Budget may be necessary to bring the municipality back on track with regard to managing revenue and expenditure in respect of the annual budget estimates.

National Treasury prescribes the Adjustments Budget process, timeframes and formats.

#### **4.4 Assessing municipal performance**

In order to strengthen the oversight mechanism and the appropriate fiscal discipline and managerial accountability, financial management systems must provide sufficient transparency to accurately measure the ongoing performance of the municipality.

Management information must be accurate and reliable in order to strengthen the decision-making processes and improve oversight by managers and council.

The municipality is required to develop measurable performance objectives for revenue and expenditure, taking into account the IDP, and to report against these measures in the mid-year and annual reports.

The performance management system is about setting indicators to measure performance and tracking the achievement thereof. The tracking system is an effective tool whereby under performance or non delivery is exposed thereby allowing for corrective action or intervention.

The municipality must develop key performance indicators (KPIs) linked to the IDP for all directorates, employees and service providers. KPIs must be measurable and achievable within the budget estimates linked to the IDP (see “non-financial” information below).

Public participation is encouraged throughout the performance management process and this consultation should be facilitated by the ward councillors who in turn consult with ward committees.

In terms of section 75 (1) of the Act the accounting officer of a municipality is required to make certain municipal information or documentation available on the municipal website within five working days of the information being tabled or on the date that the information must be made public, whichever date is first. This legislative requirement makes it necessary for every municipality to have a website.

#### **4.5 Key performance indicators**

The performance management system and developing KPIs was briefly discussed above. Ideally a set of KPIs must be developed for each of the functional areas or directorates within the municipality.

The KPIs should be projected over the medium term as part of the integrated medium term budget and IDP.

Developing the links between the budget and the IDP may be difficult to accomplish at first however it is important to demonstrate clearly that expenditure incurred and planned is targeted towards priority areas identified in the IDP.

The CFO must note that effective financial reports should contain both financial and non-financial information. Non-financial information, such as subjective narratives on service delivery backlogs, the number of electricity and water connections and explanations of council policy on indigents and free basic services, will supplement financial data and key performance measures i.e. this means that the progress towards targets specified in the IDP must to be reported; the users of such financial reports should be able to compare both financial and operational information and be able to make an assessment of the overall performance of the municipality.

Reported explanations and recommendations should assist councillors with their oversight roles, to monitor implementation of the budget and IDP and to make informed policy decisions. Councillors require financial and non-financial information that focuses on key issues facing the municipality.

Initially municipalities may only have considered three or four KPIs per directorate however, today there should be lots more and by now municipalities should be effectively monitoring and reporting with relative ease.

## Reporting on KPIs

KPIs are key measures that provide information of the performance of the municipality or in a particular area of service delivery. It is important to note that KPIs measure outputs and outcomes rather than activities or effort. It can be further explained that it is a collection of activities that result in the achievement of an output and similarly, a collection of outputs result in an outcome or achievement.

It is the line manager's responsibility to track performance of KPIs within the directorate and to compile the relevant reports to be submitted to the CFO for consolidation, analysis, interpretation and assessment; it is not the responsibility of the CFO to compile this information on behalf of the various directorates, the line manager is accountable.

The CFO is also responsible for consolidating similar information received from municipal entities.

Furthermore KPIs should not be considered in isolation as it may lead to inconclusive analysis or findings.

*Examples on financial and non-financial KPIs are presented below*

	Description of the KPI	Unit of Measure	Outcome
1.	To install prepaid electricity metres to 5 000 households in Smalltown that do not have electricity.	<b>Number</b> of prepaid meters installed	To make electricity available to households that do not have electricity
2.	To register indigent households for free basic services	<b>Number</b> of households registered	To provide free basic services to indigent households
3.	To achieve monthly revenue collection rates of 98%	<b>Percentage</b> of revenue collection per month	To meet the revenue collection budget estimate target

## 4.6 Meeting user reporting requirements

Reporting requirements have been discussed with reference to what must be compiled, when it is due and to whom it must be submitted. It has also been said that compiling reports is only the first step to achieving sound financial management as analysing and interpreting the financial information is what informs decision-making.

The governance structure depicted in Part 1 shows the stakeholders to whom the various financial reports will be submitted. It is inevitable that not everyone will derive the same value from the reports or in fact draw the same conclusions from the information reported.

