



Annual Report - update

The aim of this circular is to provide guidance to municipalities and municipal entities on the new Annual Report Format and its contents. Information included in the New Annual Report will better inform in a standardised framework how municipalities and municipal entities have performed, by providing information of a financial and non-financial nature in one document.

This project has been undertaken over a two-year period jointly with representatives from the Presidency, National Department of Cooperative Governance, sector departments, provincial departments and municipalities.

The Annual Report content will assist municipal councillors, municipalities, municipal entities, residents, oversight institutions and other users of Annual Reports with information and progress made on service delivery. It must align with the Integrated Development Plan (IDP), Budget, Service Delivery and Budget Implementation Plan (SDBIP), and in year reports. The contents will also assist with the annual audits.

These reports should be used as a decision making tool by the municipalities.

Every municipality and municipal entity must prepare an annual performance report which must form part of the Annual Report for each financial year in accordance with the Municipal Systems Act 2000 (MSA) section 46, and the Municipal Finance Management Act 2003 (MFMA) section 121.

The purpose of the Annual Report is:

- to provide a record of the activities of the municipality or entity during the financial year to which the report relates;
- to provide a report on performance in service delivery and budget implementation for the financial year;
- to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity; and
- to reduce the additional reporting requirements that will otherwise arise from Government Departments, monitoring agencies and financial institutions.

With the above in mind, the goals of the new Annual Report Format are to achieve the following:

- standardise reporting to enable municipalities / municipal entities to submit comparable Annual Reports;
- align financial and non-financial reporting in the Annual Report;
- create a standardised reporting structure that will enhance comprehensive oversight, meaningful evaluation and improved understanding of service delivery output;

- ensure the standardisation of terminology used in Annual Reports; and
- support the internal and external audit process.

The objective is to provide guidance to municipalities / municipal entities for the preparation of the Annual Report so as to improve on the quality of Annual Reporting. The following legislative requirements were considered during the review process.

- The Constitution (1996),
- Local Government: Municipal Structures Act (1998) (MsA),
- Local Government: Municipal Systems Act (2000), (MSA),
- Local Government: Municipal Planning and Performance Regulations (2001),
- Local Government: Municipal Finance Management Act (2003) (MFMA),
- Local Government: Municipal Systems Amendment Act (2003),
- Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers (2006),
- MFMA Circular 11 (Annual Report Guidelines),
- MFMA Circular 13 (SDBIP),
- MFMA Circular 32 (Oversight Report),
- Municipal Public Accounts Committee Guidelines

It is important to note that this circular should be read in conjunction with the previous *Circular 11: Annual Report: Guidelines*. This circular should be carefully followed by municipalities and municipal entities to ensure compliance with the above-mentioned legislation and any amendments thereto. In implementing the changes early adoption of new processes and procedures will be required and is encouraged.

Overview

MFMA reforms include ensuring transparency and accountability for the fiscal and financial affairs of municipalities and municipal entities through in-year and Annual Reporting. Real transparency and accountability can only be achieved where there is a clear link between the strategic objectives agreed with the community, the IDP, the Budget, SDBIP, service delivery agreement with any municipal entity, performance agreements of senior management and officials, in-year reports covering financial and non-financial information, such as MFMA Sections 71, 72 & 74 and MSA Section 41 among others, annual financial statements, annual performance report and the Annual Report.

All these form one process to ensure that the actual performance is reported against what was planned and contained in the IDP. In this way the Annual Reporting is a backward-looking process of financial and non-financial performance for the financial year just ended. It is therefore a post-financial year document. The budget, which is fed by the information obtained from the Annual Report, is forward looking and therefore a pre-financial year document:

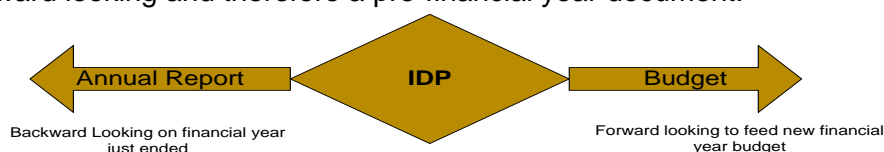


FIGURE 1: ANNUAL REPORT PURPOSE

Annual Reports must be aligned with the planning documents and municipal budget for the year reported on. This means that the IDP, budget, SDBIP, in-year reports, annual performance report and Annual Report should have similar and consistent information to facilitate understanding and to enable the linkage between plans and actual performance.

The above can only occur if municipalities set appropriate key performance indicators and performance targets with regards to the development of priorities and objectives in its IDP and outcomes (MSA S41). This requires an approved budget together with a resolution of approving measurable performance objectives for revenue from each source and each vote in the budget (MFMA, S24). It is recommended that a municipality limits its performance targets not to exceed five, for every strategic objective as identified in the IDP to make monitoring and evaluation more manageable.

Another key aspect of the reform in combining the relevant information into the New Annual Report Format will assist municipalities streamline their operations and processes through combined committees, reduce costs, time and effort. There will be a limited need for municipalities to have different committees to deal with financial and non-financial related matters.

Content of the Annual Report

Sections 121(3) and (4) of the MFMA sets out the framework relating to the content of the annual reports for both municipalities and municipal entities. These include:

- the annual financial statements of the municipality/entity and if municipality has municipal entities, consolidated annual financial statements as submitted to the Auditor-General for audit;
- the audit report of the Auditor-General in terms of both section 126(3) of the MFMA and section 45(b) of the MSA;
- municipality's annual performance report as per section 46 of the MSA;
- assessment of any arrears on municipal taxes and service charges;
- assessment of municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each vote in the municipality's approved budget;
- particulars of corrective action taken or to be taken on issues raised in audit reports;
- explanations to clarify issues on financial statements;
- any other information determined by the municipality/entity including recommendations made by the audit committee and any other information as may be prescribed.

