

Reference: RCS/C.5

## **TREASURY CIRCULAR MUN NO. 6/2016**

THE MAYOR, CITY OF CAPE TOWN: MS P DE LILLE  
THE MAYOR, WEST COAST DISTRICT MUNICIPALITY: MR JH CLEOPHAS  
THE MAYOR, MATZIKAMA MUNICIPALITY: MR P BOK  
THE MAYOR, CEDERBERG MUNICIPALITY: MR J MULLER  
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL  
THE MAYOR, SALDANHA BAY MUNICIPALITY: MR F SCHIPPERS  
THE MAYOR, SWARTLAND MUNICIPALITY: MR T VAN ESSEN  
THE MAYOR, CAPE WINELANDS DISTRICT MUNICIPALITY: MR N DE BRUYN  
THE MAYOR, WITZENBERG MUNICIPALITY: MR B KLAASEN  
THE MAYOR, DRAKENSTEIN MUNICIPALITY: MS G VAN DEVENTER  
THE MAYOR, STELLENBOSCH MUNICIPALITY: MR CJ SIDEGO  
THE MAYOR, BREEDE VALLEY MUNICIPALITY: MS A STEYN  
THE MAYOR, LANGEBERG MUNICIPALITY: MS D GAGIANO  
THE MAYOR, OVERBERG DISTRICT MUNICIPALITY: MR L DE BRUYN  
THE MAYOR, THEEWATERSKLOOF MUNICIPALITY: MR CB PUNT  
THE MAYOR, OVERSTRAND MUNICIPALITY: MS N BOTHA-GUTHRIE  
THE MAYOR, CAPE AGULHAS MUNICIPALITY: MR R MITCHELL  
THE MAYOR, SWELLEN DAM MUNICIPALITY: MR N MYBURGH  
THE MAYOR, EDEN DISTRICT MUNICIPALITY: MR IV VAN DER WESTHUIZEN  
THE MAYOR, KANNALAND MUNICIPALITY: MR J DONSON  
THE MAYOR, HESSEQUA MUNICIPALITY: MS E NEL  
THE MAYOR, MOSSEL BAY MUNICIPALITY: MS M FERREIRA  
THE MAYOR, GEORGE MUNICIPALITY: MR C STANDERS  
THE ADMINISTRATOR, OUDTSHOORN MUNICIPALITY: MR K CHETTY  
THE MAYOR, BITOU MUNICIPALITY: MR M BOOYSEN  
THE MAYOR, KNYSNA MUNICIPALITY: MS J WOLMARANS  
THE MAYOR, CENTRAL KAROO DISTRICT MUNICIPALITY: MR E NJADU  
THE MAYOR, LAINGSBURG MUNICIPALITY: MR W THERON  
THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING  
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HT PRINCE

THE MUNICIPAL MANAGER, CITY OF CAPE TOWN: MR A EBRAHIM  
THE MUNICIPAL MANAGER, WEST COAST DISTRICT MUNICIPALITY: MR H PRINS  
THE MUNICIPAL MANAGER, MATZIKAMA MUNICIPALITY: MR M BOLTON (ACTING)  
THE MUNICIPAL MANAGER, CEDERBERG MUNICIPALITY: MR G MATTHYSE  
THE MUNICIPAL MANAGER, BERGRIVIER MUNICIPALITY: ADV H LINDE  
THE MUNICIPAL MANAGER, SALDANHA BAY MUNICIPALITY: MR L SCHEEPERS  
THE MUNICIPAL MANAGER, SWARTLAND MUNICIPALITY: MR J SCHOLTZ  
THE MUNICIPAL MANAGER, CAPE WINELANDS DISTRICT MUNICIPALITY: MR M MGAJO  
THE MUNICIPAL MANAGER, WITZENBERG MUNICIPALITY: MR D NASSON  
THE MUNICIPAL MANAGER, DRAKENSTEIN MUNICIPALITY: MR J CARSTENS (ACTING)  
THE MUNICIPAL MANAGER, STELLENBOSCH MUNICIPALITY: MR R BOSMAN (ACTING)  
THE MUNICIPAL MANAGER, BREEDE VALLEY MUNICIPALITY: MR D McTHOMAS (ACTING)  
THE MUNICIPAL MANAGER, LANGEBERG MUNICIPALITY: MR SA MOKWENI  
THE MUNICIPAL MANAGER, OVERBERG DISTRICT MUNICIPALITY: MR D BERETTI  
THE MUNICIPAL MANAGER, THEEWATERSKLOOF MUNICIPALITY: MR HSD WALLACE  
THE MUNICIPAL MANAGER, OVERSTRAND MUNICIPALITY: MR C GROENEWALD  
THE MUNICIPAL MANAGER, CAPE AGULHAS MUNICIPALITY: MR D O'NEILL  
THE MUNICIPAL MANAGER, SWELLEN DAM MUNICIPALITY: MR CM AFRICA  
THE MUNICIPAL MANAGER, EDEN DISTRICT MUNICIPALITY: MR GW LOUW  
THE MUNICIPAL MANAGER, KANNALAND MUNICIPALITY: MR M HOOGBAARD  
THE MUNICIPAL MANAGER, HESSEQUA MUNICIPALITY: MR J JACOBS  
THE MUNICIPAL MANAGER, MOSSEL BAY MUNICIPALITY: DR M GRATZ