The CFO and financial management team compiles the reports required and present it for sign-off to the accounting officer or relevant authority before distribution.

A summary of the stakeholders or users of financial reports is presented below.

- **Line managers (service delivery managers)** – analyse reports to determine if they are spending within their budget allocation; explain variances of when actual expenditure is over or under the budget allocation and plan corrective action where necessary.

Line managers are responsible for implementation plans to achieve service delivery objectives; they are not necessarily financial experts hence they may require guidance when working through financial reports; they are most likely to have a better grasp of the progress against KPIs and the challenges with regard to implementation.

A brief analysis of what the numbers are saying in respect of the line manager's cost centre will be useful.

- **Municipal manager (accounting officer)** – interrogates the financial management reports to assess the overall performance of the municipality and pays attention to directorates that are over or under spending and posing a threat to achieving the KPIs formulated in the IDP as supported by the budget estimates.

The CFO should ideally present and discuss the financial management reports with the municipal manager before sign-off and distribution to all stakeholders.

The municipal manager may use the financial management reports as a basis for discussion when meeting with line managers on issues of performance management.

The municipal manager will have to present the financial management reports to the mayor with sound recommendations of corrective action to address under performance in the case of under spending and inadequate service delivery.

- **The mayor** - requires an executive summary that highlights the key issues such as programmes where corrective action is necessary because service delivery targets have not been met; key areas where service delivery targets have been met and any issues of relevance with regard to the IDP and budget estimates.

The Mayor must be armed with relevant and meaningful information that is accurate so that he/she can inform the municipal council and related committees of the municipality's performance. This information will most likely enter the public domain where the achievements of the municipality will be scrutinised.

- **Municipal council** – in terms of their oversight role the municipal council reviews the financial management reports to determine if the municipality is performing in the best interest of the communities that it serves.

While some members of the municipal council may have a financial background others may be at a disadvantage therefore it is good practice to present an executive summary of information that includes the financial information, non-financial information and also a summary of unacceptable variances that require corrective action with proposed information of this course of action. It is always useful to pre-empt questions that the municipal committee may have and to be prepared with well formulated and meaningful responses.

The municipal council and related committees interface with the public by facilitating the municipal consultation process with communities. It is imperative that councillors are armed with a good understanding of what the financial reports are saying in respect of the municipality's performance.

#### 4.7 Quality of financial reporting

The legislative reporting requirements have been explained above. This section is about ensuring data integrity of financial reports when meeting the legislative reporting requirements.

When reports are analysed for decision-making it is generally assumed that the financial information presented is accurate and therefore reliable. This means that the source of information must be trustworthy. Financial systems are generally relied upon to process financial data correctly and we assume that financial information will be correctly captured by the relevant data capturer however this is not always the case.

Financial systems do have mechanisms to check the validity of data entries but "*human error*" may go by undetected, for example, when the incorrect account is debited because the data capturer transposes the account number or uses the incorrect account when classifying the expenditure. There is a need for "*human*" checks and balances to ensure data integrity and this may be in the form of line managers checking their monthly expenditure reports to verify expenditure against the relevant items and alerting the budget and treasury office when expenditure has been incorrectly captured.

Errors must be corrected timeously and the necessary checks and balances must be implemented to minimise the risk of compromising data integrity in the future.

The CFO is expected to analyse financial reports and make recommendations to the accounting officer. The compilation of financial reports and getting it done on time is important however, the purpose of financial reports must not be overlooked. Financial reports provide an assessment of the financial well-being of the organisation at a point in time or, in the case of the annual financial statements and annual report it is indicative of the organisation's financial performance over the twelve month period. Furthermore, financial reports are intended to inform decision-making by the relevant parties and this requires analysis and interpretation to explain "*what the numbers are saying*"; this is the value-add of financial reporting.

Financial reporting is also of importance to the organisation's monitoring and evaluation team that looks at all aspects programme delivery in terms of achieving KPIs within budget allocations, together with quality and timeliness thereof.

Guidelines for the various reporting requirements and relevant templates in terms of the financial management reporting requirements are available at the National Treasury website, [www.treasury.gov.za](http://www.treasury.gov.za).

