

Public Sector: Accounting and Finance

Presenters: **Caryn Maitland CA(SA)**
Bronwyn MacCallum CA(SA)

27 JULY 2021

Session 7: MFM Processes, reporting and UIF
Understanding the practical processes underlying PFM in the MFMA cycle

Presenter

Caryn Maitland CA(SA)

Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.



Presenter

Bronwyn MacCallum CA(SA)

Bronwyn qualified as a CA(SA) in 2004 and has spent time in private practice as a partner and later director of small and medium firms as well as a tenure at the Auditor-General of South Africa as a Senior Manager and SAICA Training Officer. Her current professional focus is on the design, implementation and monitoring of systems of quality control in the auditing profession for firms and for engagements.

Bronwyn has also spent many years lecturing Auditing, IFRS and Public Financial Management at undergraduate, post-graduate and professional levels, both face to face and in the design and implementation of blended and on-line learning platforms. Bronwyn has played active roles at both SAICA and IRBA in board sub-committees related to professional practical training and development, and in various public sector governance structures and audit committees.

Bronwyn has significant experience in auditing in the public sector in South Africa, in audit committee and financial misconduct governance structures and speaking and presenting to political oversight structures. Bronwyn has also had extensive experience in the authoring and quality assurance processes of professional learning content for public finance management and related disciplines in government for the English speaking African countries. Topics include accounting and auditing in the public sector, public sector context, public financial management, financial management, economics, performance management, ICT and communications.

The content and training materials prepared and delivered have catered to both qualified accounting professionals working in the public sector, as well as to long-serving public servants who have not been formally trained in PFM, accounting and finance in the public sector.



COURSE OUTLINE

Session Objectives

Obtain a high-level understanding of:

- . Obtain a high level understanding, at the level of an entity in the MFMA cycle, the following processes:
 - The strategic planning cycle
 - The budget cycle
 - Financial management
 - . Day to day financial management
 - . Monthly reporting
 - . Annual reporting
 - The annual audit process and reporting to Council, COGTA and Treasury
 - The life cycle of unauthorised, irregular and fruitless and wasteful expenditure

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- Implementation of PFM
- Financial management sections
- Integrated development planning
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- Accounting and reporting
- Auditing and assurance
- Irregular expenditure

PFM: Practical implementation

Definition of PFM:

- The set of **laws, rules, systems and processes** used by governments to
 - increase and collect revenue
 - allocate public funds
 - implement service delivery and public expenditure
 - account and report for spending and service delivery
 - provide assurance over the results

Financial management sections

- Integrated Development Planning and performance management
- Budget
- Revenue
- Expenditure
- Assets
- Procurement and supply chain management

Integrated Development Planning

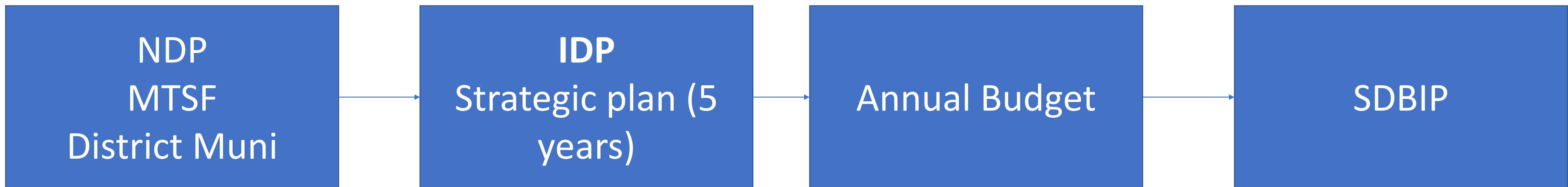
- Informed by:
 - Process:
 - Municipal Systems Act: Integrated Development Planning
 - MFMA
 - LG Municipal Planning and Performance Management Regulations (2001)
 - LG Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers (2006)
 - Relevant national and provincial strategic planning laws and regulations
 - Strategic objectives and goals: NB ALIGNMENT WITH NAT AND PROC GOV
 - Municipality's development objectives
 - National Development Plan (NDP) (2030 development targets)
 - Medium Term Strategic Framework (MTSF) published by the Department of Planning, Monitoring and Evaluation (DPME)
 - Spatial Development Plans (SDPs)
 - Co-operative governance sources and objectives

Integrated Development Planning

Terminology/definitions:

- Integrated Development Planning:
 - Developmentally orientated to achieve the constitutional local government objectives
 - Progressive realization of the fundamental rights in the Constitution
- Integrated Development Plan = Strategic Plan