THE MUNICIPAL MANAGER, GEORGE MUNICIPALITY: MR T BOTHA  
THE MUNICIPAL MANAGER, OUDTSHOORN MUNICIPALITY: MR A PAULSE (ACTING)  
THE MUNICIPAL MANAGER, BITOU MUNICIPALITY: MR A PAULSE  
THE MUNICIPAL MANAGER, KNYSNA MUNICIPALITY: MR G EASTON  
THE MUNICIPAL MANAGER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR S JOOSTE  
THE MUNICIPAL MANAGER, LAINGSBURG MUNICIPALITY: MR P WILLIAMS  
THE MUNICIPAL MANAGER, PRINCE ALBERT MUNICIPALITY: MR H METTLER  
THE MUNICIPAL MANAGER, BEAUFORT WEST MUNICIPALITY: MR J BOOYSEN

THE CHIEF FINANCIAL OFFICER, CITY OF CAPE TOWN: MR K JACOBY  
THE CHIEF FINANCIAL OFFICER, WEST COAST DISTRICT MUNICIPALITY: MR J KOEKEMOER  
THE CHIEF FINANCIAL OFFICER, MATZIKAMA MUNICIPALITY: MR M BOLTON  
THE CHIEF FINANCIAL OFFICER, CEDERBERG MUNICIPALITY: MR E ALFRED  
THE CHIEF FINANCIAL OFFICER, BERGRIVIER MUNICIPALITY: MR JA VAN NIEKERK  
THE CHIEF FINANCIAL OFFICER, SALDANHA BAY MUNICIPALITY: MR S VORSTER  
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THE CHIEF FINANCIAL OFFICER, CAPE WINELANDS DISTRICT MUNICIPALITY: MS FA DU RAAN-GROENEWALD  
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THE CHIEF FINANCIAL OFFICER, BREEDE VALLEY MUNICIPALITY: MR R ONTONG (ACTING)  
THE CHIEF FINANCIAL OFFICER, LANGEBERG MUNICIPALITY: MR CF HOFFMANN  
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THE CHIEF FINANCIAL OFFICER, SWELLENDAM MUNICIPALITY: MR H SCHLEBUSCH  
THE CHIEF FINANCIAL OFFICER, EDEN DISTRICT MUNICIPALITY: MS L HOEK  
THE CHIEF FINANCIAL OFFICER, KANNALAND MUNICIPALITY: MR N DELO  
THE CHIEF FINANCIAL OFFICER, HESSEQUA MUNICIPALITY: MS HJ VILJOEN  
THE CHIEF FINANCIAL OFFICER, MOSSEL BAY MUNICIPALITY: MR MK BOTHA  
THE CHIEF FINANCIAL OFFICER, GEORGE MUNICIPALITY: MR K JORDAAN  
THE CHIEF FINANCIAL OFFICER, OUDTSHOORN MUNICIPALITY: MR F LÖTTER (ACTING)  
THE CHIEF FINANCIAL OFFICER, BITOU MUNICIPALITY: MR F LÖTTER  
THE CHIEF FINANCIAL OFFICER, KNYSNA MUNICIPALITY: MS P GOBRIE  
THE CHIEF FINANCIAL OFFICER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR N NORTJE  
THE CHIEF FINANCIAL OFFICER, LAINGSBURG MUNICIPALITY: MS A GROENEWALD  
THE CHIEF FINANCIAL OFFICER, PRINCE ALBERT MUNICIPALITY: MR J NEETHLING  
THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR F SABBAT

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THE DEPUTY DIRECTOR GENERAL: FISCAL AND ECONOMIC SERVICES (MR H MALILA)  
THE DEPUTY DIRECTOR GENERAL: GOVERNANCE AND ASSET MANAGEMENT (MR A HARDIEN)  
THE CHIEF DIRECTOR: PUBLIC POLICY SERVICES (MS M KORSTEN)  
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THE CHIEF DIRECTOR: LOCAL GOVERNMENT PUBLIC FINANCE (MR M SIGABI) (ACTING)  
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THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

## **MUNICIPAL ACCOUNTANTS FORUM (MAF) – 26 FEBRUARY 2016**

### **PURPOSE**

1. This circular serves to confirm that the Municipal Accountants Forum will take place on Friday, 26 February 2016 at the Stellenbosch Municipality. In this regard all Municipal Managers and Chief Financial Officers are requested to ensure that the Heads of Budget, Accounting and Treasury Offices (together with the relevant team members, i.e. accountants) attend the meeting.

### **BACKGROUND**

2. The Forum's objective amongst other are:
  - Enhance the achievement of the objectives of the Municipal Finance Management Act, 2003 (Act 56 of 2003).
  - Build institutional capacity and relationships.
  - Facilitate and encourage knowledge sharing.
  - Establish formal and informal communication channels and support networks.
  - Promote sound financial governance and accountability.
3. To this end, the upcoming MAF meeting will be changed into a technical workshop where Ms Johanna Steyn from National Treasury will work through the changes introduced in mSCOA version 5.4.
4. The only other item that will be accommodated on the day, is the budgetary requirements contemplated in Municipal Budget Circular No. 78 for the 2016/17 MTREF and related LG MTEC 3 process.
5. It is imperative that each municipality in the Province is adequately represented given the significance of the forum and the mSCOA topics to be covered in the 3-4 hour session.
6. Municipalities accordingly are requested to familiarise themselves with applicable documentation issued by National Treasury.

