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Cc: CD_Local Government Budget Analysis
Subject: 00. Verification of Budget Information for purposes of publishing the 2019/20 MTREF information

To all Municipal Managers, Chief Financial Officers and other municipal officials,
CC: The Head Official: Provincial Treasury,
CC: MFMA Coordinators,
CC: CD: LGBA,

Background:

Each year National Treasury publishes a consolidated set of budget information for all municipalities. This practice is aligned to the MFMA and has been institutionalised over the last twelve years. For those municipalities who are unfamiliar with this publication, kindly visit the National Treasury Website using the following link:
http://mfma.treasury.gov.za/Media_Releases/mbi/Pages/Municipal%20Budgets%20-%20Main%20Page.aspx
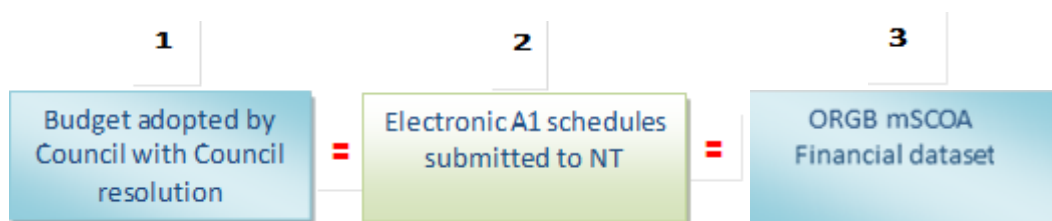You are reminded that the National Treasury has discontinued the use of the budget return forms from 1 July 2019 and will publish all budget related and S71 information directly from the *m*SCOA data strings for 2019/20 onwards. However, municipalities must use the old electronic returns for the purpose of verifying the audited years and the adjustment budget.

What are the objectives of this exercise?

1. To obtain a full set of 2019/20 MTREF budget information from all municipalities in terms of the MFMA and the annual budget circulars released by NT;
2. To obtain the 2019/20 MTREF in the prescribed *m*SCOA classification framework in Version 6.3;
3. To ensure that the budget adopted by Council contains the same information as the A1 schedules submitted and the ORGB perfectly reconcile to tables A1, A2, A4, A5, A6, A7 and A9 of the adopted budget; and
4. To compile a credible baseline for the monitoring of in-year performance through the Section 71 reporting process, reporting to Parliament and informing key policy funding decisions.

What does the budget verification exercise involve?

1. The reconciliation process involves ensuring that the following documents all contain the same information/numbers, in other words, the information in all documents must reconcile:

2.   No. 1 is the legally adopted budget of the Council (hard and soft copy) – **NO CHANGES CAN BE EFFECTED AS IT IS THE LEGALLY APPROVED BUDGET OF THE MUNICIPALITY**. If however there are errors in the adopted budget, these errors may only be corrected during the **Adjustments Budget** process in January/February 2019;
3.   If the information in No. 1, 2 and 3 do not reconcile, **THEN CHANGES CAN ONLY BE MADE TO No. 2 OR No. 3** (depending on where the errors exist). However, in terms of the *m*SCOA Regulations, the budget must be approved and locked on the system and if the budget has already been locked on the system, then changes can only be made during the adjustments budget process; and
4.   In addition, No. 3 must be a successful submission of the ORGB data string and will be evaluated for the correct format, periods and posting levels as well as the 16 point segment validation testing / analysis posting rules. Thereafter an extraction in the A1 schedule format will be made using the LGDRS. This schedule must reconcile with the A1 schedule adopted by council. Kindly note that the rules for the alignment have been shared with all vendors to ensure that municipalities and National Treasury uses the same rules for the alignment.

In addition to the verification of the 2019/20 MTREF budget, all previous year's figures should align with the audited financial statements of the municipality and any restatement of audit figures and the current figures should align to the adopted adjustments budget.

What is the process to complete the verification?

1. All A1 schedules (in Excel), hard and electronic copies of the budget documents should have been submitted to NT within 10 working days after the adoption of the budget;
2. The *m*SCOA ORGB data strings must be prepared in the correct format, pass the segment validation testing and segment use analysis and uploaded to the LG Upload Portal within 10 working days after the adoption of the 2019/20 MTREF budget;
3. Before submission of the information, municipalities are required to ensure that the information in all of these documents reconcile with each other;
4. Upon receipt of the information from the municipality (within the above timeframes), National (for non-delegated municipalities) and provincial treasury (for delegated municipalities) staff will verify whether the information reconciles;
5. NT and PTs will correspond with municipalities where corrections need to be effected;
6. Municipalities need to effect the identified corrections and resubmit to NT and / or the LG Upload Portal;
7. Once information in all documents reconcile, the process is complete and the LGDRS will lock the figures for publication purposes; and
8. **In 2018, it was found that most municipalities do not use and combine the correct segments to populate an accurate cash flow statement and further guidance on the reconciliation of the cash flow information will be provided in due course.**

What happens if the information does not reconcile?

As supplementary information to the budget publication, NT usually publishes two lists for submission to Parliament and the Auditor-General. These lists include the names of:

1. All municipalities who have not submitted a complete set of 2019/20 MTREF budget information; and
2. All municipalities whose budgets did not reconcile.

In addition, National Treasury reserves the right to invoke Section 38 of the MFMA which empowers NT to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(1) of the Constitution which includes reporting obligations set out in the MFMA and NT requests for information in terms of Section 74 of the MFMA.

How should you support the process?

1. Submit all outstanding information as a matter of urgency to NT and the LG Upload Portal (all 257 municipalities as in the current demarcation to avoid non-compliance);
2. Conduct an internal check to see if the information reconciles (do not wait to hear from NT and PT first);
3. Where corrections need to be effected, either re-submit the A1 schedules and / or revised *m*SCOA data strings;
4. Provide full co-operation to NT and PT officials in the completion of this exercise; and
5. Verify information relating to the previous and current financial years – ensure that figures correspond with the audited AFS and adopted adjustments budget of the municipality.

We trust that you will give this process your full support and that the budget publication will reflect a full set of perfectly reconciled information for all 257 municipalities. Should you have any questions, kindly contact your provincial treasury or the analyst responsible for your province/municipality at NT. The final deadline for the completion of this exercise is **30 September 2019.**

However, the provincial treasury or the analyst responsible for your province at NT may set an earlier deadline to ensure that the adopted budget information for all municipalities in the province has been verified by the deadline date.

Lastly, you are reminded to provide us with the signed **Quality certificate** as outlined in MFMA Circular No. 58, as well as the signed**Budget Locking certificate** certifying that the budget figures have correctly been captured in the municipality's financial system.

Kind regards,

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