



PUBLIC SECTOR FINANCE SEMINAR

Presentation on National Treasury initiatives:

FMCMM: Municipal assessment based on financial management capability maturity model and audit action Plan

6 July 2022



CIGFARO

Chartered Institute of
Government Finance, Audit & Risk Officers

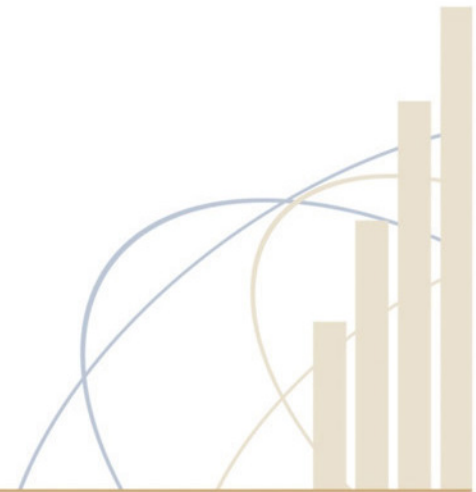
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Ms Z P Malaza
CIGFARO Board Member

SAQA Recognised Professional Body

PRESENTATION LAYOUT

- ✓ **Introduction**
- ✓ **Purpose of the FMCMM**
- ✓ **Drivers of the FMCMM**
- ✓ **Benefits of the FMCMM**
- ✓ **FMCMM Web-Enabled Implementation**
- ✓ **Financial Ratios and Norms**
- ✓ **Benefits Of The Web- Enabled Audit Action Plan (AAP)**
- ✓ **Overview Of The Web- Enabled AAP**
- ✓ **Putting the reforms together**



INTRODUCTION

- ✓ Public Sector is constitutionally mandated to deliver sustainable services to citizens
- ✓ LG - highly legislated sector (MFMA and its Regulations and other applicable legislation)
- ✓ Limited resources vs unlimited growing demand for services
- ✓ Stakeholder involvement
- ✓ Accountability is fundamental