In addition to the above, section 46 of the Local Government: Municipal Systems Act, as amended, provides for the following information to be included in the municipality's Annual Report:

- a performance report reflecting performance of both the municipality or any service provider during the financial year to which the annual report relate including development and service delivery priorities and performance targets for the next financial year;
- GRAP compliant financial statements;
- An audit report on the financial statements and the annual performance report referred to in the MSA section 46;
- Other reporting requirements in terms of other legislation;

- An annual performance report to form part of the municipality's Annual Report in terms of Chapter 12 of the MFMA.

Additional disclosure requirements:

- Municipalities and entities are reminded of the requirement to include, in their annual financial statements, amounts owed to them and persistently delayed beyond 30 days, by national or provincial departments and public entities.
- It is also a requirement to report on whether the municipality or entity has met its statutory commitments, including the payment of taxes, levies, audit fees, and contributions for pension and medical aid funds.
- As part of the monitoring of national and provincial allocations reconciliation will be undertaken to ensure all amounts are correctly reported.
- Information in the New Annual Report Format is requested in terms of S74 of the MFMA.

Municipal and municipal entity reporting process

An understanding of the revised municipal reporting process flow is imperative to ensure that detailed information from various reports is subtracted to compile a comprehensive Annual Report. A flow chart, which explains how the information from various reports feeds into other reports, is provided in Figure 2 as the Municipal Reporting Flowchart. By implementing the guidelines proposed in this flow chart a number of reports within municipalities can be consolidated and information therein used to finalise the Annual Report on a timely basis. This will ensure the compilation of fewer reports which include only relevant and required information.

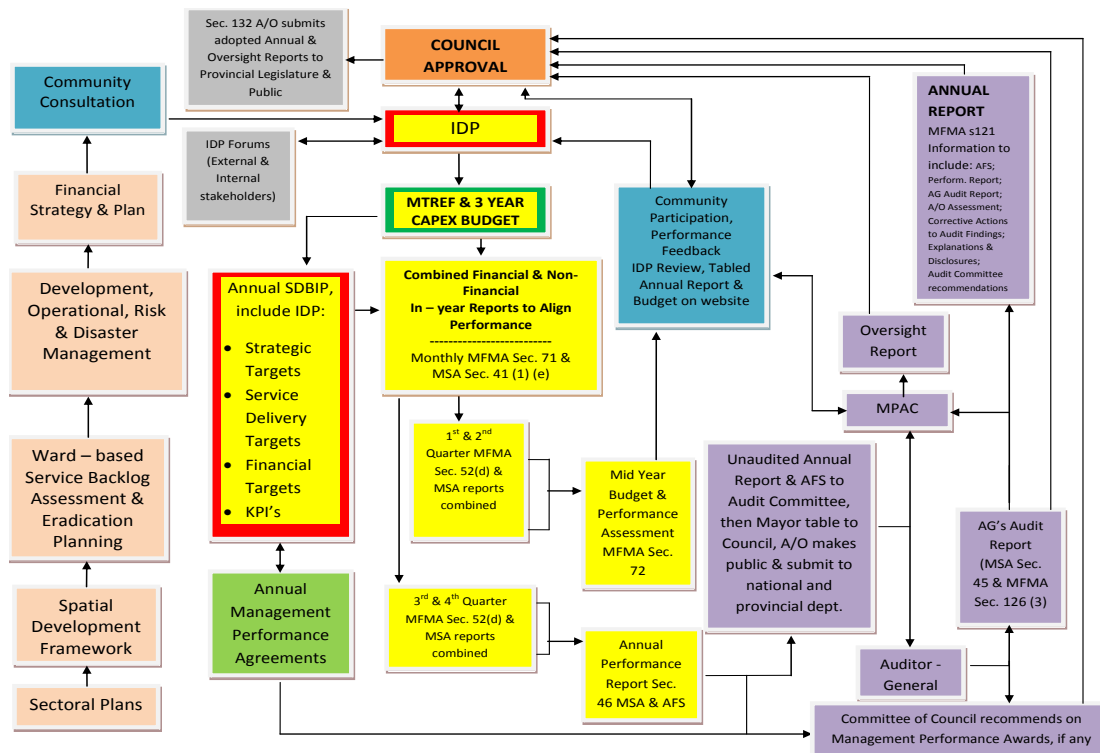


FIGURE 2: MUNICIPAL REPORTING FLOWCHART

A narrative of the reporting and accountability cycle follows:

