



provincial treasury

MPUMALANGA PROVINCE  
REPUBLIC OF SOUTH AFRICA

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## PROVINCIAL TREASURY CIRCULAR NO. 58 OF 2019

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**TO:**

THE MUNICIPAL MANAGER: BUSHBUCKRIDGE LOCAL MUNICIPALITY (MS CN NKUNA)  
THE MUNICIPAL MANAGER: NKOMAZI LOCAL MUNICIPALITY (MR MD NGWENYA)  
THE ACTING MUNICIPALMANAGER: THABA CHWEU LOCAL MUNICIPALITY (MR MS SS MATSI)  
THE MUNICIPAL MANAGER: MBOMBELA LOCAL MUNICIPALITY (MR W KHUMALO)  
THE MUNICIPAL MANAGER: EHLANZENI DISTRICT MUNICIPALITY (MR S SIBOZA)  
THE MUNICIPAL MANAGER: STEVE TSHWETE LOCAL MUNICIPALITY (MR B KHENISA)  
THE MUNICIPAL MANAGER: THEMBISILE HANI LOCAL MUNICIPALITY (MR O NKOSI)  
THE ACTING MUNICIPAL MANAGER: VICTOR KHANYE LOCAL MUNICIPALITY  
(MR WV MAGQAZA)  
THE MUNICIPAL MANAGER: EMAKHAZENI LOCAL MUNICIPALITY (MS EK TSHABALALA)  
THE ACTING MUNICIPAL MANAGER: EMALAHLENI LOCAL MUNICIPALITY (MR HS MAYISELA)  
THE MUNICIPAL MANAGER: DR JS MOROKA LOCAL MUNICIPALITY (MR NTG KUBHEKA)  
THE MUNICIPAL MANAGER: NKANGALA DISTRICT MUNICIPALITY (MS M SKOSANA)  
THE MUNICIPAL MANAGER: CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY (MR MA DLAMINI)  
THE MUNICIPAL MANAGER: DIPALESENG LOCAL MUNICIPALITY (MR IP MUTSHINYALI)  
THE MUNICIPAL MANAGER: DR PIXLEY KA ISAKA SEME LOCAL MUNICIPALITY  
(MR L TSHABALALA)  
THE MUNICIPAL MANAGER: GOVAN MBEKI LOCAL MUNIPALITY (MR FS MNDEBELE)  
THE MUNICIPAL MANAGER: LEKWA LOCAL MUNICIPALITY (MRS G MHLONGO NTSHANGASE)  
THE MUNICIPAL MANAGER: MKHONDO LOCAL MUNICIPALITY (MR MM KUNENE)  
THE ACTING MUNICIPAL MANAGER: MSUKALIGWA LOCAL MUNICIPALITY (MR GJ MAJOLA)  
THE MUNICIPAL MANAGER: GERT SIBANDE DISTRICT MUNICIPALITY (MR CA HABILE)

THE CHIEF DIRECTORATE: SUSTAINABLE RESOURCE MANAGEMENT

THE CHIEF DIRECTORATE: ASSETS AND LIABILITIES MANAGEMENT

THE CHIEF DIRECTORATE: FINANCIAL GOVERNANCE

## CHANGE OF CORE FINANCIAL SYSTEMS BY MUNICIPALITIES

### 1. OBJECTIVE

The objective of this circular is to enforce compliance to the Municipal Finance Management Act (MFMA) Circular 80 and Circular 93 as well as mSCOA Circular 5 and 6.

### 2. BACKGROUND

Section 5(3)(c) of Municipal Finance Management Act, No. 56 of 2003 states that a Provincial Treasury must in accordance with a prescribed framework assist the National Treasury in enforcing compliance with the measures established in terms of section 216(1) of the Constitution, including those established in terms of the MFMA.

### 3. DISCUSSION

Provincial Treasury does not prescribe when a Municipality must change its core financial system or which core financial system must be utilised neither does National Treasury. National Treasury through MFMA Circular 80 and 93 as well as mSCOA Circular 5 and 6, had prescribed the processes to be followed if a Municipality intends to change or upgrade its core financial system.

Prior to a change of a core financial system, Municipalities must do the following as stated by the above-mentioned circulars:

- 3.1. A Municipality must conduct an ICT Due Diligence of all the existing ICT system(s).
- 3.2. Once this ICT Due Diligence has been completed, the Municipality's mSCOA Project Steering Committee (chaired by the Accounting Officer) must:
  - 3.2.1. Assess whether the Municipality's existing system(s) as a package, comply with the functionality requirements for its category and 15 business processes required in terms of mSCOA. This should be the main consideration in the decision on whether a new financial system is required;
  - 3.2.2. Consider the cost of any additional functionality the Municipality will have to procure from its existing package of service provider(s) and the affordability thereof to the Municipality considering its budget. Importantly, if a Municipality did not budget to purchase or upgrade the core financial system or any component thereof in the budget adopted by Council, then the purchase will have to be deferred to the next financial year to avoid irregular expenditure;
  - 3.2.3. Compare the total cost of its existing 'package of system(s)', including the cost for any additional functionality with the other available service offerings for its category; and
  - 3.2.4. Consider the penalties and reasons for contract termination in any of its contracts with existing service providers.
- 3.3. The Project Steering Committee must document its decision and recommendation(s) on the way forward (relating to the items listed above) for the Municipality and its Municipal entities (on the Municipality's 'package of existing system(s)'), clearly setting-out its findings.
- 3.4. Once the Municipality's mSCOA Project Steering Committee has made its decision and recommendation(s), the Municipality must solicit the comments of the National Treasury and Provincial Treasury. A detailed motivation on the need to change the core financial system should be provided to the National and Provincial Treasuries, the Municipal Manager and Council.

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- 3.5. Once the Municipality has received the comments of the National Treasury and the Provincial Treasuries, the mSCOA Project Steering Committee and Municipal Manager should consider such comments and prepare a recommendation to the Municipal Council in this regard.
- 3.6. The Municipal Manager must submit a copy of the Municipal Council's decision to the National Treasury and Provincial Treasury within five (5) working days after the meeting during which the Municipal Council has made the decision in this regard.
- 3.7. **The Municipality should then follow its own tender processes to procure a financial system on the open market until such time that a new transversal tender for the procurement of integrated municipal financial and internal control systems are in place.** Thereafter, Municipalities may request permission from National Treasury's Office of the Chief Procurement Officer to use the transversal tender to procure a financial system.
- 3.8. The Municipality should ensure that the Service Level Agreement entered into with the system provider provides for specific and realistic milestones and include penalties and termination clauses for failing to meet milestones. In addition, municipalities should implement proper contract management and exercising tight control over contractual obligations by system providers.

Non-compliance to Regulations and Prescripts leads to Irregular Expenditure or Wasteful and Fruitless expenditure. Provincial Treasury therefore urged all the Municipalities to follow the above processes when changing the core financial systems as prescribed.

Failure to follow the above processes will result in non-compliance letters being issued to Municipalities and the Provincial Auditor-General will be informed of such non-compliance.

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

Kind regards,



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MS GUGU MASHITENG  
HEAD: PROVINCIAL TREASURY  
DATE: 09/12/2019