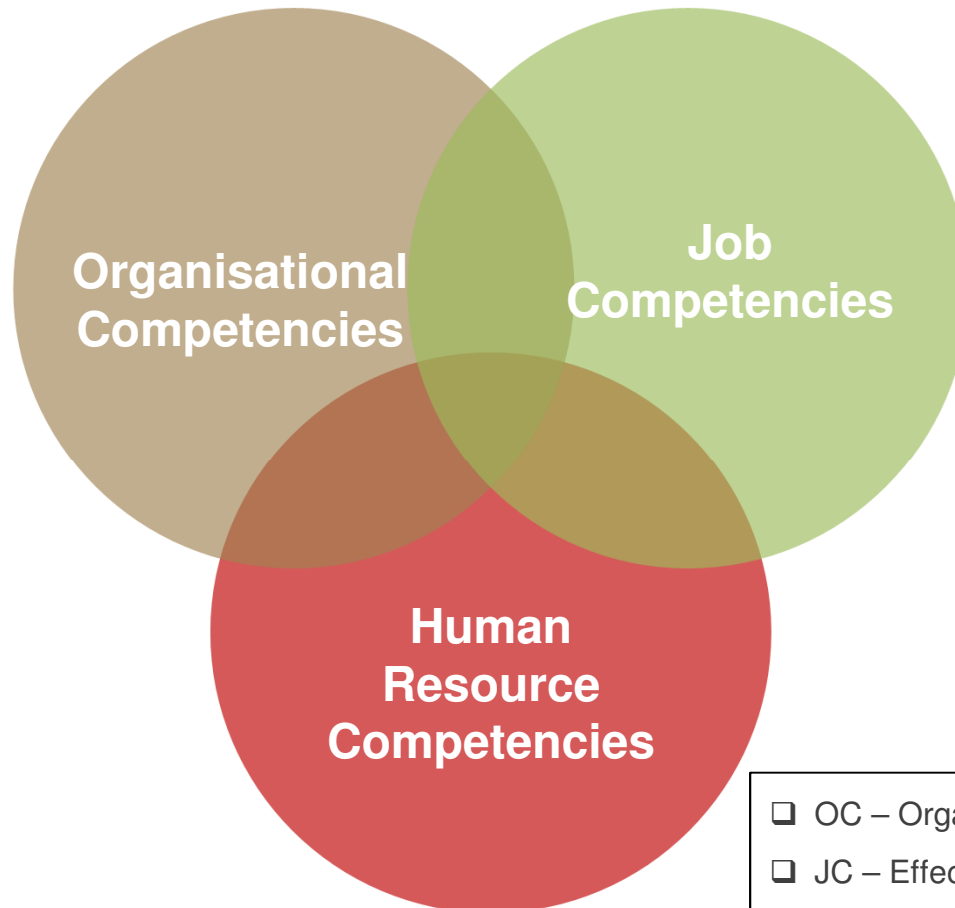
THE PURPOSE OF THE FMCMM

- ✓ Service delivery oriented
- ✓ Uphold and sustain the “back 2 basics” principle
- ✓ Assesses the state of development of the internal controls, monitors financial management capability, identifies areas of financial weaknesses – early warning system
- ✓ Identifies gaps in policies, procedures and processes (support vision, mission, strategic objectives)
- ✓ Institutional capability, competitive advantage and agility
- ✓ Narrates leadership capability and organizational culture
- ✓ Promotes risk and change management



THE PURPOSE OF THE FMCMM

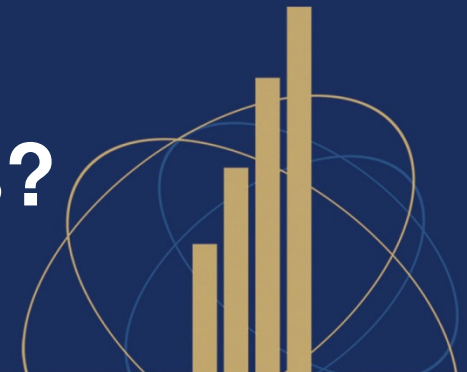
Reinforcing the overall competencies



- ❑ OC – Organisational competitive advantage – service delivery
- ❑ JC – Effective job, roles, functions, tasks, duties etc.
- ❑ HRC – Ability to execute tasks or perform the activities-resilience



Why all these transformations?



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TECHNOLOGY IS LEADERSHIP



Source: Financial times (March 2017)

DRIVERS OF THE FMCMM 123

FMCMM 123

THE SUCCESS OF THE FMCMM ACTION PLAN IS MEASURED BY DECREASES IN THE NUMBER OF AUDIT FINDINGS IN THE FOLLOWING AREAS:

- information and communications technology;
- risk management;
- asset management;
- revenue management;
- supply chain management;
- capacity building.

PAST CHALLENGES:

- ✗ **Fragmented approach** to completion and implementation.
- ✗ Little or no **monitoring** of implementation.
- ✗ Difficulty in monitoring **various segments**.
- ✗ **Not knowing the right.**



BENEFITS OF THE FMCMM

The tools were designed to assess and improve the level of financial management maturity and capabilities within municipalities. They aim to:

