



national treasury

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**TO: ALL RT25-2016 APPOINTED SYSTEM VENDORS
MUNICIPAL MANAGERS
MUNICIPAL CHIEF FINANCE OFFICERS
HEADS OF MUNICIPAL SUPPLY CHAIN MANAGEMENT
MFMA COORDINATORS
PROVINCIAL ACCOUNTANT-GENERALS**

RT25-2016 TRANSVERSAL CONTRACT FOR THE APPOINTMENT OF SERVICE PROVIDERS FOR AN INTEGRATED FINANCIAL MANAGEMENT AND INTERNAL CONTROL SYSTEM FOR LOCAL GOVERNMENT FROM 1 JUNE 2016 TO 31 MAY 2019

PURPOSE

1. This letter serves as an official notification by National Treasury on the discontinuation of additional participants on the above mentioned RT25-2016 transversal contract.

BACKGROUND:

2. Section 5 of the Municipal Finance Management Act No. 56 of 2003 (MFMA) empowers National Treasury to investigate any system of financial management and internal control in a municipality or municipal entity and recommend appropriate improvements. These are related to all financial applications, including those used for revenue, expenditure, supply chain, asset and liability management, payroll, accounting, etc. It was imperative that municipalities operate effectively and utilize financial applications optimally to present credible information on a timely basis for internal and external use.
3. The Municipal Regulations on Standard Chart of Accounts – Gazette No. 37577 (*mSCOA*) issued in terms of the MFMA, provided for the following key objectives that the transversal contract aimed to achieve:
 - i. Improved data quality and credibility;
 - ii. The achievement of a greater level of standardization;
 - iii. The development of uniform data sets critical for whole-of-government reporting;
 - iv. The standardization and alignment of the 'local government accountability cycle' by the regulation of not only the budget and in-year reporting formats but also the annual report and annual financial statement formats;
 - v. The creation of the opportunity to standardize key business processes with the consequential introduction of further consistency in the management of municipal finances;

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- vi. Improved transparency, accountability and governance through uniform recording of transactions at posting account level detail;
 - vii. Enabling deeper data analysis and sector comparisons to improve financial performance; and
 - viii. The standardization of the account classification to facilitate mobility in financial skills within local government, other spheres of government as well as the private sector and to enhance the ability of local government to attract and retain skilled personnel.
4. Circular No. 57 of the MFMA was issued during the planning phase of the *mSCOA* reform. The aim of Circular No. 57 was to discourage municipalities from changing financial information systems during the planning and implementation phases of the *mSCOA*. It would guide municipalities from implementing systems that would, after an implementation piloting phase, being deemed as unable to transact in accordance to the regulations, and the municipality's expense for such an acquisition be construed as being fruitless and wasteful expenditure.
 5. In 2016, the National Treasury issued a transversal contract, RT25-2016. The objective of the transversal contract was to assist municipalities with procurement of *mSCOA* enabling municipal financial management and internal control system at cost effective prices.
 6. The duration of the service level agreement entered into by and between the appointed system vendors and a municipality will be for a period not exceeding 60 (sixty) months from date of signing the service level agreement subject to the provisions of Section 33 of the MFMA.

DISCUSSION:

7. During the 2017/18 financial year, the National Treasury has reviewed the objectives of the RT25-2016 transversal contract and the implementation to-date thereof in line with the *mSCOA* applicable compliance date of July 2017.
8. Since the municipalities are procuring a permanent financial system on a 60 (sixty) months service level agreement, it will defeat the initial objectives for municipalities to keep changing their financial systems through a new transversal contract instead of ensuring *mSCOA* compliance.
9. All municipalities that entered into agreements with any of the panel of system vendors prior to 17 October 2018 have not incurred irregular expenditure and must continue to honour their existing service level agreements until expiry.
10. No municipality will be allowed to participate in the transversal contract effective 1 March 2019 as the transversal contract will expire end of May 2019. Any municipality that requires the services of a system vendor will need to embark on its own procurement process consistent with Chapter 10 of the MFMA read together with the

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Municipal Supply Chain Management (SCM) Regulations and the written council approved Municipal Supply Chain Management Policy; and

11. Service providers that were appointed on the RT25-2016 may not offer any of the goods and/or services under the RT25-2016 transversal contract effective from 1 March 2019.
12. Furthermore, municipalities must adhere to the required business processes and due diligence processes that must be followed to change their municipal financial management and internal control systems as currently set out in MFMA Circular No. 80 and *m*SCOA Circulars No. 5 and 6 and any circulars that might be issued subsequently in this regard. The *m*SCOA Circulars will be used as a communication tool to communicate *m*SCOA related developments, but ultimately the municipality is not absolved from complying with the Municipal SCM Regulations.

RECOMMENDATIONS:

13. It is recommended that all the appointed system vendors on RT25-2016, municipalities, MFMA coordinators and Provincial Accountant-Generals take note of the content of this notification and adhere to it.



**MR WILLIE MATHEBULA
ACTING CHIEF PROCUREMENT OFFICER**

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