



provincial treasury

MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA

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Ref : MPT 12/11/6

PROVINCIAL TREASURY CIRCULAR NO. 56 OF 2023

THE MUNICIPAL MANAGER: BUSHBUCKRIDGE LOCAL MUNICIPALITY (MR J NGOBENI)
THE MUNICIPAL MANAGER: CITY OF MBOMBELA (MR W KHUMALO)
THE ACTING MUNICIPAL MANAGER: THABA CHWEU LOCAL MUNICIPALITY
(MR RS MAKWAKWA)
THE MUNICIPAL MANAGER: NKOMAZI LOCAL MUNICIPALITY (MR XT MABILA)
THE MUNICIPAL MANAGER: EHLANZENI DISTRICT MUNICIPALITY (DR NP MAHLALELA)
THE MUNICIPAL MANAGER: NKANGALA DISTRICT MUNICIPALITY (MS MM SKOSANA)
THE MUNICIPAL MANAGER: STEVE TSHWETE LOCAL MUNICIPALITY (MR M MNGUNI)
THE MUNICIPAL MANAGER: VICTOR KHANYE LOCAL MUNICIPALITY (MR T MASHABELA)
THE MUNICIPAL MANAGER: DR JS MOROKA LOCAL MUNICIPALITY (MS MM MATHABELA)
THE MUNICIPAL MANAGER: EMAKHAZENI LOCAL MUNICIPALITY (MR W SHABANGU)
THE MUNICIPAL MANAGER: EMALAHLENI LOCAL MUNICIPALITY (MR H MAISELA)
THE MUNICIPAL MANAGER: THEMBISILE HANI LOCAL MUNICIPALITY (MR D MAHLANGU)
THE MUNICIPAL MANAGER: GERT SIBANDE DISTRICT MUNICIPALITY (MR CA HABILE)
THE MUNICIPAL MANAGER: CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY
(MR ME THABETHE)
THE MUNICIPAL MANAGER: DIPALESENG LOCAL MUNICIPALITY (MR L CINDI)
THE MUNICIPAL MANAGER: DR PIXLEY KA ISAKA SEME LOCAL MUNICIPALITY
(MR MA NGCOBO)
THE MUNICIPAL MANAGER: GOVAN MBEKI LOCAL MUNICIPALITY (MR EN MASEKO)
THE MUNICIPAL MANAGER: LEKWA LOCAL MUNICIPALITY (MR M LAMOLA)
THE ACTING MUNICIPAL MANAGER: MKHONDO LOCAL MUNICIPALITY (MR SW NKOSI)
THE MUNICIPAL MANAGER: MSUKALIGWA LOCAL MUNICIPALITY (MR MM KUNENE)

THE DIRECTOR-GENERAL: OFFICE OF THE PREMIER (MR M MAMPURU)
THE HEAD: CO - OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS
(MR S NGUBANE)
THE ACTING PROVINCIAL CHIEF EXECUTIVE OFFICER: SALGA (MS D MATUMBA)

THE CHIEF DIRECTORATE: FINANCIAL GOVERNANCE
THE CHIEF DIRECTORATE: ASSETS AND LIABILITIES MANAGEMENT
THE CHIEF DIRECTORATE: SUSTAINABLE RESOURCE MANAGEMENT

CHANGING OF FINANCIAL SYSTEM DUE DILIGENCE PROCESS

The National Treasury has advised in MFMA Circular No. 123 dated 3 March 2023, that it is not cost effective to change financial systems every 3 to 5 years due to the high financial investment in procuring financial systems. The cost and risk associated with procuring and implementing a new Enterprise Resource Planning (ERP) financial system necessitate careful consideration and extensive planning to ensure a smooth operational transition.

Such a transition takes at least 18 months to conclude and does not come without challenges and disruptions in operations. The National Treasury will regulate the minimum business processes and system specifications for *mSCOA* by the end of 2024/25. Municipalities should therefore exercise extreme caution when changing the financial systems at this stage to eliminate fruitless and wasteful expenditure by procuring financial systems that may not comply with the said regulations.

The Municipal SCM Regulations do not prohibit the use of long-term contracts as long as the needs analysis and market analysis are done to justify the continuous need for the service. Municipalities may utilise Section 33 of the MFMA, taking into account the municipality's specific circumstances, **provided that the decision is legally sound and there is evidence to support the municipality's decision.**

Also, the expiry of the Service Level Agreement (SLA) does not necessitate the procurement of a new financial system – unless the system that is being used is not complying with the required business processes and system specifications. Where a municipality has entered into a SLA for the provision of system support and maintenance through an open procurement process, the Service Level Agreements (SLAs) may be extended in terms of Section 116(3) of the MFMA. Notwithstanding the above, since the ICT environment changes very quickly the municipal needs must be re-evaluated to ensure that the IT systems in place are still 1) compatible with the needs and systems of the municipality, 2) aligned to modern technology and new legislative requirements and 3) cost effective prior to concluding long-term maintenance and support agreements in the event that there are other financial management solutions or systems that may be better or even more cost effective as opposed to the current ones that may be outdated.

However, if municipalities procured the systems through the RT25-2016 transversal tender, then they must approach the market to procure a new service provider **for system support and maintenance** (not change the system that was procured through the RT25-2016). The RT25- 2016 contract has expired in May 2019. Therefore, the RT25-2016 cannot be utilised to procure financial systems and SLAs entered into through the transversal contract can be extended before they expire in line with Section 33 and Section 116(3) of the MFMA.

The due diligence processes set out in MFMA Budget Circulars No. 93, 98, 123 and *mSCOA* Circulars No. 5 and 6 must be followed prior to procuring a new financial system to protect them from making incorrect decisions in this regard. Once all relevant information has been submitted to the National Treasury in terms of the afore mentioned circulars, the National Treasury will establish a working committee to assess the submission and respond with its findings as per the attached checklist. The municipality's *mSCOA* project steering committee (not a service provider or system vendor) will be required to present their case to the working committee.

Your co-operation in this regard is appreciated.

Regards

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MS G MASHITENG
HEAD: PROVINCIAL TREASURY
DATE: 9/11/2023