- Provide information that would **assist management to implement changes** to address shortcomings;
 - Improve and develop **practices** for good financial management;
 - Identify **risks** prevalent in the system and introduce mitigation measures to address them;
 - **Help** to sustain procedures and processes for effective and efficient financial management; and
 - Serve as a **proactive** mechanism that would support improvements in financial management and contribute towards better audit outcomes.
- **Easily accessible:** internet connection using standard browser required. Users can work from anywhere and no physical software to download.
 - **Simultaneous multiple user access.**
 - **Dropdown menu** choices.
 - Provision of automated **detailed internal control solutions** for 'Partial' or 'NO' responses.
 - **Immediate responses** generated to input.
 - **Comprehensive set of references:** each question indicates: Associated Control, Associated Risk and Applicable Legislation.
 - Provides **real time alerts at different stages** of completing the assessment: notifications are sent to relevant users via e-mail.
 - **Promotes accountability:** each module is assigned to the responsible manager.
 - **Internal Audit review** capability and **PT and NT review process is mandatory.**
 - **Five help options:** Detailed User manual with screenshots, FAQ on NT website, online system Help function, Helpdesk e-mail, Logging a ticket with National Treasury.
 - Identification of **capacity needs** – Learning Framework.
 - Underpins the development of **Strategic Support Plans (SSP).**
 - **Stores information year on year.**