- Chapter 5 of the LG: Municipal Systems Act sets the Integrated Development Planning process and requires that each municipal council must adopt an IDP.
- The IDP sets out the vision and objectives / goals and development plans of a municipality (including the objectives agreed with any municipal entity reflected in the multi-year business plan and service delivery or other agreements with the entity – MFMA Section 87). It is presented to Council who adopts it and undertakes an annual review and assessment of performance.
- The IDP informs the budget. The budget sets out the revenue raising and expenditure plan for approval by Council.
- The budget informs the SDBIP which lay the basis for the performance agreements of the Municipal Manager and senior management.
- The IDP review is informed by changing policy imperatives and circumstances – described in an accompanying performance evaluation. The evidence of this is obtained from the mid-year Budget and Performance Review (documents presented to Council) in terms of section 72 of the MFMA and also in the Annual Report in terms of section 121 (Annual financial and performance reports) tabled to Council.
- The consolidated year-to-date unaudited report, that includes the unaudited Annual Financial Statements as well as the MSA section 46 performance report are submitted to:
 - the Auditor-General who issues an audit report on financial and non-financial audits undertaken simultaneously,
 - the Oversight Committee (Municipal Public Accounts Committee) in terms of the MFMA section 129 to perform its oversight and community consultation function and report to council, and
 - to the committee of council that will perform its function on the performance agreements entered into with the senior management and report to council on the recommended performance awards, in any.
- Annual reports provide feedback on the implementation of performance in relation to the IDP, budget and SDBIP in terms of the performance measurement system.
- Council adopts an oversight report based on outcomes highlighted in the Annual Report and actual performance.
- An audit committee provides independent specialist advice on financial and non-financial performance and governance and also submits its report to council.
- The Accounting Officer will also report to council on arrear municipal taxes & services charges, performance for revenue collection, corrective actions to issues raised in the audit report and explanations in connection with the AFS.

An explanation of the interrelationship between municipal reports follows:

Sectoral plans, spatial development framework, ward based planning and financial strategy feed into the IDP.

The IDP informs the budget, SDBIP and in-year reports.

The SDBIP and in-year (MFMA S71 & MSA S41e) reports become annexures to the Quarterly reports. The First and Second Quarter Reports is synonymous with the mid-year budget and performance report and should provide quarterly and accumulative information.

Monthly reports to be submitted to the mayor and treasuries (MFMA S71(1)(MSA S41(e)) on a monthly basis which then rolls into the S52(d) & S41(e) quarterly reports and culminates into providing information to be included in the mid-year budget and performance report (MFMA S 72(1)).

The Four Quarterly Reports, which is the annual performance report, is synonymous with the Unaudited Annual Report. It contains the financial statements, derived from the in-year reports. This information should be available by the end of July and signed off by the audit committee & tabled to council by the end of August.

The unaudited Annual Report is used to feed information to the next year's IDP. The un-audited Annual Report is sent through in August to departments, National Treasury for records and the Auditor-General for auditing. It is also submitted to the MPAC for oversight verification and community consultation together with council.

The unaudited Annual Report is also submitted to a committee of council to verify performance by senior management in terms of the performance agreement entered into with the municipality. It is expected that the same committee deals with financial and non-financial performance.

The Auditor-General submits the audited report to the Accounting Officer by the end of November for municipalities without entities and December for municipalities with entities. The audited Annual Report is then submitted to Council and the MPAC for finalising its oversight report, the Audit Committee to finalise its report.

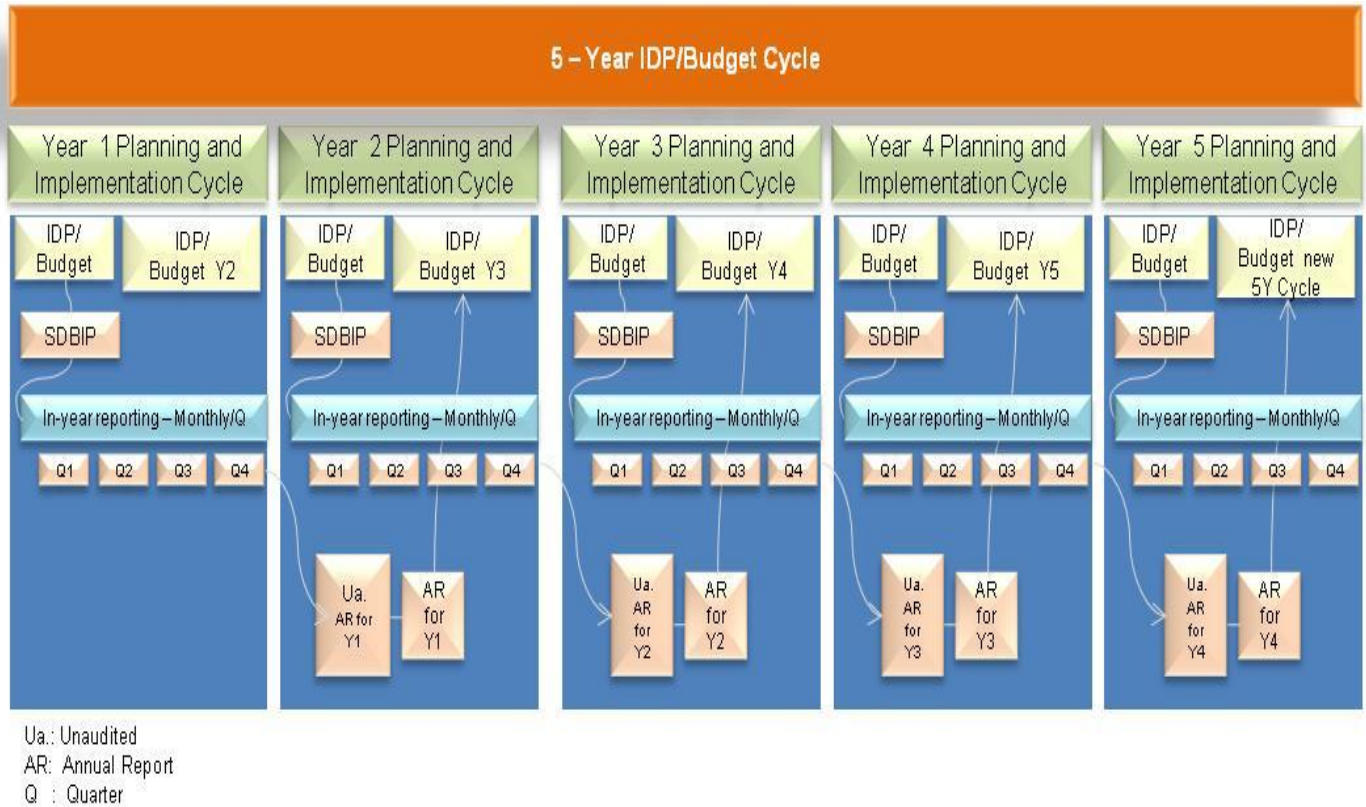
The accounting officer to report on actions on issues raised in the audit report & explanations on matters related to the AFS, as well as the committee dealing with performance to enable it to report to council on recommendations on performance awards, if any.