### **LOGISTICS**

7. The logistics for the Municipal Accountants Forum meeting are as follows:

**Date : FRIDAY, 26 FEBRUARY 2016**

**Venue : STELLENBOSCH MUNICIPALITY, COUNCIL CHAMBERS, 16 PLEIN STREET**

**Time : 08:30 – 13:30**

## CONFIRMATION/CORRESPONDENCE

8. Confirmation of attendance or apologies should reach Provincial Treasury by no later than 19 February 2016.
9. Please direct your communication to:

Attention : Mr Stephan Jantjies

Tel. : 021 483 5665/6299

Fax : 021 483 4411/7356

Email : [Stephan.Jantjies@westerncape.gov.za](mailto:Stephan.Jantjies@westerncape.gov.za)

## PROPOSED DATES AND VENUES FOR THE REST OF 2016

10. In order to improve the planning of events, all MAF members are kindly requested to diarise these dates on their year planners as it is imperative that we all attend in order to ensure effective deliberations at each engagement.

| QUARTER   | DATE                     | VENUE  |
|-----------|--------------------------|--|
| Quarter 2 | Friday, 27 May 2016      | Eden District – Mossel Bay Municipality      |
| Quarter 3 | Friday, 19 August 2016   | West Coast District – Swartland Municipality |
| Quarter 4 | Friday, 11 November 2016 | Overberg District – Overstrand Municipality  |

11. Your co-operation in this regard will be appreciated.



**MR M SIGABI**

**ACTING CHIEF DIRECTOR: LOCAL GOVERNMENT PUBLIC FINANCE**

**DATE:** 12 February 2016

Reference: PTR 16/2/1

**MINUTES TO THE MUNICIPAL ACCOUNTANTS FORUM (MAF) MEETING OF 12 NOVEMBER 2015  
AT THE GOODWOOD MUNICIPAL BUILDING (COUNCIL CHAMBERS), CNR VOORTREKKER  
ROAD AND DE VILLIERS STREET, CITY OF CAPE TOWN**

| ITEM NO    | DISCUSSION   |  |
|------------|--|--|
| <b>1.</b>  | <b>OPENING AND WELCOME</b>   |  |
|            | Ms Fortuin initiated proceedings by opening the meeting and welcoming all representatives from their respective municipalities followed by a round of introduction by all present.   |  |
| <b>2.</b>  | <b>ATTENDANCE AND APOLOGIES</b>  |  |
| <b>2.1</b> | <b><i>In attendance</i></b>  |  |
|            | <b><i>From: Provincial Treasury</i></b>  |  |
|            | <u><i>Local Government Public Finance</i></u><br>Elton Johannes<br>Zolani Zonyane<br>Angelique Africa<br>Bulelwa Nyandeni<br>Fiona Daniels<br>Wafeeqah Mohamed<br>Stephan Jantjies   | <u><i>Local Government Accounting</i></u><br>Micheline Fortuin<br>Zaahir Hendricks<br>Nyameko Dayeni<br>Sisanda Nzimande<br>Samukelisiwe Shozi<br>Maahir Joseph  |
|            | <b><i>From: Western Cape Municipalities</i></b>  |  |
|            | Randle Eland – Beaufort West<br>Frans Sabbat – Beaufort West<br>Gillmor Haas – Breede Valley<br>Hendelene Hansen – Breede Valley<br>Dominique Waso – City of Cape Town<br>Ian Engelmohr – Drakenstein<br>Karen Fredericks – Drakenstein<br>Lynne Crotz – Drakenstein<br>Chris Marais – Eden District<br>Geraldine Jonas – Eden District<br>Warren Qata – Stellenbosch<br>BA King – Overstrand<br>Jannie Neethling – Prince Albert<br>Alberto Julies – Stellenbosch<br>Bandile Dlwathi – Stellenbosch | Renaldo Coetzee – Eden District<br>W Stassen – Overberg District<br>M Dweni – Overberg District<br>Acquilla Matshaya – George<br>Hein Diemont – George<br>Raglahn Scholtz – George<br>Suthu Fundi – Knysna<br>B Brown – Langeberg<br>P Hoffmann – Langeberg<br>Hilmary Papier – Swartland<br>Nkabi Ayanda – West Coast District<br>Piet Steenkamp – West Coast District<br>Elrich Mehl – Witzenberg<br>William Mars – Witzenberg |

| ITEM NO | DISCUSSION  |   |
|---------|---|---|
| 2.2     | <b>Apologies From: Western Cape Municipalities</b>  |   |
|         | Bergrivier<br>Saldanha Bay<br>Cape Agulhas<br>Mossel Bay<br>Kannaland   | Matzikama<br>Central Karoo District<br>Bitou<br>Swellendam<br>Theewaterskloof |
|         | <b>From: Provincial Treasury</b>  |   |
|         | <u>Local Government Public Finance</u><br>M Sigabi<br>Beryl Galant<br>E Wenn<br>S Cupido  | <u>Local Government Accounting</u><br>T Madondile                             |
| 2.      | <b>Setting/Approval of Agenda and New Items</b>   |   |
|         | The agenda was accepted with one amendment. <ul style="list-style-type: none"> <li>• <b>Audit matters discussion (findings and outcomes)</b></li> </ul>   |   |
| 3.      | <b>Minutes &amp; Matters arising</b>  |   |
|         | Ms Fortuin tabled the minutes of the previous MAF held on 07 August 2015 for approval. Ms Samukelisiwe Shozi and Mr Dominique Waso accepted the minutes as true and correct without further amendment.  |   |
| 4.      | <b>Feedback: Municipal Accounting Working Committee (MAWC)</b>  |   |
|         | Mr Zahir Hendricks of LGA provided feedback of the MAWC meeting held on 30 October 2015 which was also attended by the ASB to clarify uncertainty of the draft guideline on housing. GRAP 108 and 109 was also discussed with the members. <p>The discussion on housing included the following:</p> <ul style="list-style-type: none"> <li>• Draft guideline on housing is seen to be an accreditation process</li> <li>• How GRAP 109 relates to the housing guideline and the various levels of accreditation</li> <li>• The guideline also includes detail relating to the criteria to be met that constitutes the various levels of accreditation.</li> <li>• Clarity that level 1 of the draft guideline clearly indicates an agent relationship.</li> <li>• Clarity that level 3 of the draft guideline clearly indicates a principal relationship akin to assignment.</li> <li>• The focus was shifted to level 2 due to the contention around this level.</li> <li>• If a municipality is accredited with level 2 or similar then it falls outside the scope of GRAP 109 and thus become a principal and should consider construction contracts.</li> <li>• Clarity was sought for level 2 as there was ambiguity around the principles of this level, i.e. project manager vs project developer.</li> <li>• Being a project manager, the point at which the municipality fails to be an agent is that procurement of contracts is compiled in-house by the municipality.</li> <li>• The members felt that the compilation of contracts is merely a paper exercise and that municipalities have limited control as control lies with the relevant department. The members requested that the ASB clarify that levels 1 and 2 are agent based relationships and level 3 is a principal based relationship.</li> <li>• Another concern raised by members was that there were other issues on housing that have not been addressed by the draft guideline on housing.</li> </ul> |   |