FMCM WEB-ENABLED IMPLEMENTATION

- ✓ Legislatively grounded by the Constitution, s 62 of the MFMA,
- ✓ MFMA Circular 71, 113 & 114 :
 - ✓ FMCMM assessment – identified weaknesses addressed by enforcing implementation actions
 - ✓ Risk identification and mitigation measures
 - ✓ Measure for responding to gaps on audit process
 - ✓ Aligns audit action plan development, implementation, monitoring and evaluation
- ✓ Innovation driven - Aligns to IOT
- ✓ Strategy formulation aligned to strategy execution – results oriented
- ✓ System automatically generates Action Plans templates to assist municipalities and break tasks into manageable sections



FMCM 456 WEB-ENABLED IMPLEMENTATION

- ✓ Drives service delivery & financial sustainability, resilience, agility and responsiveness (Level 4,5,6)
- ✓ How does an institution deal with financial shocks and shape its vulnerability?
- ✓ *“Bouncing back and bouncing forward strategies”* response to crisis approach (Ahrens & Ferry, 2020)
 - ✓ Organizational response to particular shocks, turbulences and distresses – ability to anticipate, absorb and react
 - ✓ Anticipatory and coping capabilities to respond to shocks affecting public/ municipal finances
 - ✓ Recovery from a crisis and adapting to new circumstances.
 - ✓ Investigates proactive initiatives



FMCM M MATURITY ECHELONS

FMCM 123

Outcome - Improving financial management and service delivery to communities

BUILDING A CAPABLE STATE BY LAYING A FIRM FOUNDATION

- **Level 1 - Start up**
(systems, processes and procedures not defined or followed)
- **Level 2 – Development**
(systems, processes and procedures are basic and are being developed)
- **Level 3 – Controlling**
(Systems , processes and procedures are functional and able to support the organisation)



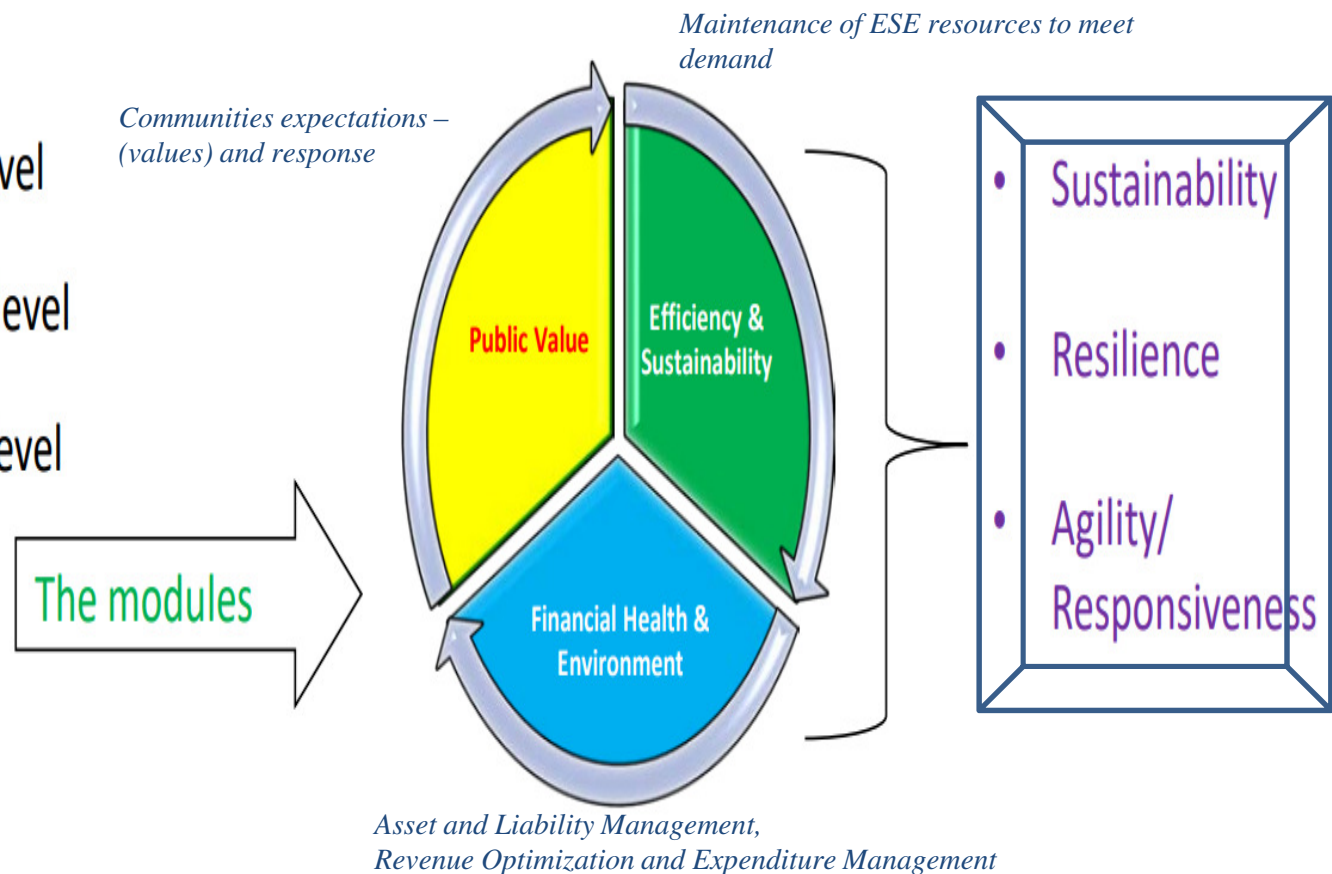
YOU ARE ONLY AS **STRONG**
AS YOUR
FOUNDATION

