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NORTHERN CAPE PROVINCIAL TREASURY

Feedback on MFMA Co – ordinators Meeting: 20 – 21 Sept 2017

**CFO Forum: 18 - 19 October 2017
Kuruman**

Outline



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- Purpose of meeting
- Issues discussed
 - ✓ Disclaimers and Adverse Audits
 - ✓ TCF Lekgotla Resolutions
 - ✓ Standard Operating Procedures
 - ✓ UIF & W Expenditure
 - ✓ Draft Cost Containment Regulations
 - ✓ FMG Update
- Recommendations



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Purpose of meeting

- Bi - annual Meetings: NT, DCoG, PT's and Provincial COGTA/COGHSTA together with SALGA
- Discuss progress on implementation of MFMA
- Challenges experienced

Disclaimer and Adverse Audits

Auditor General Overview on matters of concern

- Only 23% of municipalities were able to submit AFS without material adjustments.
- Reliance on consultants with little or no transfer of skills
- 75% of material misstatements at the municipalities were consultants were appointed to assist with financial reporting.
- Timely submission of AFS remains a concern
- Financial health of the province remained a concern - 50% of municipalities with material uncertainty regarding the financial health.
- Recommendations by internal audit and audit committee not taken seriously and given attention.
- The key root causes that hindered progress - inadequate consequence for poor performance, slow response by political leadership, slow response by management .

PT to provide progress in resolving the root cause of the above findings and the status of these areas in the current year.

TCF Lekgotla Resolutions

Province specific strategies were introduced in 2014 to address LG finance performance failures and at the 2015 TCF and BC Lekgotla, it was resolved that:

The six (6) key “**game changers**” required to address municipal performance failures in the next period are funded budgets, revenue management, *mSCOA*, asset management, SCM and audit outcomes

- ✓ **Funded budgets and revenue management**
 - Traditional leaders needs to be engaged on the importance of revenue collection in their areas;
 - revenue management and the principle of funded budgets should be institutionalised across all departments involved in the LG space (NT, CoGTA, SALGA, DWP, NERSA, etc.); and
 - IGR systems will not be changed to support so called ‘non viable municipalities’ as legislation gives municipalities more powers than provinces to raise their own revenue



TCF Lekgotla Resolutions (Cont)

✓ **Audit Outcomes**

- good governance is key to positive audit outcome;
- municipal internal audit and risk management units should be strengthened; and
- municipalities should compile of audit files with the assistance of PT

✓ **Asset Management**

- CIDMS should be institutionalise and NT needs to play a role
- Sufficient budget allocations should be made for asset renewal and repairs & maintenance – as per MFMA and budget circulars.

✓ **SCM Contract Management**

- contract management should be part of the organogram of municipalities with personnel roles and responsibilities clearly defined;
- contracts should be performance based and closely monitored;
- NT's assistance is required in terms of the implementation of S32 of the SCM regulations; and
- the contract management pilot in KZN be rolled out to other provinces.



Standard Operating Procedures

Background

- The audit outcomes over the past five years have been indicative of various challenges still faced by Local Government, resulting in general regression of audit opinions. In assessing these further, the most significant cause of this regression was lack of internal controls.
- The OAG has identified a need to develop a generic set of SOPs for key accounting cycles.

Purpose

- The purpose of these SOPs is to provide instructions for performing recurring activities through uniform execution of a task. This ensures that every person who performs the task does it in the same, correct manner, every time it is performed.
- Municipalities can be able to customise the SOPs according to their structures and systems and inevitably have a set of internal controls to work from in order to improve financial management, audit outcomes as well as deficiencies identified during FMCMM assessments.



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SOPs (Cont)

The SOPs have been published in the NT website, their location is as per the following path:

<http://mfma.treasury.gov.za/Guidelines/Pages/StandardOperatingProcedures.aspx>

Note: The SOPs have been published in both PDF and Word format. The word format has been incorporated to enable the municipalities to customise the SOPs, where applicable.

NT is also currently preparing a short MFMA circular to formally communicate SOPs to all municipalities.

NT strongly encourages all municipalities to review current policies and align them as far as possible with the SOPs to ensure that the end result of the alignment will be a strong control environment.