| ITEM NO | DISCUSSION   |
|---------|--|
|         | <ul style="list-style-type: none"> <li>• Members also raised a concern relating to accounting principles emanating from this guideline. They were concerned with how accounting principles will overlap and react with the budget. An example provided was as follows: When a municipality is an agent and revenue should not be included in the financial statements, yet from a budgetary perspective it should be included. How do the two spheres achieve synergy and coherence?</li> <li>• Municipalities are encouraged to provide comments to the ASB which will be taken into consideration in the final housing guideline.</li> </ul> <p>A comprehensive guide needs to be developed that factors in all spheres not only accounting and budgeting. He then indicated that the presentations by the ASB will be made available as well as the draft housing guideline which alternatively may be retrieved from the ASB website. Mr Hendricks continued that the housing guideline and GRAP 109 are interrelated as GRAP 109 flows into the housing guideline.</p> <p>The discussion with the ASB on GRAP 109 included:</p> <ul style="list-style-type: none"> <li>• A concern regarding the proposed retrospective application of GRAP 109.</li> <li>• Suggestion by members to apply GRAP 109 prospectively.</li> <li>• GRAP 109 is effective from 1 April 2017, for municipalities from 1 July 2017 (2017/18 financial year).</li> <li>• Comment deadline date is 16 October 2016.</li> <li>• Directives 2, 4, 6, and 8 will be updated.</li> </ul> <p>The discussion with the ASB on GRAP 108 (Statutory Receivables) included:</p> <ul style="list-style-type: none"> <li>• Why there was a need for a standard on statutory receivables.</li> <li>• Whether the current standards available were sufficient to meet the requirements of statutory receivables.</li> <li>• Why additional standards are being created and increasing the scope of disclosure and whether it is necessary for additional standards.</li> </ul> <p>Mr Hendricks indicated that the question was not a fair question put to the ASB as they are only standard setters that have been tasked to create a standard to address certain requirements as instructed by NT. NT and other users may have other reasons why they would request a separate standard relating to statutory receivables.</p> <p>Mr Hendricks concluded that the majority of the discussion related to the housing guideline that NT is attempting to address. PT is also assisting the NT with the process and to achieve clarity, certainty and practicality. He iterated that all stakeholders should present commentary to the ASB, preferably as a united front from the Western Cape as a whole.</p> <p><b><u>Q&amp;A/Comments</u></b></p> <p>Mr Ian Engelmohr reiterated that there was a concern that the housing guideline does not deal with social housing or rental housing, since it was not the idea when the program was envisaged or setup and he does not feel it should be part of this guideline. The area of concern was always the accounting for RDP housing. Mr Engelmohr further indicated that should there be a need for further guidance on social housing; a separate guideline should be developed.</p> <p>Mr Engelmohr drew attention to the fact that the ASB is currently developing a guideline on accounting for land and that the two guidelines should be considered together rather than individually.</p> |

| ITEM NO | DISCUSSION   |
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| 5.      | <b>iGRAP1 - Revenue recognition</b>  |
|         | <p>Mr Zaahir Hendricks discussed iGRAP1, its relation to traffic fines and how it influences revenue recognition. He mentioned that most municipalities have implemented the iGRAP1 guidance for two financial years. He further discussed that the accounting treatment thereof has been established. Furthermore Mr Hendricks mentioned that the accounting methodology and guidance is clear and has been addressed.</p> <p><b><u>Issue 1</u></b></p> <p>Mr Hendricks highlighted that the initial challenge with iGRAP1 related to budgeting thereof and that it was fairly new, foreign municipalities had a vague understanding of it. Subsequently things have calmed down from an accounting perspective. Challenges raised its systems and processes related to vendors and the obtaining of information. The challenges have been addressed by suggesting scrutinizing SLAs with vendors and for municipalities to put processes and controls in place to obtain information required to account for fines relating to iGRAP1 as well as further guidance provided by NT.</p> <p><b><u>Issue 2</u></b></p> <p>Through discussion Mr Hendricks drew attention to an issue raised by PT relating to traffic fines and iGRAP1, more specifically entitlement. A concern raised by the Public Finance Unit within PT was that a trend regarding IYMs had developed that municipalities recognise broadly 100% of fines revenue. He mentioned that perhaps in the Western Cape it would be representative of the nature of fines. However he had to provide an example to bring into perspective the application of iGRAP1. With reference to a principle in the guideline relating to AARTO; if a fine was paid within 30 days the payee was entitled to a discount of 50% on the fine.</p> <p>Ito iGRAP1, initial recognition, fines are required to be sorted and a probability test compiled on the number of offenders that will take up the offer and not just calculate/recognise revenue of fines at 100% of the value of all fines.</p> <p>Further concern was raised about some municipalities (although there is no AARTO in the Western Cape) enforce the principle of entitlement, based on past experience and make assumptions, e.g. this is what we will collect. iGRAP1 indicates 3 areas to address, initial recognition, initial amount issued and amount entitled to (including discounts).</p> <p>If municipalities have a category of fines or nature of fines wherein the legislation / policy / or other, there exists a discount that is going to be offered under a certain condition that for e.g. will be paid within 10 days or 30 days, this alludes to the fact that the municipality will not be entitled to that money. From a GRAP perspective if municipalities are not entitled to that money, they need to make a key assumption based on trends, e.g. 25% of fines issued to offenders actually take up the offer to obtain the discount on initial recognition. A blanket approach should not be followed where it is 100% of total revenue from fines. Finally municipalities were required to understand the methodology for future reference as well as consider the legislative, accounting and budgetary perspective.</p> |