Integrated Development Planning



The Integrated Development Plan

- District Municipality: Adopts a framework for integrated development planning for the area as a whole
- Each Council adopts a process for planning, drafting, adoption and review of their IDP and must allow for community participation and inputs at all stages
- 5-year IDP - strategic plan
- Once every 5 years ideally from the first planning cycle following an election
- Links, integrates and co-ordinates plans and proposals for development
- Aligns resources and capacity with implementation of the plan
- Forms the policy framework and basis on which annual budgets must be based
- Compatible with national and provincial development plans

The Integrated Development Plan

- Must include:
 - Vision, with focus on most critical development and internal transformation needs
 - Assessment of current development, including communities who do not have access to basic services
 - Development priorities and objectives and development strategies
 - Spatial development framework and land management strategies
 - Disaster management plans
 - Financial plans (3 year projection)
 - Key performance indicators and targets

The Integrated Development Plan

- Process:
 - Responsibility of Executive Council or Executive Mayor (or a Committee of Council) to:
 - Manage the drafting process
 - Assign responsibilities to municipal manager
 - Submit the draft plan to Council for adoption
 - Council adopts IDP
 - Submit to MEC for local government within 10 days of adoption
 - Notice and publish to public with 14 days of adoption (inviting comment)
 - MEC can submit requests for amendments within 30 days of receipt of IDP
 - Council has 30 days to respond to MEC with amendment or objection
 - MEC has 21 days to agree to objection or to refer to adhoc committee
 - If the adhoc committee disagrees with Council's objection, Council has 30 days to make amendments to IDP
 - Annual review in terms of performance management processes and amendment where required

Performance Management

- Establish a performance management system:
 - Commensurate with resources
 - Suited to its circumstances
 - In lines with development objectives, priorities, indicators, targets etc
- Promote a culture of performance management among its political structures, political office bearers, councilors and in its administration
- Administer its affairs in an economic, effective, efficient and accountable manner
- Annual review of performance management system

Performance Management

- Core components
 - Key performance indicators for measuring performance including outcomes and impact
 - Measurable performance targets
- Monitor performance
- Measure and review performance at least annually and in such a way that early warning indicators of under-performance are included
- Take steps for improvement of performance
- Establish a process of regular reporting to Council and the Public
- Must be audited
 - By internal audit
 - By the AGSA

The budget process

- Informed by:
 - MFMA
 - DORA (equitable share, conditional grants)
 - NT Budget Circulars (MFMA)
 - Medium Term **Revenue and** Expenditure Framework (MTREF) and related guidelines, circulars and templates
 - Covid, GRAP
 - Maximising revenue generation of the municipal revenue base
 - Municipal Budget and Reporting Regulations (MBRR)
 - Municipal Standard Chart of Accounts (MSCOA)
 - Legislation affecting revenues (eg Municipal Property Rates Act)
 - Municipal economic area:
 - Realistically anticipated revenues to be collected and cash-backed accumulated funds
 - Focus on sustainability

The budget process

- Process:
 - Mayor (or responsible party) must table process and timeless for budget preparation and IDP review at least 10 months before the start of the FY (before 1 October)
 - Annual budget must be approved by Council before the start of the financial year
 - Mayor to **table** before Council at least 90 days before start of FY, including:
 - Draft resolutions for :
 - Approval of budget
 - Tariff changes
 - Immediately after tabling:
 - make public and invite comment
 - Submit to NT, PT, COGTA, District Muni, any other affected organs of state / municipalities
- Council to **approve** budget at least 30 days before start of FY
 - Submit approved budget to NT and PT
- Next step: SDBIP →→

The budget content

- Content: prescribed format (By NT: Aligned to the MSCOA)
- For budgeted FY:
 - Realistically anticipated revenue per revenue source
 - Appropriated expenditure per vote
 - Capex (multi-year appropriation) and opex
- And for future 2 FYs
- And actuals for previous FY
 - Measurable performance objectives for revenue from each source and for each vote taking into account the IDP
 - Monthly cash flow projection
 - IDP amendments
 - Grants and other allocations
 - Proposed salary budgets: Council, political office bearers, MM and s56 managers
 - Entity budget information

Budget Implementation

- Informed by:
 - MFMA: Financial Management Section
- MFMA: AO is responsible for implementing the municipality's approved budget, taking steps to ensure:
 - Spending of funds is in accordance with the approved budget
 - Spending is reduced as necessary when revenue is less than projected in the SDBIP
- →→ AO to submit to Mayor within 14 days of approved annual budget
 - the draft Service Delivery Budget Implementation Plan (SBDIP)
 - Draft performance agreements for the MM and s56 managers

