



treasury

Department
Treasury
PROVINCE OF KWAZULU-NATAL

Natalia Building
330 Langalibalele Street
Pietermaritzburg 3201
P O Box 3613
Pietermaritzburg 3200
Tel: +27 (0) 33 846 6800
Fax: +27 (0) 33 846 6801/2
Internet: www.kzntreasury.gov.za

OFFICE OF THE MEC FOR FINANCE

Our reference:
Inkomba yethu:
Ons verwysing:

Date: 08 April 2020

Usuku:
Datum:

Please quote our reference on all correspondence

To: MAYORS
MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU NATAL MUNICIPALITIES

PROVINCIAL TREASURY CIRCULAR PT/MF 13 OF 2019/20

NON-COMPLIANCE WITH THE MFMA AND mSCOA REPORTING REQUIREMENTS

Provincial Treasury issues circulars to Mayors to highlight non-compliance with the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) and the mSCOA Regulations as gazetted on the 22 April 2014 (Gazette Number 37577). There has been various communications issued from our offices noting municipalities failure to submit the required information and ensure that information submitted is credible, accurate and complete. This is a serious concern in that there are a number of municipalities that are not complying nor correcting the required information in line with the guidance and support that has been provided.

Following the reports submitted as at 17 March 2020, it emerged that a number of municipalities in the province are either failing to comply with **ALL** the reporting requirements as set out in the different sections of the MFMA and mSCOA Regulations and/or are submitting reports for compliance purposes only without ensuring accuracy of the information submitted.

The following sections list out some of the most important MFMA and mSCOA reporting requirements that have not been complied with by municipalities, together with a list of the municipalities who did not fully comply with those reporting requirements:

- Section A: 2019/20 mSCOA Implementation Plan/Roadmap.
- Section B: 2019/20 Proof of Council resolution of noting the Monthly Report
- Section C: 2019/20 mSCOA Adopted Budget data strings and PROR data strings
- Section D: 2019/20 mSCOA Adjustment Budget data strings and PRAD data strings
- Section E: 2019/20 In-year Reporting data strings
- Section F: 2019/20 Other Financial mSCOA data strings

Both the National and Provincial Treasuries have provided support and training to assist municipalities in meeting their reporting requirements and can no longer allow any deliberate or inadvertent non-compliance with the law by the municipalities.

Support provided to municipalities includes, but is not limited to the following: sending the exception reports drawn from National Treasury's Database reflecting the status of compliance by all the delegated municipalities on a weekly basis; discussing the status of compliance with the municipalities during various Bilateral engagements as well as frequent reminders to municipalities to submit outstanding documents through telephonic and email correspondence. Provincial Treasury also provided technical support when requested by the municipalities including training requests and onsite visits.

Provincial Treasury will consider the following steps, should the non-compliance by municipalities persist going forward:

1. Notify the Auditor-General of the municipality's failure to comply with relevant MFMA and mSCOA reporting requirements;
2. Recommend to the relevant municipality's Council to consider investigating the Accounting Officer in terms of Section 171(4) of the MFMA with a view to taking disciplinary action against the Accounting Officer in the light of his or her failure to comply with the relevant MFMA reporting requirements;
3. Launch an investigation with a view of laying charges against the Accounting Officer for financial misconduct in terms of Section 171 of the MFMA and Regulation 19 of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings where the municipality fails to investigate allegation of financial misconduct in terms of Section 171(4) of the MFMA; and
4. Explore options to stop all transfers to the municipality for breach of their reporting obligations.

KwaZulu-Natal Provincial Treasury therefore urges all municipalities to ensure full compliance with all the reporting requirements in terms of the MFMA and mSCOA in the 2019/20 and 2020/21 financial year. The officials from Provincial Treasury will continue to assist and support their designated municipalities to enforce full compliance by all municipalities.

It should also be noted that our source of information is the National Treasury's Local Government Database (LG database). Should your municipality dispute any of the information reflected in the various Sections, please provide both the Provincial and National Treasuries with the evidence to confirm any discrepancy.

Please direct any enquiries to the Chief Director: Municipal Finance Management: Mr. Farhad Cassimjee on telephone number (033) 897 4321.

