



## HEAD OF DEPARTMENT

Our Ref: 11/6/13/6  
Enquiries: Mr F. Cassimjee  
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**TO: MUNICIPAL MANAGERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU-NATAL MUNICIPALITIES**

### **PROVINCIAL TREASURY CIRCULAR PT/MF 12 OF 2018/19**

#### **PREPARATION AND SUBMISSION OF THE FINANCIAL MANAGEMENT GRANT (FMG) SUPPORT PLANS AND THE SIGNED FMG PERIODIC RETURNS FOR THE 2019/20 FINANCIAL YEAR**

The objectives of this Circular are to draw the attention of the Accounting Officers to:

- The requirements regarding the preparation of the 2019/20 FMG Support Plans and the various activities that can be included in the 2019/20 FMG Support Plans;
- The reporting requirements to be adhered to for the 2019/20 FMG signed annual, quarterly and monthly returns; and
- The urgent requirement to submit the outstanding 2018/19 FMG signed quarterly and monthly returns.

#### **FMG Support Plans**

Section 12(1) of the Division of Revenue Bill of 2019 (DoRB) requires the receiving officer of a Schedule 5 allocation (all FMG allocations are classified as Schedule 5 allocations) to ensure compliance with the FMG framework. The FMG framework included in the 2019 DoRB specifies that:

- The FMG Support Plan should identify weaknesses in financial management, which are planned to be addressed through the grant allocation; and
- The FMG Support Plan must be submitted timeously to the relevant Provincial Treasury and National Treasury.

Each municipality is reminded that even though the FMG framework specifies that a portion of the FMG funding should be used for remunerating at least five interns in a local municipality or three interns in a district or metropolitan municipality who must be appointed over a multi-year period, this however, is not the only purpose for which the FMG allocation may be used. A trend analysis conducted by National Treasury has revealed that very few municipalities have considered funding the following purposes which are included in the FMG framework:

- The FMG funds can be used to implement financial management reforms and address shortcomings identified in the Financial Management Capability Maturity Model (FMCMM);
- The FMG funds can be used to fund the preparation of a financial recovery plan and the implementation thereof, where appropriate;

- The FMG funds can be used to support the implementation of corrective actions to address the root causes of audit findings in municipalities that received adverse and disclaimer opinions; and
- The FMG funds can be used to support the implementation of the Financial Misconduct Regulations and promote consequence management to reduce unauthorised, irregular and fruitless and wasteful expenditure incurred by municipalities.

The regression in the audit opinions for a number of municipalities in the province as well as the regression of the funding status of the 2018/19 Approved Budgets and 2018/19 Adjustments Budgets in comparison to prior financial years suggests that municipalities need to consider the inclusion of expenditure related to the four aforementioned conditions in the 2019/20 FMG Support Plans to assist municipalities to address fundamental financial problems.

The letter dated 26 March 2019 sent by National Treasury to all municipalities requires municipalities that received an Adverse or Disclaimer audit opinion in the 2017/18 audit cycle to allocate a **minimum of 60 percent** of the grant towards addressing root causes giving rise to the negative audit opinion. National Treasury has stated that **the FMG Support Plan will not be approved and allocations will not be transferred unless the minimum 60 percent condition is met, which must be directly aligned with the current audit action plan.**

The FMG framework further states the following additional activities as per the framework which can be undertaken with the FMG funding:

- Strengthen capacity and up-skilling officials in the Budget and Treasury Office (BTO), Internal Audit and Audit Committees;
- Acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts (mSCOA);
- Support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007;
- Support the strengthening of financial governance and oversight, as well as the functioning of Municipal Public Accounts Committees (MPAC); and
- Support the preparation and timely submission of Annual Financial Statements for audits. Technical support to municipalities must include the transfer of skills to municipal officials.

All the activities included in the aforementioned bullet points are catered for in the Support Plan template (Annexure 1). A municipality can therefore formulate a plan to address audit or FMCMM findings and choose to fund the activities in the plan from the FMG allocation by specifying the activities in the 2019/20 FMG Support Plan.

**National Treasury has requested all municipalities to submit their 2019/20 FMG Support Plans by 19 April 2019** as per the letter dated 26 March 2019 sent to municipalities. It is advisable that municipalities review their plan to determine how they can best utilise the FMG funding to address their most vital needs in line with the conditions included in the FMG framework.