Source: National Treasury (2021).

FMCM Maturity Echelons

Levels 4,5 and 6 – These assess for progressive maturity improvements in municipalities (beyond compliance) .

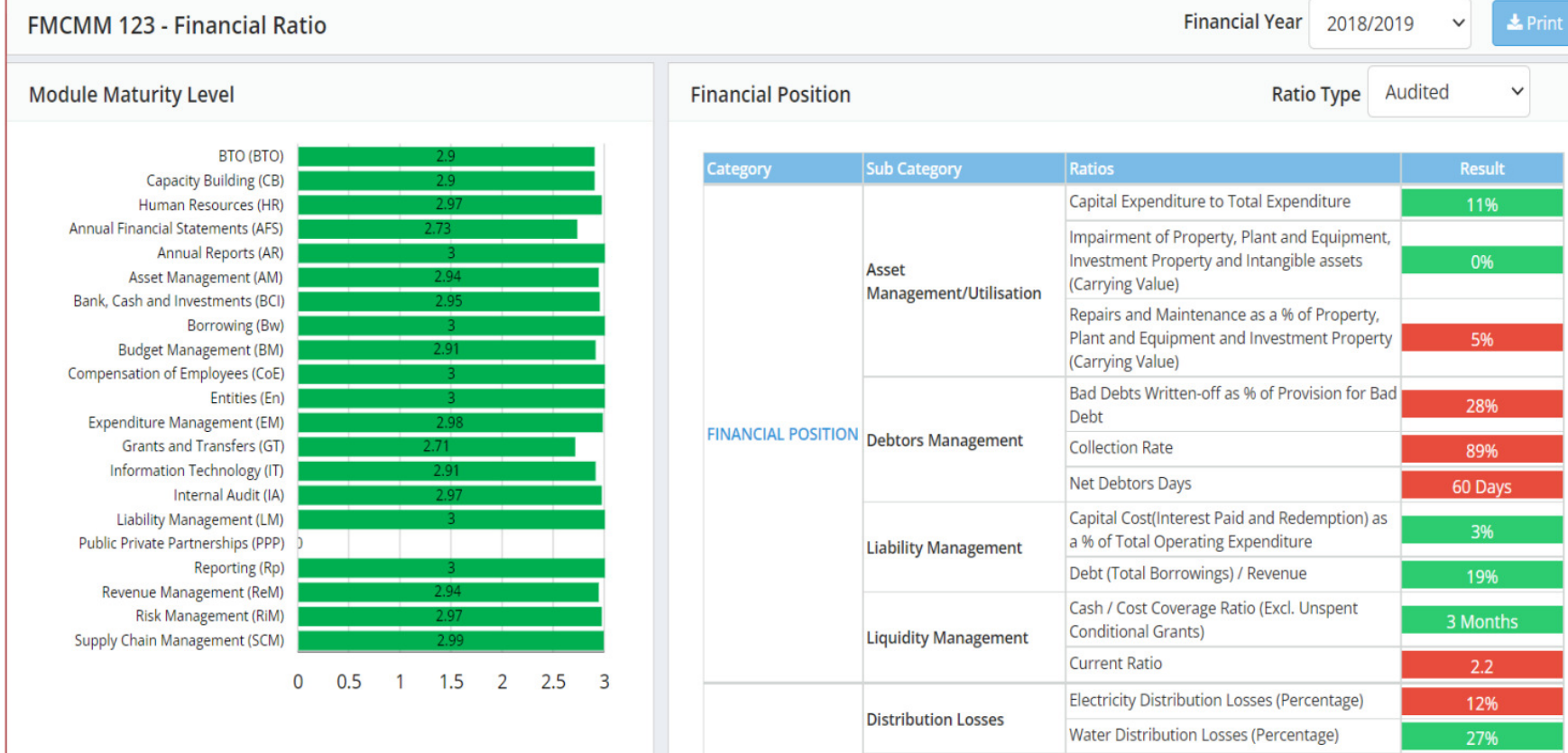
- Level 4: Information level
- Level 5: Management level
- Level 6: Optimisation level