Public overview of the unaudited Annual Report and participation in the IDP/Budget process should occur simultaneously. This process should be complete by December when Council is responsible for concluding the Annual Report and matters related to that financial year, noting that five months would have already elapsed.

The audited Annual Report must be submitted to Treasuries, DCoG and sector departments by the end of December and is also used to inform the mid-year assessment processes and IDP reviews.

Due to the importance of the relationship and linkages to other planning and reporting processes, a planning and reporting overview is provided in Fig 3. This overview has been compiled against the backdrop of a 5-year IDP/Budget planning, implementation, monitoring and reporting framework. The intention of this section is not to comprehend all of the legislative and regulatory detail of each process, but to provide a general framework.

FIGURE 3: 5 YEAR IDP/BUDGET CYCLE



It is necessary that municipalities derive maximum benefit from their efforts in submitting reports. Such benefits are typically obtained in the form of being able to compare and benchmark themselves against each other and to learn from the feedback mechanisms.

The Annual Report process flow provides a framework for municipalities and entities to follow in completing various reports within each financial year cycle. It is recommended that Municipal Managers study this process flow and ensure that reports are submitted timeously. If the process flow is followed, municipalities should be able to provide an unaudited Annual Report in **August of each year**, which is consistent with the MFMA.

As explained above, an unaudited Annual Report is compiled from the Four Quarterly Reports that includes all information required within the Annual Report. The document should be the result of a rigorous in-year audit process conducted by a municipality's Internal Audit Unit and must be included in the Internal Audit annual plan and submitted to the Auditor General for auditing.

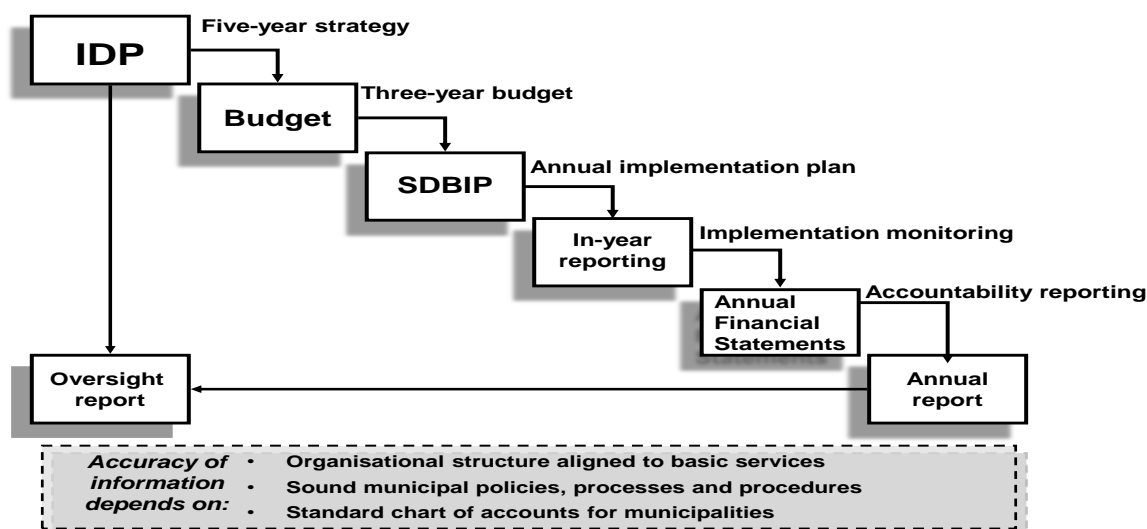
One of the advantages of compiling an unaudited Annual Report in August is that it can be used to influence the strategic objectives indicated in the IDP for the next financial year as well as the budgetary requirements related to each Vote.

An unaudited Annual Report submitted in August will further provide a municipality/municipal entity with an opportunity to review the functional areas that received attention during the current financial year and take the necessary corrective actions to align the IDP and budget to other priority areas needing attention.

Council monitors financial and non-financial performance through quarterly and mid-year reports produced by the administration and tabled in Council. Note that the mid-year report is a

consolidation of the first two quarter reports. By following this framework, IDP and Budget planning and development, SDBIP development, performance management and in-year reporting can be implemented as required by legislation. The following flowchart indicates the overview of the Municipal accountability cycle.

Municipal Accountability Cycle



Timelines for producing the Annual Report

The Annual Report of a municipality and every municipal entity must be tabled in the municipal council on or before 31 January each year (MFMA S127). In order to enhance oversight functions of Councils, please note that this must be interpreted as an outer deadline; hence municipalities must submit the Annual Reports as soon as possible after year end, namely, August. The entire process is concluded in the first or second week of December for all municipalities, the same year in which the financial year ends and not a year later, as is currently the case. The activities, implications, process/role-player and timeframes are described below for ease of reference and implementation. It is expected that effective management of performance will also result from this change.