#### 4.8 Summary of Timelines For In-Year Monitoring and Reporting

A summary of the legislated in-year monitoring and reporting requirements is presented in the table below.

Note:

- 1) *The Mayor’s responsibilities may be delegated to the accounting officer who may in turn delegate the responsibility to the CFO.*
- 2) *Where the column “legislation” refers to “MFMA Guidance” the activities listed guide municipalities to achieve compliance to the in-year monitoring and reporting requirements stipulated in the Act*

LEGISLATION	DESCRIPTION	MONTH	CFO’s ROLE	INTENSITY	RESPONSIBILITY
Supply Chain Management Regulation 6 (3) & (4)	Submit QUARTERLY report on implementation of Supply Chain Management Policy to the mayor for the previous three months & make report public.	Jul, Oct, Jan, Apr	CFO to ensure that the quarterly report is compiled by the Supply Chain Management team; submission is made on time.	Low	Accounting Officer
Competency Regulation 14 (3) & (4)	Ensure that any municipal entity submits report on compliance with the prescribed minimum competency levels for the previous six month period, to Council.	Jul & Jan	Ensure that municipal entity submits report timeously.	Low	Accounting Officer
MFMA 11(4)	Table in Council QUARTERLY consolidated report of withdrawals not approved in the budget for the previous three month period & submit report to provincial treasury and the Auditor – General.	Jul, Oct, Jan, Apr	CFO to maintain the necessary records and compile consolidated reports as prescribed.	High	Accounting Officer
MFMA 52 (d)	Previous year– submit QUARTERLY report on the implementation of budget & financial affairs the municipality for the previous three month period, to Council.	Jul, Oct, Jan, Apr	CFO to maintain the necessary records and compile consolidated reports as prescribed.	High	Mayor
Competency Regulation 14(2)(a) & (4)	Submit consolidated report on compliance with prescribed competency levels for the previous six month period to Council, provincial treasury and National Treasury.	Jul & Jan	CFO to ensure that the quarterly report is compiled by the HR Management team; submission is made on time.	Low	Accounting Officer



LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
Supply Chain Management Regulation 6(2)(a)(i)	Submit ANNUAL report on implementation of Supply Chain Management policy, <i>for the previous financial year</i> , to the mayor and make report public.	Jul	CFO to ensure that the annual report is compiled by the Supply Chain Management team; submission is made on time.		Accounting Officer
MFMA 71(1) MFMA Guidance	Submit the MONTHLY budget report to the mayor, provincial treasury & National Treasury – <i>within ten working days of the start of the month</i> .	Jul to Jun	CFO to compile the monthly budget report; interrogate the information presented and submit timeously.	High	Accounting Officer
MFMA 71(5)	Submit the MONTHLY statement to the provincial treasury or national organ of state or municipality on allocations received – <i>within ten working days of the start of the month</i> .	Jul to Jun	CFO to compile the monthly statement; interrogate the information presented and submit timeously.	High	Accounting Officer
MFMA 54(1)	Consider the MONTHLY Section 71 report; due at month end Review implementation of budget & service delivery & budget implementation plan (SDBIP); Identify problems & amend or recommend appropriate amendments; Submit report to Council & make public any amendment to the SDBIP	Jul to Jun	CFO to co-ordinate inputs from line managers; consolidate the relevant information and compile the monthly Section 7 report; analyse and interrogate the information presented to inform recommendations.	High	Mayor
MFMA 66 MFMA Guidance	Submit MONTHLY report on salaries & wages expenditure to Council - <i>within ten working days of the start of the month</i> .	Jul to Jun	CFO to ensure that the monthly report on salaries and wages is compiled by the HR Management team; submission is made on time.	Low	Accounting Officer
MFMA Guidance	Submit MONTHLY reports for period ending 30 <sup>th</sup> June for each contract, above the prescribed amount, awarded and signed.	Jul to Jun	CFO to ensure that the monthly report is compiled by the Supply Chain Management team; submission is made on time.	Low	Accounting Officer
MFMA 75(1)(k)	Place QUARTERLY (MFMA section 52) report on budget implementation on the municipal website	Aug, Nov, Feb, May	CFO to ensure that the report is presented accurately and timely for uploading onto the municipal website.	Medium	Accounting Officer