Revenue Management

- Informed by:
 - Municipal Systems Act
 - Municipal Services – Tariffs, Service Delivery, Credit Control and Debt Collection)
 - MFMA
 - Bank accounts, budgets (realistic revenue), co-operative government (equitable share, tariff capping), AO's responsibility for system of internal control, revenue management

Revenue Management

- Tariff policy (emphasis below is added): (Muni Sys Act)
 - Equitable treatment of users
 - Payment in proportion to use of service
 - Access to minimum basic services by poor households
 - Eg life line tariffs
 - Low consumption tariffs
 - Subsidization
 - Must reasonably reflect costs of service provision (maintenance, capital etc)
 - Facilitate financial sustainability of the municipality including subsidisation
 - Full disclosure of all elements
- Implementation through by-laws

Revenue Management

- Credit control and debt collection: (Muni Sys Act)
 - Establish a sound customer management system – aims to create a positive and reciprocal relationship between municipality and consumers
 - Effective two-way communication (information on rates and tariffs, obtain feedback)
 - Accurate and verifiable measurement of consumption
 - Consumers receive regular and accurate accounts stating the basis of calculating amounts due
 - Mechanisms for querying or verifying accounts/consumption
 - Mechanisms for dealing with complaints including measuring response time
 - Provision of accessible pay points for settling accounts or buying pre-paid services

Revenue Management

- Debt collection: (Muni Sys Act)
 - Must collect all debts due to it
 - Must implement a credit control and debt collection policy consistent with rates and tariffs policies
 - Credit control procedures
 - Debt collection procedures
 - Provision for indigent debtors (consistent with rates and tariff policies)
 - Realistic targets consistent with
 - GRAP and collection ratios
 - Budget income estimates less an acceptable provision for bad debts
 - Interest on arrears
 - Arrangements for payments (extensions of time)
 - Termination of services / restriction of services

Revenue Management

- MFMA: Internal Control:
 - The AO is responsible for the managing the financial administration of the municipality and must take all reasonable steps to ensure:
 - Full and proper records are kept
 - The Municipality has and implements policies for:
 - Rates
 - Tariffs
 - Credit control and debt collection

Revenue Management

- MFMA: Revenue management:
 - Effective revenue collection systems
 - Revenue calculated on a monthly basis
 - Accounts prepared on a monthly basis
 - Monies promptly deposited
 - Management, accounting and information system which:
 - Recognises revenue when it is earned
 - Accounts for debtors
 - Accounts for receipts
 - System of internal control iro debtors and revenue
 - Interest of arrear accounts
 - Weekly reconciliations of revenue received

Expenditure Management

- Informed by:
 - Municipal Systems Act: Municipal services
 - MFMA: expenditure management
- Requirements:
- MFMA: Internal Control:
 - The AO is responsible for the managing the financial administration of the municipality and must take all reasonable steps to ensure:
 - Resources are used efficiently, effectively and economically
 - Full and proper records are kept
 - UIFW and other losses are prevented

Expenditure Management

- MFMA: Expenditure Management:
 - Effective system for expenditure control including procedures for approval, authorisation, withdrawal and payment of funds
 - Maintains a management, accounting and information system which:
 - Recognises expenditure when it is incurred
 - Accounts for creditors of the municipality
 - Accounts for payments made by the municipality
 - System of internal control iro creditors and payments, including to whom and how payments are made
 - All monies owing paid within 30 days of receipt of invoice (unless contractually agreed otherwise)
 - Effective and economical management of working capital
 - Requirements for SCM system are met
 - Monthly closing and reconciliation of accounts

Asset Management

- Informed by:
 - MFMA:
 - Asset and liability management, SCM, asset disposals
- Requirements:
- MFMA: Internal Control:
 - The AO is responsible for the managing the financial administration of the municipality and must take all reasonable steps to ensure:
 - Resources are used efficiently, effectively and economically
 - Full and proper records are kept

Asset Management

- MFMA:
 - The AO is responsible for the management of:
 - Assets of the municipality, including the safeguarding and maintenance of those assets, and
 - The Liabilities of the municipality
 - To AO must take all reasonable steps to ensure:
 - A management, accounting and information system that accounts for the assets and liabilities of the municipality
 - That the municipality's assets are valued in accordance with GRAP
 - An internal control system over assets and liabilities, including an assets and liabilities register