UIF & W Expenditure

UIF&W expenditure has increased from R 25 billion in the 2014/15 financial year to just over R 30 billion in 2015/16

NT has visited all 17 non-delegated municipalities and had observed that in most instances, the MPACs' reports were not tabled in council for resolution, which resulted in UIF&W being either stagnant or increased

Municipalities are still failing to identify or to report UIF&W expenditure resulting in the AG raising such matters during the audit. Hence, most municipalities are failing to address the gaps and process approvals within the legislative deadlines

Internal Audit Units must become more effective, to play a bigger role in assisting management identify and timeously address UIF&W expenditure. Probity audits of procurement processes must be introduced as a way of increasing the in-year detection of transgressions.



UIF & W Expenditure (Cont)

Although some municipalities have started to address the approvals of such expenditure, they fail to address the actions or inactions of the relevant officials that were responsible for the transgressions. Calling into question why consequence management was not implemented.

Where there are some consequences, the process is usually delayed and not aligned to the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

NT has taken the lead to address these during engagements with the non delegated municipalities.

PTs are required to address these during engagements with municipalities and report monthly on progress in addressing UIF&W.

UIF & W Expenditure (Cont)

- MFMA Circular 68 was issued on 10 May 2013 giving guidance to municipalities and municipal entities on how to address UIF&W
- NT is in the process of reviewing and amending MFMA Circular 68 to address certain areas identified as needing further clarity:
 - unauthorised expenditure (actuarial valuations, disclosure by distinguishing between cash and non-cash items etc.),
 - Consequence management,
 - Accounting for irregular expenditure (Annexure E)
 - Disclosure of irregular expenditure (Annexure E)
- The finalisation and publication of the revised Circular is now in process

Draft Cost Containment Regulations



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Minister of Finance announced in the October 2016 Medium Term Budget Policy Statement (MTBPS) that NT would draft Regulations to give effect to the Cost Containment measures

NT has prepared draft Regulations aimed at eliminating spending on non-priority items which do not enhance service delivery

The objective is to prescribe measures for municipalities and municipal entities to ensure that their resources are used effectively, efficiently, and economically and to align non-adherence with financial misconduct and consequence management

The Cost Containment Regulations apply to municipalities and municipal entities and address the following:

- ☐ *Cost containment policies, use of consultants, travel and subsistence; domestic accommodation, credit cards; sponsorships, events and catering,*
- ☐ *Conferences, meetings and study tours; communication, overtime, expenditure on office furniture equipment; expenditure on leave and overtime payments including litigation costs on labour matters;*
- ☐ *Vehicles used for political office bearers, costs incurred on security measures for councillors and officials, other related expenditure items;*

Draft Cost Containment Regs (Cont)