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA Guidance	Review QUARTERLY projections for SDBIP and compare actual performance to objectives for the previous three month period in conjunction with the MFMA section 72 report	Jan, Apr, Jul, Sep	CFO to consolidate input from line managers; compile the necessary report; interrogate the information presented and make recommendations.	High	Accounting Officer
MFMA 54(1)	Consider monthly and mid-year (MFMA section 71 & 72) reports for the previous six month period, review implementation of budget & SDBIP, identify problems & amend or recommend appropriate amendments. Submit report to Council & make public any amendment to the SDBIP – due at month end.	Jan & Jun	CFO to consolidate input from line managers; compile the necessary report; interrogate the information presented and make recommendations.	High	Mayor
MFMA 72(1)	Assess performance of the municipality to 31 <sup>st</sup> December & submit a (MFMA section 72) report on the assessment to the mayor, provincial treasury & National Treasury. Consider an Adjustment Budget if necessary.	Jan	CFO to consolidate input from line managers; compile the necessary report; interrogate the information presented and make recommendations on whether an Adjustment Budget is necessary.	High	Accounting Officer

## 5. Annual Reports

The preparation and adoption of the municipal annual report is prescribed in Chapter 12, section 121, of the Municipal Systems Act, 1998; it is applicable to all municipalities and municipal entities. The responsibility for oversight on the annual report is entrusted to the council of the municipality in terms of Chapter 12, section 129 of the Act.

The purpose of the annual report is:

- to provide a record of the activities of the municipality or entity;
- to provide a report on performance in service delivery and against the budget;
- to provide information that supports the revenue and expenditure decisions made; and
- to promote accountability to the local community for decisions made.

The annual report is the key reporting instrument for the municipality to report against the performance targets and the budget outlined in the strategic plans.

### 5.1 Legislative requirements

The Municipal Systems Act, section 46, prescribes what the annual report must consist of; it specifies the timelines for submitting the annual report, and the role of the municipal manager (*also see Part One of the CFO Handbook*).

The MFMA, section 121, prescribes the preparation and adoption of the annual report.

The MFMA, section 127, prescribes what is required for the submission and tabling of the annual report.

### 5.2 Compiling the annual report

The annual report must present information on service delivery and outcomes, in addition to the municipality's annual financial statements. The annual report looks back and focuses on the municipality's performance during the financial year that has just ended. It must demonstrate how the budget was implemented and the results of service delivery operations for that financial year.

When tabled, the annual report should include four main components, each of which has an important function in promoting governance and accountability. The main components are:

- *The annual performance report [section 46(1)(a) of the Municipal Systems Act]*

The annual performance report provides an account provides a detailed account of the municipality's performance against predetermined municipal objectives and targets as derived from the municipal priorities. The municipality's service delivery priorities and performance targets for the following

financial year must also be included in addition to corrective action or steps that will be taken to bring about improvements on the municipality's current year's performance.

- *Annual Financial Statements [section 46(1)(b) of the Municipal Systems Act].*

The municipality's annual financial statements are prepared in accordance with generally recognised accounting practices [section 89 of the MFMA]. The annual financial statements as presented to the auditor-general, is included in the annual report.

National Treasury publishes an annual guide to compiling the AFS which is available at [www.treasury.gov.za](http://www.treasury.gov.za)

- *The Auditor-General's audit report on the AFS [section 126(3) of the MFMA]*

The municipality has one month within receipt of the audit report on the AFS to finalise the annual report for tabling; the annual report must be adopted within fourteen (14) days of tabling [section 46(1)(c) of the Municipal Systems Act].

- *The Auditor-General's audit report on performance in terms of section 45(b) of the Municipal Systems Act.*

The auditor-general is required to audit the results of performance measures described in section 41(1)(c); these are the key performance indicators and targets assigned to the municipality's development priorities.

- *The accounting officer's assessment of the following:*
  - Arrears on municipal taxes and service charges
  - Performance of the municipality against revenue collection targets, as tabled in the budget, in respect of the relevant votes
- The audit action plan to address issues raised in the audit report
- Recommendations of the audit committee

Other components as legislatively required to be included in the annual report are guided by MFMA Circular No 11 issued 14 January 2005 which is available at [www.treasury.gov.za](http://www.treasury.gov.za); also available is MFMA Circular 32 which explains steps in the annual report process.