Activity	Legislation and Guidance	Process Owner Role Player	Timeframe
Consideration of next financial year's Budget and IDP process plan. In-year reporting formats should ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the beginning of the Budget / IDP implementation period.	MSA S41(1)(e)	MM Assisted by other s56 managers & the CFO	July
Implementation and monitoring of approved Budget and IDP through	MSA S41(1)(e)	MM Assisted by	

Activity	Legislation and Guidance	Process Owner Role Player	Timeframe
the approved SDBIP commences (In-year financial reporting and quarterly performance reports).		other s56 managers & The CFO	
Finalise 4 th quarter report of previous financial year	MFMA S52(d)	MM Assisted by other s56 managers & CFO	July
Submit draft previous financial year Annual Report and evidence to Internal and the Auditor General including annual financial statements and financial and non-financial information ¹ .	Submission of annual financial statements as per section 126(1) of the MFMA. Additional step, a draft Annual Report is prepared. Annual Performance report needs to be included as per section 46 of the MSA.	MM & CFO	
Municipal entities submit draft Annual Reports to MM.		Entity AO & CEO	
Submit Annual Report including annual financial statements and Annual Performance Report to the Combined Audit/Performance Committee.	Joint Committee assessing both financial and non-financial performance advances accountability and expedites corrective measures	MM & CFO	July/August
Combined Audit/Performance committee considers unaudited Annual Report of municipality and entities (where relevant).		Audit and Performance Audit Committee	
Mayor tables the unaudited Annual Report in Council.	The Annual Report submitted complies with the requirements of Section 121(3)(a-k). Information on pre-determined objectives to be included. Note that it is unaudited and will not include any of the Auditor-Generals reports as	Mayor	August
Municipality submits Annual Report including final annual financial statements and annual performance report to		CFO	

¹ Note that the annual performance report and the annual financial statements form part of an Annual Report.

Activity	Legislation and Guidance	Process Owner Role Player	Timeframe
<p>Auditor-General for auditing purposes – due 31 August. Council to submit unaudited tabled annual report to MPAC for vetting and verification of councils’ directive on service delivery & the committee to evaluate senior managers’ performance against agreement entered into.</p>	<p>the auditing thereof will still be in progress. (Municipalities with Municipal entities to submit a consolidated Unaudited Annual Report by September)</p>		
<p>Commencement of IDP analysis of institutional, services and infrastructure provision, backlogs and priorities. Unaudited Annual Report as submitted to Auditor-General to be used as input into the IDP strategic phase process and community verification & input by MPAC on reported performance. Such information includes that of various entities incorporated into the information of the parent entity.</p>	<p>If the above process is followed, the unaudited Annual Report can add value to the IDP/Budget planning process for the next year as well as oversight by MPAC on the reported deliverables by communities and achievements targets reached.</p>	<p>Council</p>	<p>August</p>
<p>Auditor-General audits the unaudited Annual Report and submit an audit report to the accounting officer for the municipality / municipal entity.</p>	<p>Section 126(3)(b) require the Auditor- General to submit an audit report within three months after receipt of statements from the municipality.</p>	<p>Auditor-General</p>	<p>November for municipalities without entities & December for municipalities with entities</p>
<p>Annual Report and oversight report process for adoption to be used as input into public participating meetings for the IDP review process.</p>	<p>Section 127,128,129 and 130</p>	<p>Council</p>	<p>September November</p>

Activity	Legislation and Guidance	Process Owner Role Player	Timeframe
The Auditor-General's reports are issued during the period of Oct/Nov. Once the AG audit reports have been issued no further changes are allowed as the audit process is completed	Section 129, 130 and 131. Tabling the audited Annual Report within 5 or 6 months after the end of the financial year. Section 75 for publication on website.	MM	November/December
Mayor tables audited Annual Report and financial statements to Council		Mayor	
Audited Annual Report is made public, e.g. posted on municipality's website.		IT Director Accounting officer	
Oversight committee finalises assessment on Annual Report. This must be concluded within 7 days of receipt of AGs report. Council is expected to conclude on this matter before going on recess in December.		Oversight Committee	
Council adopts Oversight report.	The entire process, including oversight reporting and submission to provincial legislators is completed in December and not in March the following year.	Council	December
Oversight report is made public.		MM	
Oversight report is submitted to Legislators, Treasuries and DCoG		Mayor	

In the past, Annual Reports for the financial year were produced late and the objective of an Annual Report was lost. Corrective decisions were only taken two years after the event that was reported, slowing down service delivery and impacting negatively on accountability. With the introduction of improvements in in-year reporting, establishment of new Oversight Committees of Council, regularity and performance audits, the need to streamline the Annual Report process has become urgent.

In future, all municipalities and municipal entities are required to prepare and submit their draft Annual Reports to the Auditor-General by 31 August each year. Municipalities are encouraged to implement or phase-in the requirements of the new Annual Report by 2013/14 financial year. This will require new internal processes mentioned above to be accommodated. It is envisaged that this will also provide an opportunity to raise and address challenges experienced in terms of the required content and ensure a smooth transition towards the 2013/14 financial year. These Annual Reports should include all information required to be included in an Annual Report, including financial statements and information related to performance. Municipalities are further reminded that the new Annual Report format makes adequate provision for performance information,

therefore there will be no need to submit a separate performance report for auditing purposes as the Annual Report submitted to the Auditor-General will contain the relevant information for audit.