Procurement and Contract Management

- Informed by:
 - Municipal Systems Act
 - MFMA: Chapter 11
 - NT's Municipal Supply Chain Management Regulations
 - NT Practice notes
 - Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);
 - Broad Based Black Economic Empowerment Act, 2003

Procurement and Contract Management

Range (incl VAT)	Requirements		
PETTY CASH Up to R2 000	No quotations required Petty cash Internal controls		
VERBAL OR WRITTEN PRICE QUOTATIONS Between R2 000 and R10 000	3 verbal or written quotations	Order placed against written confirmation	
FORMAL WRITTEN PRICE QUOTATIONS Between R10 000 and R200 000	Invite and accept written price quotations from as many suppliers as possible	Suppliers must be registered as prospective suppliers	Open to other suppliers if no suitable prospective suppliers
COMPETITIVE BIDDING Above R200 000 (incl VAT) (PFMA: R500 000)	Invite competitive bids	Advertise No deliberate splitting PPPF	Deviations

Procurement and Contract Management

- S31: IT goods and services procurement through SITA
- S32: Procurement of goods and services under contracts secured by other organs of state
- S36: Deviation from, and ratification of minor breaches of, procurement processes
- A supply chain management policy may allow the accounting officer to dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only (not exhaustive):
 - in an emergency;
 - if such goods or services are produced or available from a single provider only;
 - in any other exceptional case where it is impractical or impossible to follow the official procurement processes

Procurement and Contract Management

- A system for procurement and contract management must cover the management of:
 - Demand
 - Acquisition
 - Logistics
 - Disposal
 - Risk
 - Regular assessment of supply chain performance

Procurement and Contract Management

- MFMA Ch 11:
 - Must have and implement an SCM policy that is fair, equitable, transparent, competitive and cost-effective
 - Policy must comply with prescribed regulatory framework and must at least (examples):
 - Range of permitted processes (tenders, quotations, auctions etc)
 - Procedures for each process
 - Different flexibilities for different prescribed amounts
 - Procedures and mechanisms for competitive bidding: qualification of bidders, documentation, advertising, receiving, opening, recording, evaluation, negotiation, concluding, contracting etc
 - Measures for combatting fraud, corruptions etc and promoting ethical practices
 - Internal controls for contract management

Procurement and Contract Management

- Unsolicited bids
- Approval of tenders not recommended (process includes notification of AG, PT, NT)
- Implementation of a system
- Contracts and contract management
 - Termination for non- or under-performance; dispute resolution and periodic review of long-term contracts
 - Contract enforcement, monthly monitoring
- Barring of councillors from serving in SCM structures
- Minimum competency levels

Accounting and Reporting

- Monthly reporting:
 - In terms of MFMA
 - Reports on expenditure on staff benefits: s66 reports
 - Submit to Council
 - Expenditure on staff benefits, for example:
 - Salaries and wages
 - Contributions for pensions and medical aids
 - Allowances (travel, accommodation, subsistence, housing, etc)
 - Overtime payments
 - Loans and advances

Accounting and Reporting

- Monthly reporting:
 - In terms of MFMA, DORA
 - Monthly budget statements: s71 reports
 - Submit to Mayor and PT in prescribed format within 10 working days
 - FY to date:
 - Actual revenue per source, borrowings, expenditure, capital expenditure, allocations received, expenditure against allocations (equitable share, conditional grants)
 - Explanations for material variances – financial, SDBIP
 - Corrective / remedial action to be taken
- Projections for remainder of year

Accounting and Reporting

- Bi-annual reporting:
 - In terms of MFMA, DORA
 - By 25 January every year
 - Mid-year assessment of performance of the first half of the financial year:
 - 6 x s761 reports
 - 1st and 2nd quarters of the SDBIP
 - Previous year's annual report and progress on resolving problems identified in that report
 - Municipal entity performance
 - Recommended adjustments to budget/IDP
- Submit to Mayor, NT and PT

Accounting and Reporting

- Annual report (AR):
- Audit report issued usually within 5 months of YE (2 months AFS, 3 months audit)
- Tabled within 1 months of receiving audit report at public meeting of Council (written notice to public, MEC, AGSA) (→ 6 months, → 7months if consol)
 - Presentations by the MEC, AGSA, MM to respond to any questions on the AR
 - Minutes to MEC, AGSA
- Council must **CONSIDER** within 2 months of tabling of annual report (→ 8 months, or →9months if consol)
- Council must **deal** with the annual report within 9 months of the YE
 - Approve
 - Reject
 - Refer back for revision
- Annual report and oversight report submitted to provincial legislature

