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Cc: CD_Local Government Budget Analysis <CD_LocalGovernmentBudgetAnalysis@treasury.gov.za>

Subject: 00. Submission of 2019/20 Annual Financial Statements (AFS), Pre-Audit Information and 2020/21 Adjustments Budget

To Municipal Managers and Chief Financial Officers,

The purpose of this e-mail is to deal with the process for the 2020/21 adjustments budgets given the additional allocations to municipalities, the submission of the 2019/20 annual financial statements, the conditional grant roll-over process and the deadline for the tabling of the 2020/21 MTREF budget process timetable. In addition, it is to remind municipalities of the disclosure requirements in the form of the "Appropriation Statement" to be included in the AFS. This must all now be in line with the revised *m*SCOA aligned specimen Annual Financial Statements (AFS), issued for implementation on 29 July 2019.

2020/21 Adjustments Budget:

The 2020 National Supplementary Budget was delivered by the Minister of Finance in Parliament on the 24 June 2020. The 2020 Supplementary Budget responds to the COVID-19 pandemic and its impact on the economy. This includes the R20 billion allocation for local government announced by the President to assist in funding COVID-19 expenditure. This allocation consists of R11 billion added to the local government equitable share and just over R9 billion that was repurposed for the provision of water and sanitation and for sanitising public transport facilities within existing grant allocations to local government. In terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR), municipalities must adjust their 2020/21 MTREF budgets to account for the **revised funding allocations** that were made available.

In addition, municipalities should use this adjustments budget **to reprioritise the 2020/21 budget** to respond to the impact of the COVID-19 pandemic on the budget. Given that it has been 5 months since the lockdown, better quality information should be available to inform the budget assumptions. Municipalities that have **adopted unfunded budgets** for the 2020/21 financial year must also correct their budgets through this process to ensure that the adjustments budgets are funded. The 2020/21 adjustments budget must be adopted by Council by no later than **30 September 2020**. For further information, feel free to look at the Media Statement issued by the Ministry of Finance on the outcome of the Budget Forum meeting resolutions held on 21 August 2020.

The adjustments budget data string for 2020/21 must be submitted in the format of a *m*SCOA data strings uploaded to the LG UpLoad Portal within 10 working days after the adjustments budget has been adopted by Council. Furthermore, funding and expenditure that pertain to COVID-19 must be recorded and ring fenced through the Municipal Standard Chart of Accounts (*m*SCOA) as per the guidance provided in *m*SCOA Circular No. 9 that was issued on 9 June 2020. The conditional grant reports required in terms of the Division of Revenue Act must also be provided to the transferring Department and the National Treasury.

Annual Financial Statements:

In terms of Government Gazette No. 43582 of 05 August 2020, municipalities were granted exemption from Sections 126(1) and (2) of the MFMA. The Exemption notice provide for a 2 months extension to municipalities and municipal entities for submission of the **annual financial statements (AFS)** for **2019/20** to the Auditor-General (AG). Therefore the AFS must be submitted **on / or before Saturday, 31 October 2020** (Also see MFMA Circular No. 104). In addition to submitting the AFS to the AG, Sections 5(2) and 74 of the MFMA, require that the annual financial statements be **simultaneously submitted to the National Treasury and the relevant provincial treasury**. Therefore, kindly ensure that the following information is submitted to National Treasury:

1. A copy of the pre-audit AFS submitted to the Auditor-General (in PDF format) to lgdocuments@treasury.gov.za OR uploaded to the LG UpLoad Portal (in PDF format); and

2. The pre-audit AFS must also be submitted in the format of the Pre-Audited Actuals (PAUD), CRPA (pre-audit creditors) and DBPA (pre-audited debtors) *m*SCOA data strings uploaded to the LG UpLoad Portal within 10 working days of submission to the AG.

Should any municipality be unable to submit its Annual Financial Statements by **Saturday, 31 October 2020**, please take note of the following:

1. Section 133 of the MFMA outlines the process that need to be adhered to in the event that the municipality fails to submit the required documents on time as follows:
 - The Mayor must promptly table in council a written explanation of the reasons for the failure to submit the AFS timeously;
 - The municipal council must investigate the reasons provided and institute appropriate disciplinary action;
 - The provincial executive may intervene in the municipality (Section 139 of the Constitution); and
 - The National Treasury and relevant provincial treasury may take appropriate steps against the municipality, including the stopping of funds (MFMA section 5(2)(e)).
2. A written explanation providing reasons for failure to submit the AFS by **31 October 2020** must be signed by the Mayor and submitted to the Office of the Accountant-General (NT), and emailed to lgdocuments@treasury.gov.za.

We would also like municipalities to take note that the National Treasury is consistently improving the quality of municipal financial information. In this regard, National Treasury has established a database consisting of the following local government financial information:

1. Tabled budgets;
2. Adopted budgets;
3. All adjustments budgets;
4. In-year financial reports (section 71 and conditional grants reports);
5. Preliminary outcome information (4th Quarter section 71 reports – which is a monthly submissions) – referred to as period 12;
6. **Pre-audit outcome information (the AFS as submitted to the AG – which is a year-to-date total) – referred to as period 13;**
7. **Audit outcome information (the AFS on which the AG has expressed an opinion – which are a year-to-date total) – referred to as period 14; and**
8. **Adjustments to the AFS following the approval of the adjustments budget to authorise and legalise unauthorised expenditure referred to in Regulation 28(6) of the MBRR – referred to as period 15, giving the final year-to-date total.**

Municipalities are reminded that corrections made in period 13 to 15 must be status (end-results) based and NOT movements when submitting the *m*SCOA data strings.