| ITEM<br>NO | DISCUSSION   |
|------------|--|
|            | <p><b><u>Issue 3</u></b></p> <p>Mr Hendricks raised a third concern that municipalities account for 100% in their budgets, but when the time arises for accounting and monitoring thereof, municipalities find gaps on the IYMs or some other process or mechanism which perhaps might distort the budget or might distort the revenue sources from a budgeting perspective.</p> <p>Mr Frans Sabbat mentioned that the presentation of Mr Hendricks about entitlement would make matters more complicated for municipalities as they would have to keep track of the discounts provided and create policies relating to discounts of various fines. He iterated that municipalities recognise as much revenue as possible relating to traffic fines and impair as affected. He warned that discounting of fines will disturb the current process that is actually working. Municipalities should never have allowed the ASB to take fines to such a point that it has become so complicated. The amount of impairment is significant and could be material. Impairment could be unauthorised if not budgeted for properly and if due process is not followed.</p> <p>Mr Hendricks concluded that the iGRAP1 issue was raised to address any misunderstanding that may exist, to resolve any queries and to close the subject matter. He continued that municipalities should not change their policy to offer discounts if they currently do not do so. If a similar challenge arises then municipalities have the ability to address those issues since they would be able to apply the principle to their situation and achieve a consistent outcome. Finally, auditors would not have an issue with estimates and assumptions. Key assumptions and estimates would have to be documented for audit purposes and verifiable. The process should be documented, reasonable, with an audit trail and should be consistently applied.</p> <p><b><u>Q&amp;A/Comments</u></b></p> <p>Mr Renaldo Coetzee commented to provide for discount of 50% on fines than provide for bad debts on those fines as it will increase recoverability of fines. Mr Hendricks responded that municipalities have the choice to apply their own methodology to the recognition of traffic fines.</p> <p>Mr Sabbat indicated that municipalities are still facing the overall challenge relating to the upper limits. Mr Hendricks mentioned that PT enquired with municipalities at the previous MAF whether any municipalities are affected by the upper limits, yet no municipality indicated as such.</p> <p>Mr Elton Johannes responded that the matter has been raised with other units at PT and NT. He added that it has a concomitant effect on both the upper limits of political office bearers and the grading of municipalities and the compliance with the implementation of the minimum competency regulations. He went on further to indicate, that from the in-year reports, that most municipalities have overstated their revenue.</p> <p>Mr Johannes indicated that the matter of the upper limits would be pursued at the quarterly joint meeting for clarity as there are other policy implications which could have an impact on service delivery.</p> |

| ITEM NO | DISCUSSION   |
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| 6.      | <b>Municipal Support and Capacity Building Feedback</b>  |
|         | <p>Ms Wafeeqah Mohamed conducted a presentation on feedback relating to municipal support and capacity building training initiatives by PT.</p> <p>Ms Mohamed stated that the LG: Public Finance unit is mandated to provide training and support initiatives to municipalities within the Western Cape with the building of financial management capacity. The fourth round of Annual Budget and In-Year Monitoring training for municipal officials was rolled from 20 to 22 October 2015 with the USB-ED facilitating the training. The course content and material had been improved and a new development / section into circulars and legislation were introduced. The importance of Cash and Cash Flow Statements (A7 and SA30) was also part of the training sessions. Facilitators also kept municipal officials updated on new circulars issued.</p> <p>The sessions were interactive and involved theory as well as practical examples. A new legislative section was added to the training and gave it a new spin/ perspective in order to keep municipal officials up to date. Ms Mohamed mentioned that the annual budget training would be a nice platform before the start of the budget verification process. Forthcoming training initiatives include the Revenue Management Masterclass (RMMC) which is scheduled from the 24<sup>th</sup> to 25<sup>th</sup> November 2015 at Caledon Spa. The RMMC will be used as a platform to debate, discuss and share experiences into revenue capabilities and management strategies. Cash Management training is scheduled from the 30 November to 2 December 2015 in Beaufort West.</p> <p><b><u>Q&amp;A/Comments</u></b></p> <p>Mr Sabbat acknowledged that it was a good idea to include the verification process in the training. He indicated that public finance previously included a review of the appropriation statement since it is required to be submitted before roll-overs are approved and the equitable share is allocated to each municipality. He suggested that the appropriation statement also be included in the training session even though it rests in the accounting space.</p> <p>Mr Johannes expressed his gratitude to Ms Mohamed on the presentation conducted into capacity building initiatives. Mr Johannes also provided additional feedback into the RMMC as Public Finance looked at the revenue value chain in its entirety.</p> |
| 7.      | <b>2015/16 MTREF Budget Verifications process- Lessons Learnt</b>  |
|         | <p>Ms Fortuin introduced Ms Bulelwa Nyandeni for the presentation on the MTREF Budget Verifications process – Lessons learnt.</p> <p>Ms Nyandeni highlighted the background and objectives of the budget verification process. NT, during October each year, publishes a consolidated set of budget information for all municipalities.</p> <ul style="list-style-type: none"> <li>• This is done to compile a credible baseline for the monitoring of in-year performance through the S71 reporting process.</li> <li>• To inform the Medium Term Budget Policy Statement (MTBPS).</li> <li>• To inform reporting to Parliament and key policy funding decisions.</li> <li>• To inform the analysis conducted by external stakeholders such as the Reserve Bank, credit rating companies, financial institutions, etc.</li> </ul> <p>Ms Nyandeni cautioned the MAF delegates on the consequences of non-compliance. She indicated that supplementary to the budget publication, NT publishes 2 lists for submission to Parliament and the AG. These lists include the names of all municipalities who have not submitted a complete set of 2015/16 MTREF budget information; and all municipalities whose budgets did not reconcile. NT reserves the right to invoke s38 of the Act.</p>  |