Yours sincerely



MR R PILLAY
MEC FOR FINANCE – KZN

cc: Jan Hattingh, National Treasury
TV Pillay, National Treasury
Simiso Magagula, HOD: KZN Provincial Treasury
Ntombifuthi Mhlongo, Business Executive (Auditor General)

Section A: 2019/20 mSCOA Implementation Plan/Roadmap

National Treasury issued MFMA Circular No. 98 “mSCOA Roadmap” on 6 December 2019. As per the circular, all municipalities should have achieved the following implementation milestones:

- Have acquired, upgraded and maintain the hardware, software and licences required to be and remain mSCOA compliant
- Budget, transact and report on all six (6) legislated mSCOA segments and directly on the core financial system and submit the required data strings directly from this system to the Local Government Portal
- Lock down the budget adopted by Council on the core municipal financial system before submitting the budget (ORGB) data string to the local government portal
- Closed the core financial system at month-end as required in terms of the MFMA before submitting the monthly data string to the local government portal; and
- Generate regulated Schedules (A, B, C) directly from the core municipal financial systems

If your municipality has not achieved the above level of implementation as yet, then the implementation of mSCOA in your municipality should be accelerated. Towards this end

- A road map must be provided to the National and Provincial Treasury to indicate how the municipality will become mSCOA compliant;
- The municipality’s mSCOA Project Steering Committee (chaired by the Accounting Officer) must meet at least monthly (if not more often) to track the progress against the road map and take corrective action where required;
- The National Treasury (in the case of non-delegated municipalities) and Provincial Treasury (in the case of delegated municipalities) should be invited to the mSCOA Project Steering Committee meeting; and
- Progress against the road map should be presented at the Mid-Year Budget and Performance and Budget Benchmark engagements.

Based on the onsite assessments that have been provided to municipalities, there are inherent gaps in the implementation to achieve the above. A monthly report was sent out to municipalities requesting all municipalities to submit such roadmap. **To date, no municipality has submitted the required information.**

Section B: 2019/20 Proof of Council resolution of noting the Monthly Report

Based on the monthly report that was communicated to all municipalities via email, the request was for the report to be tabled to council noting the municipalities status of submissions, the onsite assessment undertaken, challenges and recommendations. To date only **one municipality has communicated** such resolution to Provincial Treasury that **being Mandeni Local Municipality**. All other municipalities have not provided such communication.

Section C: 2019/20 Adopted Budget mSCOA data strings and Project Detail Original Budget (PROR) data string

Per the MFMA Circular No. 93 paragraph 7.1 “Section 24(3) of the MFMA, read together with regulation 20(1) of the Municipal Budget and Reporting Regulations, requires that the approved annual budget must be submitted to both National Treasury and Provincial Treasury within ten working days after the council has approved the annual budget. e.g. if the council approves the annual budget on 31 May 2019, the final date for such a submission is Friday, 14 June 2019”

Further, the MFMA Circular No. 93 paragraph 7.2 “From 2019/20 onwards, municipalities will no longer be required to continue with the use of the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database for publication purposes. The National Treasury will use **only the mSCOA data strings** required for submission as prescribed and all publications will use the data collected from the mSCOA data strings

Table 1: Outstanding mSCOA data string for Adopted Budget 2019/20 financial year

<i>Name of municipality</i>	<i>Reason</i>
1. uPhongolo Local Municipality	Reverted to pre-mSCOA system

Source: National Treasury LG database

As part of the submission of the Adopted budget, municipalities were required to submit the IDP file which is known as the project detail original budget (PROR) data string. As at the 17 March 2020, the following municipalities still had not submitted the required information.

Table 2: Submission status of the PROR data string for 2019/2020

<i>No</i>	<i>Name</i>	<i>Status</i>
1	eThekweni	Outstanding
2	Msunduzi	Outstanding
3	uPhongolo	Outstanding

Source: National Treasury LG Database

Section D: 2019/20 Adjustment Budget mSCOA data strings and Project Detail Adjustment Budget (PRAD) data string

In terms of Section 28 (1) of the MFMA municipalities may revise an approved budget through an adjustment budget. Section 28 (2) of the MFMA further indicates that An Adjustment Budget:

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year
- (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for
- (c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality
- (d) may authorise the utilisation of projected savings in one vote towards spending under another vote
- (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- (f) may correct any errors in the annual budget; and
- (g) may provide for any other expenditure within a prescribed framework.

As there have been a number of errors within the application of the budgeting and transaction within the mSCOA environment, municipalities where they were unable to use the current virement policy, should have corrected the errors through the adjustment budget. Further to this, municipalities may have only corrected the project, function, funding and region through the adjustment budget in line with the prescripts of Circular 51 of the MFMA and section 28(2) of the MFMA. Based on this, municipalities

submitted the Adjustment Budget data string (ADJB) supported by the IDP data string known as the project details adjustment budget (PRAD). The status of which is included in table 3 below:

Table 3: Status of stage 1 validation for the Adjustment Budget 2019/20

No	Name	Status
1	eThekweni	Outstanding
2	Msunduzi	Submitted with errors
3	uPhongolo	Outstanding

Source: National Treasury LG Database

As part of the submission of the Adjustment budget, municipalities were required to submit the IDP file which is known as the project detail adjustment budget (PRAD) data string. As at the 17 March 2020, the following municipalities still had not submitted the required information.

