

FINANCIAL RATIO ANALYSIS

READING BETWEEN THE AFS LINES: MFMA CIRCULAR 71

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.

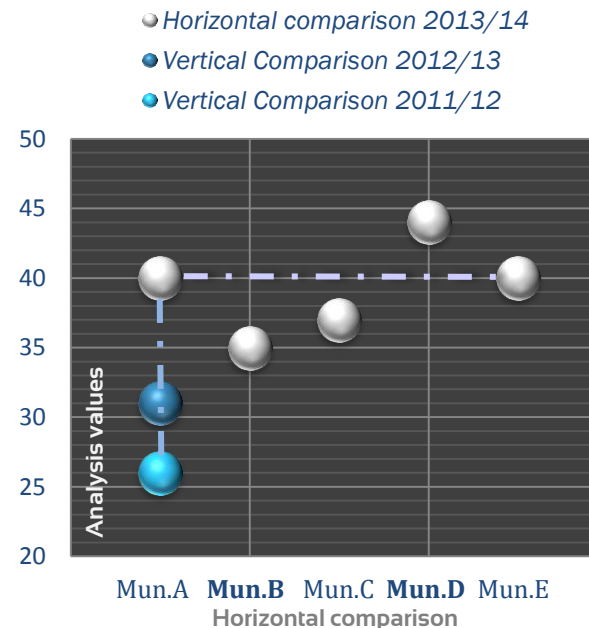
This also provides a vertical (internal) and horizontal (external) benchmark, which can serve as both confirmation of planned progress or as a pre-warning system for deficiencies in strategic financial management.

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



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:

Vertical comparison

Internal comparatives which provide insight to the internal progression / digression of the municipality over the period.

Horizontal comparison

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.

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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