MFMA Circular 71 issued in January 2014 by National Treasury provides a set of uniform key financial ratios and norms suitable and applicable to municipalities and municipal entities.

These ratios, if calculated and interpreted accurately, should allow decision makers and those charged with governance to assess the municipality’s financial health pertaining to:

i. financial position,
ii. financial performance,
iii. budget implementation and
iv. cash flows.

This also provides a vertical (internal) and horizontal (external) benchmark, which can serve as both confirmation of planned progress or as a pre-warning system for deficiencies in strategic financial management.

**Ducharme support on MFMA Circular 71**

Ducharme can assist municipalities with the compilation of an MFMA Circular 71 Compliant Ratio Analysis Report based on the latest 3 sets of GRAP compliant Annual Financial statements together with facilitation of the outcomes with the financial decision makers and other key role players within the municipality.

This includes a holistic overview and insight of information based on comparative benchmarks (vertical versus horizontal / internal versus external) of the financial assessment ratios.

**Graph: Vertical & Horizontal single ratio comparison**

- Horizontal comparison 2013/14
- Vertical Comparison 2012/13
- Vertical Comparison 2011/12

**Holistic insight: comparative information**

A holistic analysis of these ratio indicators, based on empirical and factual information, allows for:

- the executive and decision makers (e.g. Councillors, Municipal Managers, Chief Financial Officers, Accounting officers of Municipal Entities, and other financial officials) to timeously predict, identify, pro-actively manage, resolve, prevent and avoid financial problems; and
- the enhancement of the oversight roles (e.g. municipal executive, Audit Committee, Municipal Public Account Committee).

Financial ratios are considered as part of in-year analyses (e.g. S52, S71 and S72 reporting), end-year analyses (AFS and annual reports, Integrated development plans, oversight reports), budgeting and long-term financial & strategic planning.
1. Interpret financial management

These financial management ratio assessments considerations include:

**Financial position analysis**
- Asset; Debtors; Liquidity- and Liability management

**Financial performance analysis**
- Efficiency; Sustainability; Service delivery and distribution losses; Revenue & Expenditure management

**Budget implementation analysis**
- Capital; Operating expenditure; and Operating Revenue management

2. Analyse & insight

Our assistance with a Comparative Ratio Analysis Report (CRA report) include the accurate and complete calculation of, as a minimum, the various ratios required by MFMA Circular 71, together with the main benefit being the detailed comparative interpretation of these results, which will include:

<table>
<thead>
<tr>
<th>Vertical comparison</th>
<th>Horizontal comparison</th>
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<tbody>
<tr>
<td>Internal comparatives which provide insight to the internal progression / digression of the municipality over the period.</td>
<td>External comparatives based on benchmark municipalities which will provide the context of the municipality’s financial position and performance in comparison to a financially sound municipality.</td>
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</table>

3. Facilitate workshop: CRA Report

Following the compilation of the CRA report, Ducharme will then facilitate workshops based on the report results with:
- Councillors and other oversight parties; and
- The municipal executive and Section 57 managers.

This is to assist these role-players in understanding and obtaining insight into the comparative ratio analysis results (internal and external), which impact the day-to-day management, strategic planning, decision making, and oversight functions of the municipality as well as operational considerations.

For more information

The compilation and interpretation of the Comparative Ratio Analysis Report (CRA Report) takes approximately 3 days, with the report discussion and workshops at the Municipality another 2 days. The price for this service offering is R 50 000 (EX VAT). For more details contact us or visit our website.

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