Source: National Treasury (2021).

FMCM, FINANCIAL RATIOS AND ACTION PLAN DASHBOARD

Municipal Portal at individual municipality level

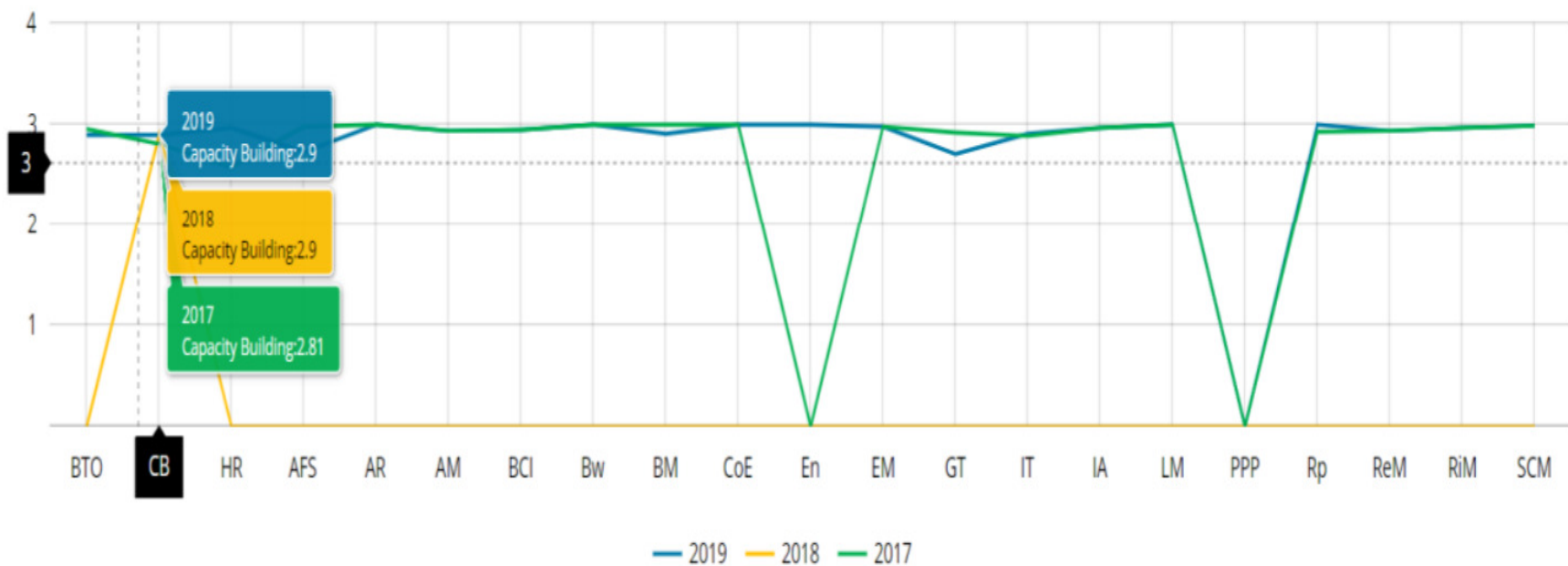


High Level Dashboard – Quick and easy snapshot of overall maturity level with ratios

FMCM ACTION PLAN



3 Years Maturity Trend

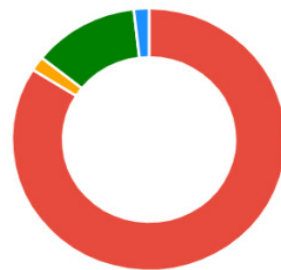


Improvements / Transgressions in maturity scoring are tracked

FMCM ACTION PLAN

Municipal Portal at individual municipality level.

Implementation Action Plan Status

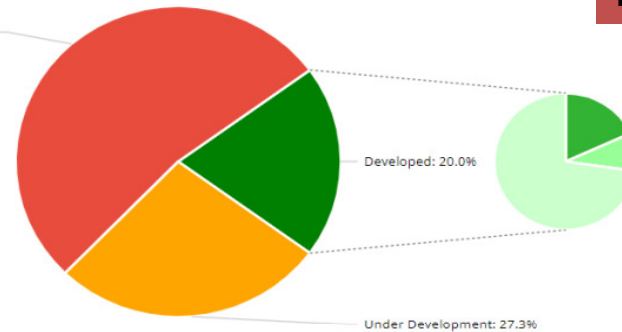


Implementation

- Not Yet Started 83.9%
- In Progress 1.8%
- Completed 12.5%
- Findings Addressed 1.8%