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|         | <p>NT has published the results of the budget verification of all provinces. The statistics proved that the Western Cape was the most under-performing province in the country. Challenges experienced by the PT and municipalities for the budget verification process for the 2015/16 financial year, included that -</p> <ul style="list-style-type: none"> <li>- Municipalities started with the budget verification process late – reason – busy with AFS.</li> <li>- Municipalities have a challenge with capacity constraints.</li> <li>- Challenge of different officials working on same returns which causes confusion</li> <li>- Officials struggle to get the A2 classification correct without distorting the a4</li> <li>- Classification of revenue forgone remains a challenge which we also had last year.</li> <li>- Municipalities correct their return forms manually however do not make the same changes on the data sources / data systems which impacts data credibility.</li> <li>- The A schedules remain a challenge for most municipalities to reconcile.</li> <li>- Continuous difficulties in getting alignment on the capital returns correct on the A9 without distorting the A5.</li> <li>- Partial understanding on how the asset register/related information is populated on the A9.</li> <li>- Unaware that the security measures forms part of community assets and not part of other assets.</li> <li>- Contributed assets remain a challenge.</li> </ul> <p><u>Conclusions and way forward</u></p> <p>Municipalities were encouraged to equip officials responsible for budget verification with necessary skills, knowledge to complete this process. There will be budget verification training. Municipalities for the future are advised to re-prioritise and start early with the budget verification process. To note the budget verification process is still in progress for all the municipalities who have not achieved 100%.</p> <p><u>Q&amp;A/Comments</u></p> <p>Mr Johannes provided feedback relating to asset management challenges faced by municipalities. He indicated that training interventions assisted municipalities in identifying what was required for compliance. He also highlighted that timing was an issue and there may be valid reasons for that.</p> <p>Mr Johannes indicated that Revenue forgone was an issue and that a position paper for free basic services as well as revenue forgone from NT could provide much needed clarity. Mr Sabbat proposed for a scientific breakdown of the Budget Verification compliance sheets A1 to A7 per municipality and a separate breakdown for the A9 sheet. <b>For the next MAF</b> meeting Mr Sabbat proposed that the sheet A9 be explained to all in detail. Mr Johannes agreed to the request.</p> |

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| 8.      | <b>IYM Dashboard: Efficiencies and Cost cutting measures</b>   |
|         | <p>Mr Frans Sabbat, CFO Beaufort West Municipality, presented the IYM/Financial dashboard which are currently utilised at the municipality.</p> <p>Mr Sabbat indicated that the dashboard, still in its infancy, was developed by a service provider. As an analytical tool the dashboard has lots of potential. He demonstrated the workings of the dashboard to the MAF delegates and mentioned that the dashboard was an essential tool to assist the municipality. Important benefits of the tool include adequate monitoring and timeous feedback for decision-making. PT contributed to funding the project through the WCFMSG grant.</p> <p>The total cost of the tool is approximately R280 thousand with 2 user licenses with indefinite time usage e.g. no expiry or annual renewals. The Project briefing took place over a single week and the development of the software tool was done over a month's time. Very modern and upmarket with smart phone and smart device (i.e. Tablets) compatibility.</p> <p>Mr Sabbat explained to the delegates some of the benefits derived from utilising the IYM/Financial dashboard. The dashboard is built to draw information from the data on the system for management use. The source files used are the IYM data files, the trial balance and the monthly schedule-C which are submitted to NT and PT. An executive official within the municipality can obtain a summarised view of any information requested in a specific format and displayed in different colours to indicate highs or lows. Expenditure and income data can also be requested in graph format via multiple levels of information.</p> <p>Other functionalities available for usage on the dashboard include debt collection rates per area, per ward. Budget performance, daily and monthly bank balance information can also be analysed using the dashboard. Financial reports can be generated and distributed to executive officials within the municipality. Mr Sabbat said that the dashboard is simple and easy-to-use and he encouraged delegates to consult the training manuals should system challenges arise. The contact detail of the service provider is available on request to assists other municipalities who is interested.</p> <p>Ms Fortuin expressed appreciation to Mr Sabbat for presenting and demonstrating the benefits of utilising the IYM/Financial dashboard within the LG sphere and reminded the delegates that the financial support provided by PT can effectively be used as in the case of Beaufort West Municipality. Mr Zolani Zonyane concurred with Ms Fortuin and also encouraged the other municipalities to learn from the Beaufort West Municipality's way of utilising the provincial financial support in the most effective and efficient way.</p> |