### 5.3 Timelines for Annual Reporting

A summary of the legislated in annual reporting requirements is presented in the table below.

*Note:*

1. *The Mayor's responsibilities may be delegated to the accounting officer who may in turn delegate the responsibility to the CFO.*
2. *Where the column "legislation" refers to "MFMA Guidance" the activities listed guide municipalities to achieve compliance to the annual reporting requirements stipulated in the Act*

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
MFMA Guidance	Commence preparation of annual report utilising financial & non-financial information first reviewed as part of the budget & IDP analysis	OCT	CFO must ensure that the all the necessary activities for the preparation of the annual report are attended to.	High	Accounting Officer
MFMA Guidance	Finalise first draft on annual report incorporating financial & non-financial information on performance, audit reports & annual financial statements	DEC	CFO must ensure that he assigns responsibility to his team for the co-ordination of activities, collation and analysis of inputs from lien managers so that the draft reports can be prepared.  The CFO must engage line managers to ensure that they know of what is required in the required formats and templates so that they can submit on time.	High	Accounting Officer
MFMA Guidance	Receive municipal entity's annual report from the Accounting Officer of the municipal entity	DEC	CFO to incorporate this information as required if applicable..	Medium	Accounting Officer
MFMA 121(3)(c) & (e) to (k) MSA 46(2) MFMA Guidance	Finalise annual performance report, assessments of arrears on taxes & service charges & an assessment of municipal performance together with recommendations from the council audit committee & details of corrective action undertaken arising from audit report & minimum competency compliance for inclusion in the annual report.	JAN	CFO to liaise with the service delivery line managers to gather the necessary information for inclusion in the annual report.  CFO to co-ordinate and collate inputs received so that reports can be consolidated and analysed.	High	Accounting Officer
MFMA 127(2)	Table in council the annual report of the municipality & any municipal entity for the year ended 30 <sup>th</sup> June	JAN	CFO to ensure timely submission where applicable.	High	Mayor
MFMA 127(5)	Make public the annual report & invite comments from the local community, submit report to the Auditor-General, provincial	JAN	CFO to ensure that the necessary information is submitted on time to the communications or stakeholder management team	Medium	Accounting Officer

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
	treasury & provincial department responsible for local government		whichever is responsible for managing the public consultation process.		
MFMA 75(1)(c)	Place annual report on the municipal website	FEB	CFO to ensure that the information is submitted to the communications or stakeholder management team whichever is responsible for making the information public.	Medium	Accounting Officer
MFMA 121(1)	Consider & approve, reject or refer back the annual report at a council meeting	MAR	CFO to make necessary changes to the annual report according to the input provided by Council.	Low	Council

### 5.4 Summary of Timelines for Annual Financial Statements

A summary of the legislated in annual financial statements and audit reporting requirements is presented in the table below.

Note:

- 1) *The Mayor’s responsibilities may be delegated to the accounting officer who may in turn delegate the responsibility to the CFO.*
- 2) *Where the column “legislation” refers to “MFMA Guidance” the activities listed guide municipalities to achieve compliance to the annual financial statements and audit reporting requirements stipulated in the Act*

LEGISLATION	DESCRIPTION	MONTH	CFO’s ROLE	INTENSITY	RESPONSIBILITY
MFMA 122 MFMA Guidance	Commence process to close all accounts & prepare AFS	JUL	CFO should prepare a schedule of all year-end closing activities to serve as a checklist; this should be communicated to all affected municipal staff who have a responsibility for year-end closing activities.	High	Accounting Officer
MFMA Guidance	Compile & submit municipal audit file to the Auditor- General	AUG	CFO must keep a complete audit file. Refer to MFMA Circular 50: Preparing the Municipal Audit File	High	Accounting Officer
MFMA 126(1)(a)	In the case of a municipality <b>without</b> a municipal entity, submit the AFS & annual performance report to the Auditor-General for auditing.	AUG	CFO must ensure that the report is correct, complete and submitted on time to the Auditor-General.	Medium	Accounting Officer
MFMA 126(2)	In the case of a municipality with a municipal entity, submit the AFS & annual performance report of the municipality & its entities to the Auditor-General for auditing	AUG	CFO must ensure that the reports are received from the relevant municipal entities and submit on time to the Auditor-General.	Medium	Accounting Officer
MFMA 126(1)(b)	In the case of a municipality with a municipal entity, submit consolidated AFS, for the previous year, to the Auditor-General for auditing.	SEP	CFO must ensure that the reports are received from the relevant municipal entities and submit on time to the Auditor-General.	Medium	Accounting Officer
MFAM 126(3)	Municipalities <b>without</b> a municipal entity receive audit report on AFS, for the previous year, from the Auditor-General	NOV	CFO must ensure that the reports are received from the relevant municipal entities and submit on time to the Auditor-General.	Medium	Accounting Officer
MFMA 131(1)	Ensure that the Accounting Officer addresses any issues raised in	NOV	CFO and the finance time must review the audit report and	High	Mayor