Accounting and Reporting

- Annual report (AR):
 - Performance report:
 - Performance in comparison to targets and previous year
 - The development and service delivery targets for the next year
 - Measures to improve performance
 - Financial statements (GRAP ito PFMA)
 - Audit report on AFS and on performance
 - Assessment by AO of any arrears on services charges/taxes etc
 - Particulars of corrective action taken iro matters raised in previous audit reports
 - Explanations to clarify matters in the AFS
 - Audit Committee recommendations

Accounting and Reporting

Annual reporting:

- **Annual financial statements** must
- Fairly present the state of affairs of the municipality, its performance against its budget, its management of revenue, assets and liabilities, its business activities, its financial results and its financial position as at the end of the financial year
- Be prepared in accordance with generally recognised accounting practice as prescribed by the PFMA – in this case statements of GRAP as issued by the ASB
- Disclosures relating to Councillors, directors and officials, intergovernmental disclosures and other MFMA compulsory disclosures (eg audit fees, bank account information etc)

Auditing and Assurance

- The AGSA is the organisation that exists in terms of the Public Audit Act to support and carry out the constitutional mandate of the Auditor General as created by Chapter 9 of the Constitution
- The AG determines the scope of the assurance provided to parliament
- The AG has determined to audit in terms of the ISSAIs and the ISAs and to perform procedures in the following areas:
 - Regularity audit
 - Financial statements
 - Compliance
 - Reported performance against pre-determined objectives
 - Internal control
 - Performance Audit
 - Compliance Audit
 - Any other investigations

Auditing and Assurance

- For MFMA:
- Municipalities submit AFS and annual performance report to AGSA by 31 August
- Consolidations to be submitted by 30 September
- AGSA to audit and report on separate AFS etc by 30 November and by 31 December on consolidations
- Institutions include AGSA report in annual report
- AGSA presents reports to Council
- A municipality MUST address any issues raised by the AG in an audit report

UIFW

Liability for:

- S32: A political office bearer, municipal manager – liability for unauthorised, irregular or fruitless and wasteful expenditure

Recovery of:

- S32: A municipality **MUST** recover UIFW from the person liable for that expenditure, unless:
 - The unauthorised exp was authorised in an adjustment budget or certified after investigation by a Council committee as irrecoverable and written off by Council
 - The irregular or F&W expenditure was certified after investigation by a Council committee as irrecoverable and written off by Council

UIFW

Reporting:

- Promptly in writing: Mayor, MEC for LG and AGSA of:
 - Any UIFW
 - Whether any person is responsibly / under investigation
 - Steps taken to recover / rectify and prevent
- To SAPS
 - all alleged cases of UIFW that constitute a criminal offence
 - Theft and fraud that occurred in the Municipality

UIFW

- MFMA: Internal Control:
 - The AO is responsible for the managing the financial administration of the municipality and must take all reasonable steps to ensure:
 - UIFW and other losses are prevented
 - Disciplinary/criminal proceedings are instituted against any official who has allegedly committed and act of financial misconduct
- MFMA: Financial Misconduct:

Irregular expenditure

PROCESS

- Irregular expenditure identified
- Accounting officer reports (includes in register) to Council, AG, PT
- Council refers to Council Committee to investigate and recommend as recoverable/irrecoverable
- Recoverable: Institute debt collection proceedings and consider financial misconduct proceedings
- Irrecoverable: Write off as irrecoverable and consider financial misconduct proceedings
- If written off: Disclose in AFS and update IE Register
- Expenditure to be recovered should remain as an entry in the register until recovered and then the register should be amended/updated

Irregular expenditure

FINANCIAL MISCONDUCT

- The MFMA contains provisions relating to financial misconduct which include the making, instructing or permitting of irregular expenditure either on purpose or negligently.
- Alleged irregular expenditure must be investigated and if the allegations are confirmed, appropriate disciplinary action must be taken

Irregular expenditure

- Council's role:
 - S32 of the MFMA
 - Authorise a council committee to investigate the recoverability of expenditure and the liability of officials responsible for the expenditure
 - Council only ratifies, regularises, authorises, UIFW (after an investigation by a committee)
- NT's role:
 - S170 of the MFMA
 - Authorises NT to condone the non-compliance with the MFMA (or other legislation) which led to the expenditure being irregular
 - Only NT may condone non-compliance. Not Council.

QUESTIONS

**Thank you
for your participation**