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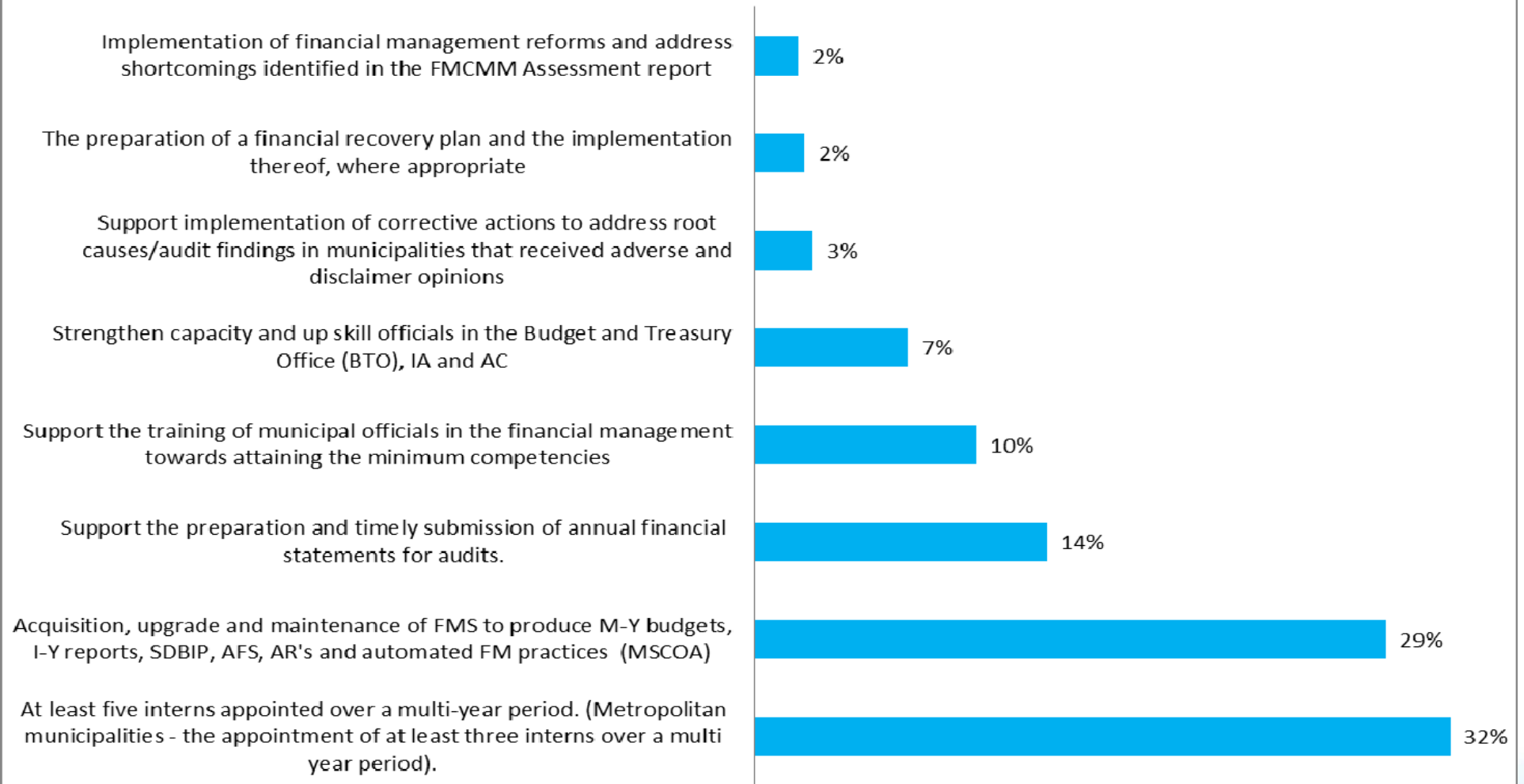
- The Draft Cost Containment Regulations further address enforcement procedures; and disclosures
- Discussions with Department of Cooperative Governance on whether the Regulations should contain thresholds for the purchasing of mayoral vehicles or whether this should be included in the Remuneration of Public Office Bearers Act
- NT officials consulted municipalities through CFO Forums and other engagements
- Discussed and consulted same with representatives from the Office of the Auditor-General, officials from DCoG, Treasuries and SALGA
- Letters to the Minister of Cooperative Governance and Traditional Affairs and the Chairperson of the South African Local Government Association, were sent by Minister of Finance, as required in terms of sections 168 and 169 of the MFMA respectively.
- Next step will be to publish the draft Regulations for public comments, where after it will be finalised and issued.

FMG UPDATE



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2017/18 FMG Support Plan



FMG UPDATE



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- 3 municipalities in the province reported to have no interns – Kareeberg, Nama - Khoi and Renosterberg
- Municipalities are providing information based on the number of interns absorbed
- Only 19 municipalities in the province submitted 2016/17 Annual Performance evaluation reports, 12 are still outstanding.

Wayforward

- Municipalities to revise their 2017/18 FMG support plans - allocate funds to critical areas of concern.
- Municipalities that have not yet submitted the 2016/17 FMG annual performance evaluation report to NT must do so
- PT to continuous follow up with municipalities in submitting outstanding documentation to NT
- PT to follow up with the 3 municipalities on the challenges experienced and assist in developing a strategy to appoint the interns.
- PT to follow up with municipalities on the number of interns absorbed
- Municipalities to adhere to the submission due date for the Q1 performance evaluation report – **31 October 2017**

RECOMMENDATIONS



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- The forum to note the feedback from the MFMA Co – ordinators' meeting
- Attend to all issues raised - take action
- Report back to PT as required.



Ndiya bulela!!!

Thanks!!!

Dankie!!!

Ke a leboga!!!