LEGISLATION	DESCRIPTION	MONTH	CFO's ROLE	INTENSITY	RESPONSIBILITY
	the audit report by auditor-General – prepare action/audit plans & incorporate into the annual report ( <i>for municipalities without a municipal entity</i> )		prepare action plans to address the issue raised.  CFO must present the action plan to the accounting officer and share the information with the relevant staff impacted by the audit action plan.  Responsibility must be assigned for achieving the activities and a monitoring mechanism must be put in place to regularly assess progress.		
MFMA 126(3)	Municipalities with a municipal entity receive audit report on consolidated AFS from the Auditor-General	DEC	CFO must follow-up.	Medium	Accounting Officer
MFMA 131(1)	Municipalities with a municipal entity must ensure that the Accounting Officer addresses any issues raised by the auditor-General in the audit report, prepare action/audit plans & incorporate into the annual report	DEC	CFO must liaise with the municipal entity to ensure that an audit action plan is compiled and implemented to address the issue raised and that the necessary monitoring process is in place.	Medium	Mayor
MFMA Guidance	Consider monthly (Section 71) report, review implementation of SDBIP, identify problems & amend or recommend appropriate amendments. Submit report to council & make public any amendments to the SDBIP – due at month end	MAY	CFO to compile the report and analyse the information presented for presentation to the accounting officer; recommendations and amendments for consideration. .	High	Mayor



## 6 Reference Material

### Applicable Legislation

1. Municipal Budgets and Reporting Regulations, 17 April 2009
2. Local Government Municipal Finance Management Act No. 56, 2003
3. Local Government Municipal Systems Act, Act No. 32, 2000
4. Local Government Municipal Structures Act, Act No. 117, 1998
5. The Constitution

### Applicable MFMA Circulars

1. MFMA Circular 11: Annual Report Guidelines, *14 January 2005*
2. MFMA Circular 18: Implementation of New Accounting Standards and Format of Annual Financial Statements, *23 June 2005*
3. MFMA Circular 19: Budget Process 2006/2007, *15 August 2005*
4. MFMA Circular 28: Budget Content and Format 2006/2007 MTREF, *12 December 2005*
5. MFMA Circular 32: The Oversight Report, *15 March 2006*
6. MFMA Circular 42: Funding a Municipal Budget, *30 March 2007*
7. MFMA Circular 51: Municipal Budget Circular for 2010/2011 MTREF, *19 February 2010*
8. MFMA Circular 50: Preparation of the Municipal Audit File, *30 July 2009*

### Other

1. Municipal Finance Management Calendar
2. Municipal Finance Technical Assistance Project, In Year Reporting Guidance Note on MFMA Requirements and Recommended Practices - *Mark Pearson, International Advisor, George/Knysna (September 2004; February 2008)*
3. Reports and Reportable Matters, Municipal Finance Management Act, 2003 - *Elizabeth T Colclough (November 2004)*
4. Schedule of Reporting Requirements, Division of Revenue Act – *B Colclough (April 2005)*
5. Ethekweni: Reporting on KPIs – *C Colombage, Advisor (October 2003)*
6. CIPFA FM Model
7. Presentation: MFMA Joint Meeting, 13 March 2008

8. IDP Guide Pack, Department of Provincial and Local Government, co-ordinator: Mr Y Patel (DPLG)
9. Municipal Budgeting & Reporting Regulations, roll-out presentation, January 2009 (*National Treasury, Local Government & Budget Analysis*)