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| 9.      | <b>Adjustment Budgets: Regulation 23 of the MBRR</b>   |
|         | <p>Ms Sisanda Nzimande conducted a powerpoint presentation on the mSCOA Circular 3 issued by NT during October 2015 which focused, amongst other, on the roles of the municipal Internal Auditors, Risk Management, AGSA, municipal entities, project sponsors, the FAQ Database, project management support as well as provides guidance on mSCOA training.</p> <p>Ms Nzimande informed the delegates that municipal Internal Auditors should evaluate both IT and organisational aspects of the mSCOA system conversion projects and provide assurance to management and municipal council. Internal auditors should also play a role in ensuring good mSCOA project governance, including achieving mSCOA project goals.</p> <p>She urged municipalities to manage its mSCOA project risks as part of its normal risk management processes, including assigning clear responsibility for the management of mSCOA project risks. The municipality can expect the Audit Committee to oversee and provide advice on risk management of this significant reform. The mSCOA-project team will soon release a NT mSCOA position paper on the AGSA's position towards auditing the implementation, system application and way forward on auditing municipalities. Ito reporting she said that the mSCOA work stream: LG Database and Reporting is currently conducting a review of existing internal and external local government reporting.</p> <p>Municipal entities must also comply with the mSCOA regulations. There should be a seamless integration between the system(s) implemented by the parent municipality and its entity.</p> <p>The roles and responsibilities of the Project Sponsor; Ideally the project sponsor is an active senior manager within the municipality/or PT that is well respected and has a big influence within and outside the organisation. The sponsor ensures that the project remains a viable proposition and that benefits are realised. The project sponsor will typically resolve any issues outside the control of the project manager. The project sponsor is responsible to the municipality/or PT for the success of the mSCOA project.</p> <p>From the pilot process, it is recommended that the mSCOA implementation project in every municipality should, as a minimum, include nine (9) work streams to support the project manager and execute the implementation of mSCOA in the municipality. In this regard the proposed nine (9) work streams are: Commissioning an mSCOA steering committee (governance structure); IT infrastructure and network; Verification of current vote structure to mSCOA segments; Data cleansing; Human Resources (HR) &amp; payroll; Planning (Integrated Development Plan (IDP), Budget, Service Delivery- and Budget Implementation Plan (SDBIP), Performance Management (PM)); Core system, additional or sub systems; Real estate, land use and grant management; and Document management.</p> <p>Ms Nzimande indicated that mSCOA Project Governance Structure is a temporary structure within the mSCOA steering committee. Ito training initiatives, she said that a three day non-accredited training programme is offered to non-pilot municipalities and it is envisaged that accredited mSCOA training will be available from February 2016. She reminded all the delegates of the mSCOA FAQ website available to all municipalities with questions that has been previously asked and answered regarding mSCOA implementation.</p> |

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|            | <p><b><u>Q&amp;A/Comments</u></b></p> <p>Mr Sabbat enquired whether there is a mSCOA Project Sponsor terms of reference (TOR) available. Ms Nzimande responded that the Project Sponsor TOR-document will be made available to Mr Sabbat.</p> <p>Mr King commented that Overstrand Municipality, as a pilot site, had to work with its system provider to create a mSCOA-compliant system. He however indicated that the municipality are not fully compliant yet. He said that many system providers are not mSCOA ready yet and are encountering many challenges.</p> <p>Ms Fundi also indicated that Knysna Municipality is also experiencing similar problems with the information extracted from the financial system being incorrect. Mr King further expressed concern that a few municipalities were only recently introduced to mSCOA while many other municipalities are waiting for next year and foresee huge challenges. He indicated that lots of work still needs to be done as Overstrand Municipality are not yet where they are supposed to be at this stage. He urged delegates to read all the volumes of mSCOA communications issued by NT.</p> <p>Mr Hoffman of Langeberg Municipality indicated that all the other municipalities are looking at the pilot municipalities for direction and insists that proper guidance are necessary in the form of documentation, particularly from the pilot sites. He suggested that PT can perform that specific role in providing a sort of road map to non-pilot municipalities on how to approach the mSCOA implementation process. Mr Fortuin responded that PT will make available the document published by the Integrated Consultative Forum (ICF) to all municipalities.</p> <p>Mr Johannes told the MAF delegates that the mSCOA process is a business process reform and he highlighted the initiatives PT has introduced to assist both the pilot and non-pilot municipalities with mSCOA implementation. He also encouraged all the read all the mSCOA documents issued by NT but also to attend the related training initiatives of PT. Mr Johannes also indicated that PT will soon appoint a project manager which will drive the process further. He said that the reforms cannot be viewed in isolation from the ongoing operations within the municipality. NT has appointed a service provider to assist municipalities with change management into the risk assessment. NT project managers will also be invited to the Western Cape to address the concerns of the municipalities. Mr Johannes understood the difficulties encountered by the municipalities with the implementation of this enormous project but urged municipalities not to be discouraged by it all.</p> <p>Ms Fortuin suggested that mSCOA is not deviating much from GRAP standards and that Mr King at the <b>next MAF</b> meeting bring forward practical examples of mSCOA item segments which Overstrand Municipality had issues with.</p> |