Failure to table accurate and quality information in the Annual Report will be considered a breach of the MFMA and MSA.

Format of the Annual Report

Municipalities and municipal entities are requested to adopt the following format for an Annual Report. The details are described briefly below with further information and guidance addressed in the Format.

- Chapter 1: Mayor's Foreword and Executive Summary;
- Chapter 2: Governance;
- Chapter 3: Service Delivery Performance;
- Chapter 4: Organisational Development Performance;
- Chapter 5: Financial Performance;
- Chapter 6: Auditor General's Findings;
- Appendices; and
- Volume II: AFS

Chapter 1: Mayor's Foreword and Executive Summary

In terms of Section 52(a) of the MFMA, the Mayor of a municipality must provide general political guidance over the fiscal and non-financial affairs of the municipality.

It is the responsibility of the Mayor / Executive Mayor to provide a political overview of the performance of the municipality. The foreword compiled by the Mayor / Executive Mayor should be the first item included in the Annual Report.

The aim of Chapter 1 is to provide an introduction and overview of the municipality / municipal entity to the reader. This chapter provides the key decision-makers – both on political and administrative level – with the opportunity to provide an overview of the functions, geographical area and performance of the specific municipality / municipal entity.

Content to be included:

1.1 Mayor's Foreword

The foreword compiled by the Mayor / Executive Mayor should include information related to the following topics:

- Strategic alignment to Provincial and Growth and Development Strategy.
- Corrective actions taken to ensure that strategic objectives as stipulated in the IDP were achieved.
- Methods used / implemented to improve public participation and accountability.
- Statement of corrective actions whereby service delivery can be improved.

1.2 Municipal Manager Foreword

The Municipal Managers foreword provides an opportunity to the Municipal Manager to give a public account, guidance and advice on the administrative performance of a municipality / entity. Inclusive in this foreword should be information pertaining to:

- Functions and Powers of the municipality / entity in relation to Section 155/156 of the Constitution and Chapter 3 of the MSA.
- Entities related to the municipality and the sharing of power with these entity/ies.
- Sector departments and the sharing of functions between the municipality / entity and sector departments.
- A statement on the previous financial year's audit opinion.
- A short statement on the current financial health of the municipality / entity based on new budget formats as required by Treasury Regulations No 31804.
- Information related to the revenue trend by source including borrowings undertaken by the municipality.
- The internal management changes in relation to Section 56/57 managers.
- Risk assessment, including the development and implementation of measures to mitigate the top 5 risks.

1.3 Municipal Overview

This section provides an overview on how municipalities as separate legal entities function based on its relationship with other political structures, office bearers, administration and the community. Information on the demographics, economic growth, population, growth and development structure of the municipality should be reported including the outcomes both success and not so successful initiatives embarked upon.

Chapter 2: Governance

To ensure accountability and governance arrangements are in place, Section 121(2)(c) of the MFMA supports the requirements of Section 18(1)(d) of the MSA: information on matters of governance should be communicated to communities. This should, according to Sections 65(1)(a) of the MFMA and 46 of the MSA be undertaken through the compilation and publication of the Annual Report. The purpose of such an annual report is to promote accountability to communities for decisions taken by the Council and matters relating to administrative structures, throughout a financial year. Nine major characteristics should be applied within the political and administrative structures of a municipality / municipal entity to ensure good governance:

- *Participation:*
Participation could be either direct or through legitimate intermediate institution or representatives.
- *Rule of law:*
Good governance requires legal frameworks that are enforced impartially.
- *Transparency:*
Transparency means that stakeholders are provided with information on why decisions were made that directly affect them.
- *Responsiveness:*
Good governance requires that institutions and processes try to serve all stakeholders with a responsible timeframe.
- *Consensus oriented:*

Good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved.

- *Equity and inclusiveness:*
Society's well being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded from the mainstream of society. This requires all groups to have opportunities to improve or maintain their well-being.
- *Effectiveness and efficiency:*
Good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal.
- *Accountability:*
Accountability is a key requirement of good governance. Accountability cannot be enforced without transparency and the rule of law.
- *Sustainability:*
Sustainability is the capacity to endure, how systems remain diverse and productive over time. It is the potential for long-term improvements, which in turn also depends on the responsible use of natural resources

With the above requirements in mind, information included in this chapter is divided into four sections:

- Component A: Governance Structures
 - Political Governance Structure
 - Administrative Governance Structure
- Component B: Intergovernmental Relations
 - Intergovernmental Relations\
- Component C: Public Accountability and Participation
 - Public Meetings
 - IDP Participation and Alignment
- Component D: Corporate Governance
 - Risk Management
 - Anti-corruption and fraud
 - Supply Chain Management
 - By-laws
 - Websites
 - Public Satisfaction on Municipal Services
 - All municipal oversight committees

Chapter 3: Service Delivery Performance (Performance Report Part I)

Chapter 3 focuses on service delivery on a service-by-service basis. It considers municipal performance derived from IDP objectives, translated into the SDBIP and presents data on Community needs and resource deployment. Some indicators are offered for some services as a basic set of key comparative data to be amassed from all relevant municipalities and other services are left for municipalities to address entirely as they consider appropriate.

The service delivery issues must be structured, captured and reflected under each priority as contained in the IDP to allow for easy comparisons on achievements against budget and SDBIP.