#### **Annual, Quarterly and Monthly report requirements**

It has been noted that many municipalities fail to submit their signed FMG reports to Provincial Treasury even though they might have submitted the reports to National Treasury. Section 12 of the 2019 DoRB specifies the following reporting requirements for all municipalities:

- Section 12(2)(b) states that *a municipality, as part of the report required in terms of section 71 of the Municipal Finance Management Act, report on the matters referred to in subsection (4) [which specifies the format of the grant report] and submit a copy of that report to the relevant Provincial Treasury, the National Treasury and the relevant transferring officer; and*

- Section 12(2)(c) states that *a province or municipality, submit a quarterly non-financial performance report within 30 days after the end of each quarter to the transferring officer and the relevant Provincial Treasury.*
- Section 12(5) states that *the receiving officer must evaluate the financial and non-financial performance of the provincial department or municipality, as the case may be, in respect of programmes partially or fully funded by a Schedule 5 allocation and submit such evaluation to the transferring officer and the relevant Provincial Treasury within two months after the end of the 2019/20 financial year applicable to a provincial department or a municipality, as the case may be.*

In terms of the above, all municipalities must submit all monthly, quarterly and annual FMG performance evaluation reports to Provincial Treasury in addition to submitting these reports to National Treasury.

#### **Outstanding 2018/19 FMG reports**

It is concerning to note that only 153 (25.8 percent) of a total of 594 signed FMG documents which should have been submitted for the period up to 28 February 2019 (8 months of the 2018/19 financial year) have actually been submitted to Provincial Treasury. Continuous compliance with the required monthly, quarterly and annual submission requirements to both National and Provincial Treasury ensures that minimal work needs to be done at the end of the 2018/19 financial year as failure to reflect 100 percent compliance could result in future FMG allocations being withheld.

Municipalities are kindly requested to comply with the legislative requirements stated above for the 2018/19 financial year. All municipalities are thus requested to **immediately** submit all outstanding 2018/19 monthly, quarterly and annual signed reports to both Provincial and National Treasury. Furthermore, municipalities will have to **submit the 2019/20 FMG signed monthly reports, 2019/20 FMG signed Quarterly reports and their 2019/20 FMG signed Annual Performance Evaluation Reports to Provincial Treasury** in addition to submitting these reports to National Treasury for future periods.

#### **Conclusion**

Municipalities must seek to remedy any non-compliance by submitting any outstanding FMG Support Plans or reports to [fmg@treasury.gov.za](mailto:fmg@treasury.gov.za) as well as the relevant Provincial Treasury Analyst by **Friday 19 April 2019**.

**National Treasury has indicated that failure to submit the 2019/20 FMG Support Plan and any outstanding 2018/19 FMG reports will result in the indefinite withholding of the municipality's 2019/20 FMG allocation or reallocation of the funds to another municipality in need of the FMG allocation.**

Yours sincerely,



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HEAD OF DEPARTMENT: PROVINCIAL TREASURY**

**CC MAYORS  
JAN HATting, NATIONAL TREASURY  
TV PILLAY, NATIONAL TREASURY  
N MHLONGO, BUSINESS EXECUTIVE – KZN AUDITOR GENERAL**

# ANNEXURE 1



**national treasury**  
 Department  
 National Treasury  
 REPUBLIC OF SOUTH AFRICA

## Financial Management Grant (FMG) Support Plan

2019/20 Financial Year

Strengthen capacity and upskill officials in the Budget and Treasury Office (BTO), Internal Audit and Audit Committees		
Activities	Completion date	Amount
Total		R0

At least five interns in local municipalities and three interns in metropolitan and district municipalities must be appointed over a multi-year period. Municipalities must submit a plan for the retention of skills developed through the internship programme		
Activities	Completion date	Amount
Total		R0

Acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including mSCOA		
Activities	Completion date	Amount
Total		R0

Support the training of municipal officials in financial management towards attaining the minimum competencies		
Activities	Completion date	Amount
Total		R0



**2019/20 Financial Year**

Support the preparation and timely submission of quality annual financial statements for audits. Technical support to municipalities must include the transfer of skills to municipal officials		
<i>Activities</i>	<i>Completion date</i>	<i>Amount</i>
<b>Total</b>		<b>RO</b>

Support implementation of corrective actions to address root causes/audit findings in municipalities that received adverse and disclaimer opinions		
<i>Activities</i>	<i>Completion date</i>	<i>Amount</i>
<b>Total</b>		<b>RO</b>

The preparation of a financial recovery plan and the implementation thereof ,where appropriate		
<i>Activities</i>	<i>Completion date</i>	<i>Amount</i>
<b>Total</b>		<b>RO</b>

Implementation of financial management reforms and address shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment report		
<i>Activities</i>	<i>Completion date</i>	<i>Amount</i>
<b>Total</b>		<b>RO</b>

Support the implementation of the financial misconduct regulations and promote consequence management to reduce UIF&W incurred by municipalities		
<i>Activities</i>	<i>Completion date</i>	<i>Amount</i>
<b>Total</b>		<b>RO</b>

<b>Allocation as per DoRA</b>		<b>RO</b>
<b>Total as per Support Plan</b>		<b>RO</b>
<b>Difference</b>		<b>RO</b>

Municipal Manager

Date