With regards to year-end information, the aim is to **collect three sets** of information (refer to 5, 6 and 7 above) to ensure that the latest outcome information is available at all times to inform planning and budget decisions making processes of national, provincial and local government.

Similar to the previous years, municipalities are requested to submit **cash and investment information** as at 30 June 2020 as articulated in the Pre-audit AFS for 2019/20 in the attached spreadsheet. In the absence of the pre-audited AFS due to the exemption notice,

municipalities must use the information in the bank statement as at end of June 2020 to populate the spreadsheet. This information is critical and forms part of the **evaluation criteria** for the 2019/20 financial year grant roll-over decisions and must therefore be submitted by 31 August 2020.

Conditional Grant Rollover process:

Rollover and Unspent Conditional Grant process:

In light of the exemption notice on the submission of the AFS, National Treasury has decided to keep the 2019/20 rollover criteria and timeframes the same as articulated in the original MFMA Circular No. 99.

However, in recognition of the implications that may arise as a result of the proof of commitment that municipalities must furnish as part of a motivation process to secure the rollover, National Treasury will put an emphasis on the following:

1. A signed letter by the Municipal Manager indicating the amount of the roll-over requested (The amount requested must provide the requests for roll-over per individual grant rollover and a motivation on the list of projects that are linked to unspent conditional grants);
2. Proof of the bank statement (bank stamped) reflecting the cash balance at the end of the financial year, 30 June 2020;
3. Indication in the letter that the unspent grants are committed and cash backed; and
4. An opportunity will be provided to municipalities for follow-up (or additional motivation) submissions on rollovers should their cash position and unspent conditional grant position change as a result of the finalisation of the Pre-Audited AFS.

The applications of municipalities that are able to submit the pre-audited AFS to National Treasury by 31 August 2020, together with the rollover request application pack, will be considered. Where the municipality will be submitting the AFS at a later date as per the MFMA exemption notice, those municipalities will be required to submit the bank statement as at end of June 2020 and a bank reconciliation statement as part of the rollover request application pack.

Applications to rollover any unspent Municipal Disaster Relief Grant (MDRG) that was transferred in May 2020 must also be submitted. As a result of the declaration of the Municipal Disaster Act, an amount of R150 million allocated as part of the 2020 Division of Revenue Bill was released to municipalities in terms of section 28 of DoRA. Municipalities are encouraged not to stop MDRG funded projects that are linked to COVID-19 responses.

The roll overs of municipalities that will be submitting their Pre-Audited AFS after 31 August 2020 will be re-assessed as and when the Pre-Audited AFS is submitted. National Treasury will communicate the unspent conditional grants amount by **13 November 2020**. The communication dated 13 November 2020 will also confirm the amount approved as verified through the Pre-Audited AFS submitted by **30 October 2020**. This means that a municipality's roll over approval that would have been informed by the bank statement and bank reconciliation statement will be validated by the AFS submitted by 30 October 2020. A municipality must return the remaining unspent conditional grant funds that have not been approved and are not subject to a specific repayment arrangement to the National Revenue Fund by **25 November 2020**.

Tabling of the Schedule of Key Deadlines for the 2020/21 MTREF Period:

Municipalities are also reminded that Section 21(1)(b) of the MFMA requires that a time schedule outlining key deadlines for the preparation, tabling and approval of the 2021/22 MTREF budget must be tabled in Council by no later than **Monday, 31 August 2020**. Kindly ensure that the timetable makes provision for the following visits by the National Treasury in respect of the non-delegated municipalities and visits by the provincial treasuries in respect of delegated municipalities:

1. Mid-year budget and performance assessment visits (January – March 2021); and
2. Budget and Benchmark Assessments (April – May 2021).

You are also reminded to ensure that a copy of the timetable is sent to National Treasury and the respective provincial treasury.

Appropriation statement (Reconciliation: Budget and End-year performance):

In order to ensure the seamless alignment between the Budgeting System (policy intent of Council) as regulated by the Municipal Budget and Reporting Regulations (Gazette No. 32141 dated 17 April 2009) and the accountability requirements as articulated in Sections 195 and 215 of the Constitution, 1996 (Act No.108 of 1996) in the form of the Annual Report (which includes the Annual Financial Statements), municipalities are reminded of the additional financial disclosure requirements as communicated by MFMA Budget Circular No. 67.

The disclosure requirements **must be included in the 2019/20 AFS** to be submitted to the Office of the Auditor General for auditing, National Treasury and relevant provincial treasury for information purposes.

Closing of Frequently Asked Questions (FAQ) Database:

Municipalities are reminded that requests for chart changes in version 6.5 of the *m*SCOA chart must be logged on the FAQ Database by **31 August 2020**. The proposed chart changes for version 6.5 will be made available to municipalities and system vendors for user testing by **31 October 2020** and will be issued for implementation with the MFMA Budget Circular in December 2020.

Kind regards

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