The purpose of the chapter is to demonstrate to the reader, in terms of service delivery, what is being achieved and what remains outstanding. It leads to the basic questions concerning the adequacy of the efforts made by the municipality, the creativity applied and the basic standards of living that apply. There is a focus on informal settlements and the distribution of free basic services. Further information on subsidisation of the poor and other benefits accruing to indigent households should also be provided. A summary of the relevant progress achieved on the relevant outcomes for local government as required by national and provincial spheres. Introductions and conclusions are left for completion by municipalities but notes are provided to identify some key issues of relevance to all communities about the way in which the municipalities are working for them. This data will also help gather a broad picture of municipal activity across the country.

Some of the material in the Annual Report format set out at Chapter 3 will not apply to all municipalities but there will be very many variations. It is, therefore, left to individual municipalities to delete aspects in Chapter 3 that is not relevant to the municipality.

Some Municipalities are using performance scorecard to manage performance of different functions. These must be aligned to the SDBIP requirements that provide a standardised mechanism to enable comparisons and benchmarking. This information must be captured in this chapter to enhance the service level information.

Chapter 4: Organisational Development Performance (Performance Report Part II)

This chapter addresses information pertaining to the implementation of an effective performance management system, organisational development and performance of a municipality / municipal entity. Such information is required to identify skills gaps and plans for the development of such skills.

Moreover, public sector information across all three spheres of government is required to improve service delivery across the public sector. Therefore, Public Service Regulations (2001), Chapter 1, Part III J.3: from 1 April 2001, require Annual Reports to include information on planning, service delivery, organisation, job evaluation, remuneration, benefits, personnel expenditure, affirmative action, recruitment, promotions, termination of services, performance management, skills development, injury on duty, labour relations, leave and discharge due to ill-health, etc.

In order to measure the outcome of effective organisational development the following is highlighted:

- organisational structure enhancement;
- increased accountability;
- increased participation in problem solving, goal setting and new ideas; and
- identifying and development of skills needed to perform

Improving an organisational performance has a number of positive spin-offs. Changed attitudes bring with it a higher awareness of responsible use of municipal / municipal entity assets. Changed employee attitudes may further lead to the reduction in absenteeism and monies lost due to absenteeism. A skilled workforce will lead to enhanced processes and procedures which may cause less injuries and subsequent limits on financial loss as well as improve productivity.

In relation to the above, the content of this chapter include:

- Component A: Introduction to the municipal workforce (Total Employment, to include staff turnover. This could indicate a stable or unstable institution).

- Component B: Managing the municipal workforce Levels on reporting should be broken down to MM & Section 56, top management, assistant managers, supervisors, etc and not pay levels as there is no consistency among municipalities.
- Component C: Capacitating the municipal workforce.
- Component D: Managing the municipal workforce expenditure.

Chapter 5: Financial Performance

Sound financial management practices are essential to the long-term sustainability of municipalities. They underpin the process of democratic accountability. Weak or opaque financial management practices and reports result in misdirected and under-utilisation of resources. The key objective of the Municipal Finance Management Act (2003) (MFMA) is to modernise municipal financial management. Effective municipal financial management has interrelated components:

- planning and budgeting
- asset and liability management
- revenue and expenditure management
- supply chain management
- other financial management
- accounting and reporting, and
- oversight & operational continuity

Each of these components contribute to ensuring that government financial expenditure is developmental, effective and efficient and that municipalities / municipal entities are held accountable for the effective management of their funds.

The aim of this chapter is to provide an overview of the financial performance of the municipality / municipal entity thorough measuring of results. It further provides an opportunity for planning, so as to ensure that future budgetary allocations are brought in line with IDP and functional area activities and outputs.

Information included in this chapter is divided into the following framework:

- Component A: Statement of Financial Performance
- Component B: Spending against Capital Budget
- Component C: Cash flow Management and Investment
- Component D: Other Financial Matters

Chapter 6: Auditor-General Audit Findings

The MSA S45 states that the results of performance measurement in terms of S41(1)(c) must be audited annually by the Auditor-General. Section 41(1)(c) states that the auditing should take place with regard to each of those development priorities and objectives and against key performance indicators and targets to monitor, measure and review municipal performance at least once per annum.

The new Annual Report Format is inclusive of the annual financial statements and performance reports which must be submitted to the Auditor-General for assessment in August of each year.

Besides the Auditor-Generals Report, which cannot be amended by the municipality, information pertaining to the following is to be included in the chapter on the Auditor-General report:

This chapter provides an overview of the Auditor-General Report of the previous financial year. Specific topics that should receive attention include:

- Detail on issues raised during the previous financial year;
- Remedial action taken to address the above and preventative measures.

Appendices Descriptions

The following information must be completed and added to the Annual Report to ensure that it complies with the requirements of various legislations. The content of these appendices are described below.

Appendix A: Councillors; Committee Allocation and Council Attendance

This Appendix relates to Chapter 1 of the Format and requires the compilation of a complete list of all Councillors, the party they belong to and the ward which they represent. Information pertaining to the number of Council meetings attended by each of the Councillors also needs to be provided.

Appendix B: Committee and Committee Purpose

This Appendix also relates to information required to be included in Chapter 1 of the Format. A list of all Committees of Council, the purpose of each Committee and the names of Councillors serving on them. It also requires the inclusion of information related to the attendance of each Councillor.

Appendix C: Third Tier Administrative structure

The organogram of the administrative structure of the municipality / municipal entity is to be included under Appendix C.

Appendix D: Functions of Municipality/Entity

The appendix covers what constitutes the municipal functions, municipality to indicate which function is applicable to it or their entity. In case of a local municipality it can also discuss functions performed by the District and vice versa.