Table 4: Status of the PRAD file submission for 2019/2020

No	Name	Status	No	Name	Status	No	Name	Status
1	Dannhauser	Outstanding	7	Mkhambathi ni	Outstanding	13	uMhlathuze	Outstanding
2	Endumeni	Outstanding	8	Msunduzi	Outstanding	14	uMkhanyakude	Submitted with error
3	eThekweni	Outstanding	9	Mthonjaneni	Outstanding	15	uMshwathi	Submitted with error
4	Inkosi Langalibalele	Outstanding	10	Okhahlamba	Outstanding	16	uPhongolo	Outstanding
5	KwaDukuza	Submitted with Errors	11	Ray Nkonyeni	Submitted with errors	17	uThukela	Outstanding
6	Maphumulo	Outstanding	12	uGu	Submitted with errors			

Source: National Treasury LG Database

Section E: 2019/20 In Year Reporting mSCOA data strings

In terms of Section 71(1) of the MFMA, *the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant Provincial Treasury a statement in the prescribed format (mSCOA data strings) on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:*

- (a) *actual revenue, per revenue source.*
- (b) *actual borrowings.*
- (c) *actual expenditure, per vote.*
- (d) *actual capital expenditure, per vote.*
- (e) *the amount of any allocations received; and*
- (f) *actual expenditure of those allocations, excluding expenditure on-*
 - (i) *its share of the local government equitable share; and*
 - (ii) *allocations exempted by the annual Division of Revenue Act from compliance with this paragraph.*

As at 17 March 2020 the monthly returns shown in Table 5 had not been submitted to the local government database.

Table 5: Status of submissions M01-M08 for the 2019/2020 financial year.

No	Name	Status	No	Name	Status	No	Name	Status
1	Abaqulusi	M08, segment error	8	Impendle	M06 - submitted with errors M07-M08 - contain segment errors	15	Nquthu	M02; M07-M08 submitted with errors M03 - outstanding
2	Amajuba	M02 - submitted with errors M03 and M08 outstanding M05 - contained segment errors	9	KwaDukuza	M01 - contained segment errors M08 - outstanding	16	Richmond	M01- Contained segment errors M08 - outstanding
3	eDumbe	M08 - submitted with errors	10	Mpofana	M08 - Submitted with errors	17	uGu	M07 - contained segment errors
4	Emadlangeni	M08 - contained segment errors	11	Msinga	M01 - contained segment errors M01 - M04 contained segment error. M07 - Submitted with errors	18	uMhlabuyalingana	M08 - outstanding
5	eThekwini	M05 - submitted with errors	12	Msunduzi	M05-M06-M08 - outstanding M05-M06 - submitted with errors	19	uMzimkhulu	M01- Contained segment errors
6	Hlabisa Big 5	M08 - submitted with errors	13	Mtubatuba	M08 - Outstanding	20	uPhongolo	M01-M08 - outstanding
7	iLembe	M08 - outstanding	14	Nongoma	M08 - Submitted with errors			

Source: National Treasury LG database

Section F: Other Financial mSCOA data string submissions

As per the requirements of the MFMA read together with the mSCOA Regulations, municipalities must submit the required mSCOA data string for budgeting and reporting processes relating to Re-stated Actuals, Pre-audited and Audited actuals, Table 6 shows the list of the municipalities which did not comply with the mSCOA reporting requirements as at the 17 March 2020

Table 6: Other Financial mSCOA data strings outstanding or with error

Return	Name of Municipality outstanding	Name of Municipality submitted with errors
Re-stated Audited Actuals 2018/19	Amajuba Endumeni eThekwini Inkosi Langibalele Mpofana Msunduzi Newcastle Nquthu Ray Nkonyeni uBuhlebezwe uMhlathuze uMlalazi uMngeni uMzinyathi uPhongolo	Umdoni
Pre-Audited 2018/19	uPhongolo	eThekwini Msunduzi Nquthu uMngeni
Audited Actuals 2018/19	eThekwini	Inkosi Langibalele

Return	Name of Municipality outstanding	Name of Municipality submitted with errors
	Mandeni	KwaDukuza
	Msunduzi	Mkhambathini
	Mtubatuba	Nkandla
	uMngeni	Okhahlamba
	UMshwathi	Ray Nkonyeni
	uMzinyathi	Richmond
	Umzumbe	uBuhlebezwe
	uPhongolo	uGu
		Umlalazi
		Umvoti
		uThukela

Source: National Treasury Local Government Database