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|         | <p><b>Lessons Learnt: Drakenstein Municipality</b></p> <p>Mr Engelmohr of Drakenstein Municipality provided the delegates with 10 lessons Learnt in the mSCOA process thus far.</p> <ol style="list-style-type: none"> <li>1. A mind shift is needed for the implementation of mSCOA. <ul style="list-style-type: none"> <li>- Change is required from a conventional to a project based approach.</li> </ul> </li> <li>2. Implementing mSCOA is a learning curve and errors will emerge along the way.</li> <li>3. The size of mSCOA was under-estimated <ul style="list-style-type: none"> <li>- The users running the reports will require upgrades to hardware to be able to work with the data.</li> </ul> </li> <li>4. To non-pilot sites: This process provides an opportunity to all to clean-up the current structure <ul style="list-style-type: none"> <li>- Cleaning certain control and clearing accounts.</li> </ul> </li> <li>5. The project should not be spearheaded by the finance department. <ul style="list-style-type: none"> <li>- It is an organisational change that is required which should involve technical departments, municipal managers (MMs), internal auditors etc.</li> </ul> </li> <li>6. The importance of the implementation of the revenue sub-system of mSCOA should not be under-estimated as a delay could have cash flow problems.</li> <li>7. Downtime on the financial system will occur and systems will not be ready on 1 July 2017. This fact should also be taken into account.</li> <li>8. Early consultation with service providers is vital <ul style="list-style-type: none"> <li>- Engage with service providers in working groups.</li> </ul> </li> <li>9. Sufficient data testing must be done on data before implementation <ul style="list-style-type: none"> <li>- At least 2-3 months before implementation</li> </ul> </li> <li>10. A process plan should be compiled and should be followed and clearly monitored. <ul style="list-style-type: none"> <li>- If deviations occur then corrective steps should be implemented to ensure that the project does not derail.</li> </ul> </li> </ol> <p>Mr Engelmohr indicated that lots of hard work has been done already and that lots still need to be done. He urged municipalities to learn from lessons learnt from Drakenstein Municipality.</p> <p><b><u>Q&amp;A/Comments</u></b></p> <p>Mr Sabbat indicated that he foresees major integration problems on the Ignite system in the Western Cape. Mr King mentioned that Overstrand Municipality is currently at the stage where the financial systems must be integrated on the Ignite system.</p> <p>Ms Fortuin said that Knysna Municipality appointed an external project manager to run the project on behalf of the municipality. Mr King mentioned that a project co-ordinator was appointed by Overstrand Municipality to monitor and collate the processes according to the timeframes set out for implementation. Ms Fortuin concurred with Mr King and encouraged other municipalities to also have a project co-ordinator to assist with the mSCOA implementation.</p> <p>Ms Fundi indicated that Knysna Municipality experience some resistance in some sections within the municipality as well as system challenges in report generation.</p> |

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|         | <p>Mr Dominique Waso of the City of Cape Town (CoCT) said that the magnitude of size of the CoCT is different to the other municipalities and therefore gives different challenges. The biggest challenge is change management in the CoCT due to the number of people that needs to be reached and engaged with. The SAP system is a big integrated financial system and though it is not yet at an acceptable level it is envisaged that the budget will be mSCOA compliant.</p> <p>Drakenstein and Knysna municipalities responded to Mr Brown of Langeberg Municipality that they are not operating simultaneous financial systems as it will be too time consuming.</p> <p>Mr Brown expressed concern as the A-G indicated that the AFS will be audited on the GRAP standards. He however suggested that PT take forward the proposal submitted during the CFO forum for a transitional phase-in approach for mSCOA (like was done in 2004 with GRAP implementation). Metros and high capacity municipalities implementing first than medium and low capacity municipalities implementing later. Realistically, Mr Brown foresees that the time available will not be enough to implement mSCOA.</p> <p>Mr Sabbat concurred with Mr Brown's suggestion and proposed that Mr Jan Hattingh of NT be approached to determine, by 1 July 2016, whether a phase-in approach for mSCOA could be considered after taking into account the statuses of the system vendors together with the respective pilot sites. Mr Sabbat urged municipalities to at least have in place an excel-format budget, taking into account all the new mSCOA segments.</p> <p>In view of NT's final ICF meeting in December 2015, Mr Sabbat proposed for a monthly or bi-monthly platform/forum for mSCOA. This is due to the anticipated initiatives mentioned by PT, NTs decentralisation of some of the mSCOA implementation functions and the limited time available for implementation. He also suggested bringing forward the next MAF meetings to discuss mSCOA issues at all the forthcoming MAFs. He suggested that practical examples be brought to the MAFs e.g. Overstrand Municipality's general ledger into the new mSCOA segments.</p> <p>Ms Fortuin noted the suggestions made by the delegates which will be taken to the PT for consideration. She also indicated that the PT HOD/HOT met with Mr Jan Hattingh of NT to discuss the mSCOA issues and concerns.</p> <p>Concern was also expressed with regards to the costs which the system vendors are billing municipalities relating to the mSCOA implementation. Mr Frans Sabbat proposed PT to assist municipalities into the mSCOA billing by system vendors – what may be charged by system vendors?</p> <p>Ms Fortuin said that the costs are exorbitant and that system vendors are not supposed to charge pilot site municipalities as it also assists the respective systems which the system vendors will market and sell ultimately.</p> <p>Mr Sabbat said that Beaufort West Municipality is currently not as far as Overstrand or Knysna municipalities however they are busy with their forth work stream, data cleansing in the revenue section. He proposed that the MEC via the various IGR structures, places a moratorium on CFOs exiting the LG system due to CFOs in other provinces terminating their employment at municipalities in fear of mSCOA implementation. The situation might leave a municipality in worst positions into capacity and stability.</p> <p>Mr King said that even though the last ICF is planned in December 2015, the piloting process will continue. He however said that the ICF meeting was a window of opportunity for municipalities to discuss issues of mutual concern regarding mSCOA and will definitely leave a gap in the implementation process. Ms Fortuin concurred with Mr King and said that it is unfortunate that the ICF meeting-platform will not continue anymore as it assisted everybody during the meetings enormously.</p> |