Appendix E: Ward Reporting

Information on the functions of ward committees, the sector of community representation and reports submitted by each of these committees must be provided. The appendix can be expanded to include a brief feedback of the operations and functions of individual wards, challenges experienced and measures taken to address them.

Appendix F: Ward Information

This appendix relates to ward information, the following information is required; ward name (number), where under each ward the seven largest project in the current year is listed together with their start date, end date, their total value and progress. Information on the top four delivery priorities per wards as these may differ in different wards.

Appendix G: Recommendations of the Municipal Audit Committee

This appendix relates to all meetings of the audit committee held together with its recommendations, those that have been adopted and those not.

Appendix H: Long term Contracts and Public Private Partnership

Information related to the largest projects, agreements and contracts. Information related to Public Private Partnerships (PPP) in the municipality and its duration. Specific detail pertaining to the responsible departments for managing and implementing the roll-out of these projects is to be provided. The duration and monetary value of the projects, agreements or contracts should also be included.

Appendix I: Municipal Entity/Service Provider Performance Schedule

This statement should include no more than the top four priorities indicators as articulated in the IDP. Note that all must be funded within approved budget provision.

Appendix J: Disclosure of Financial Interest

This Appendix relates to financial disclosures of senior managers and other section S56 officials. The financial interest disclosure is required even if posts were occupied for part of the year.

Appendix K: Revenue Collection Performance

Appendix K (i): Revenue Collection Performance by Vote

This Appendix relates to information on revenue collected by votes, based on prior year and current year actual collections.

Appendix K (ii): Revenue Collection Performance by Source

This Appendix relates to information on revenue collected by source, based on prior year and current year actual collections. Information by ward may also assist decision makers on the extent of indigent households and need for further support or policy changes.

Appendix L: Conditional Grants Received: Excluding MIG

This Appendix relates to all conditional grants received in the current year, excluding the Infrastructure Grants, indicating adjustments budget and the actual, showing percentage variances of the two and also indicating any major conditions applied by Donors on each grant, if applicable.

Appendix M: Capital Expenditure – New & Upgrade/ Renewal Programmes: Including MIG

Appendix M(i): Capital Expenditure – New Assets Programme

This Appendix relates to all capital expenditure relating to the new asset programme, showing the actual of the prior year, the adjusted budget and actual expenditure in the current year.

Appendix M(ii): Capital Expenditure – Upgrade/Renewal Programme

This Appendix relates to all capital expenditure relating to upgrade/renewal programme, showing the actual of the prior year, the adjusted budget and actual expenditure in the current year.

Appendix N: Capital Programme by Project current year

This Appendix relates to all capital projects in the current financial year, indicating the adjusted budget, actual in the current year and the variance between the two.

Appendix O: Capital Programme by project by Ward current year

This Appendix relates to all capital projects per ward in the current financial year, and indicates if work was completed or not.

Appendix P: Service Connection Backlogs at Schools and Clinics

This Appendix relates to all backlogs in schools and clinics, the name and location of the schools and clinics is required, this information is provided to assist the national and provincial departments improve planning, budgeting and implementation.

Appendix Q: Service Backlogs Experienced by the Community where another Sphere of Government is Responsible for Service Provision

This Appendix relates to all service backlogs experienced by the community where another sphere of government is responsible for providing the service, this information is provided to assist the national and provincial departments improve planning, budgeting and implementation.

Appendix R: Declaration of Loans and Grants Made by the Municipality

This Appendix relates to the list of all organisation or person in receipt of loans and grants from the municipality, to state the nature of the projects funded and conditions attached to such projects together with the rand value.

Appendix S: Declaration of Returns not Made in due Time under MFMA s71

This Appendix relates to all monthly budget statement not made in time as required by s71 of the MFMA. This information is critical for municipalities and oversight institutions so that early detection of problems can be made and corrective action taken sooner.

Appendix T: National and Provincial Outcome for local government

This Appendix covers information not addressed in any of the other areas of the Annual Report, relating to municipal powers and functions that can be used by the National and Provincial Spheres to monitor and evaluate service delivery performance. This should indicate the progress to date, numbers and percentage achieved.

Volume II: Annual Financial Statements

Section 67(1)(a)(iv) states that audited financial statements for the financial year must be reported on. Financial statements to be displayed within the municipal/municipal entity Annual Report include:

- Summary of operating results presented by the CFO, including
 - Operating revenue
 - Operating expenditure
 - Operating results per service
 - Capital expenditure and financing
 - External loans, investments and cash

- Statement of financial position
- Statement of financial performance
- Statement of changes in net assets
- Cash-flow statement
- Accounting policies
- Notes to financial statements

Financial statements of all entities of the municipality should be included in this section.

Conclusion

It is expected that all municipalities and municipal entities use the new Annual Report Format to compile and submit their Annual Reports on time. The Annual Report, including the unaudited AFS must be submitted simultaneously to the Auditor-General and a copy forwarded to the National Treasury, the relevant Provincial Treasury and Cooperative Governance departments. This circular will assist municipalities achieve quality and relevant reporting, reduce duplication of reports, enhance governance and promote accountability.

All comments on this circular and the new Annual Report Format must be forwarded to the email below. The new Annual Report Format and accompanying spreadsheets is located under Guidelines and can be downloaded from the MFMA website. The National Treasury will, as circumstances require, update the formats from time to time, in consultation with other departments. You may also contact Mr. Buti Chuma at the National Department of Cooperative Governance on telephone 012 395 4688 or email butic@coqta.gov.za for MSA related matters.



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26 September 2012