Action Plan Status

Not Started: 52.7%

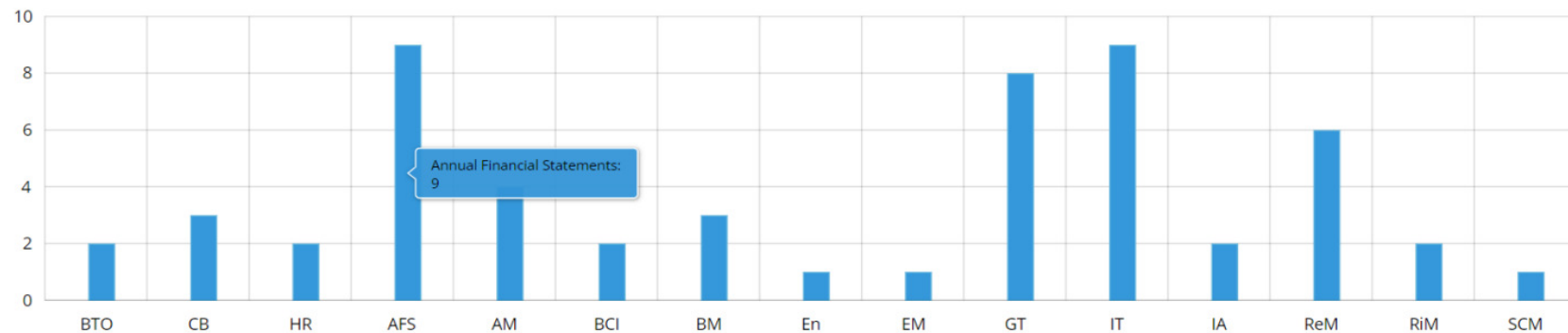


Development

Under Development: 27.3%

Developed: 20.0%

Action Plan By Module



FMCM action plans are created per module

Tracking of the development and implementation status of the FMCM action plan

FMCM ACTION PLAN

FMCMM Report

Download Excel

Modules	Maturity Level Trend					Movement
	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	
INSTITUTIONAL						
1 BTO		2.90	2.90			→
2 Capacity Building		2.90	2.93			↑
3 Human Resources		2.97	2.90			↓
TECHNICAL						
4 Annual Financial Statements		2.73	2.95			↑
5 Annual Reports		3.00	2.85			↓
6 Asset Management		2.94	2.82			↓
7 Bank, Cash and Investments		2.95	3.00			↑
8 Borrowing		3.00	3.00			→
9 Budget Management		2.91	2.98			↑
10 Compensation of Employees		3.00	3.00			→
11 Entities		3.00	3.00			→
12 Expenditure Management		2.98	3.00			↑
13 Grants and Transfers		2.71	2.96			↑
14 Information Technology		2.91	2.98			↑
15 Internal Audit		2.97	3.00			↑
16 Liability Management		3.00	2.96			↓
17 Public Private Partnerships						
18 Reporting		3.00	2.98			↓
19 Revenue Management		2.94	3.00			↑
20 Risk Management		2.97	3.00			↑
21 Supply Chain Management		2.99	3.00			↑
TOTAL		2.93	2.96			↑

Maturity level trend report for FMCM 123 assessment reflect 5 year outcomes

FINANCIAL RATIOS AND NORMS

- ✓ Demonstrates the **financial impact** of changes effected to systems, processes and procedures
- ✓ National Uniform Financial Ratios and Norms outlines comparative performance over time or between organizations
- ✓ **MFMA Circular 71:**
 - ✓ Financial Position – WC, Asset and Liability Management, Sustainability
 - ✓ Financial Performance (Efficiency, Distribution Losses, I &E etc)
 - ✓ Budget Implementation
- ✓ **FMCMM assesses and outlines financial position of the municipality “as at principle”**



FINANCIAL RATIOS AND NORMS



Financial Ratio Report

Download Excel

Year 1

2018

Audited

Year 2

2019

Audited

Year 3

2020

Audited

	Ratio	Norm/Range	2017/2018 Audited	2018/2019 Audited	2019/2020 Audited
1. FINANCIAL POSITION					
A. Asset Management/Utilisation					
1	Capital Expenditure to Total Expenditure	10% - 20%	13%	11%	10%
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%	0%	0%	0%
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%	5%	5%	5%
B. Debtors Management					
1	Collection Rate	95%	91%	89%	88%
2	Bad Debts Written-off as % of Provision for Bad Debt	100%	61%	28%	57%
3	Net Debtors Days	16 Days	57 Days	60 Days	96 Days
C. Liability Management					
1	Capital Cost(Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%	4%	3%	4%
2	Debt (Total Borrowings) / Revenue	45%	20%	19%	20%
D. Liquidity Management					
1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	2.4 Months	3 Months	3 Months
2	Current Ratio	1.5 - 2.1	2.8	2.2	2.2

3 Year Trend (Comparison) Report on Financial Ratios

WEB- ENABLED AUDIT ACTION PLANS



MFMA Circular 113 responds to the “**why**” the web-enabled audit action plans as follows:

- ✓ Inadequate planning and late compilation of the audit action plan.
- ✓ Different formats of the Audit Action Plans, which were inconsistent in content and form, difficult to monitor and report on progress on all Organs of State
- ✓ Inadequate monitoring of the implementation of the action plans by senior officials at the municipality and municipal entities.
- ✓ Provincial / National Treasury only becoming aware of challenges when it is too late to render assistance or support.
- ✓ Lack of skills/knowledge of those tasked with drafting the audit action plan with regards to the necessary actions that must be taken to address the finding.
- ✓ The same unsuccessful planned actions are proposed for recurring findings.
- ✓ Lack of assigned responsibility and accountability.

BENEFITS OF THE WEB- ENABLED AAP



Source: National Treasury (2022)

- **Uniform** content and format.
- Saves **time** and **streamlines** the process.
- Improved **accountability**.
- Ensures that the AAP is based on **SMART principles**.
- Multiple tiered **quality reviews** by CFO, IA, AC, PT, NT.
- **Prevents recurring findings** by ensuring that root causes are addressed.
- **Real time tracking** of progress in addressing audit findings.
- **Improved monitoring** by oversight bodies.
- NT and PT are able to **better support** municipalities through understanding municipal, provincial and national specific issues.

No financial cost!!!!



OVERVIEW OF THE WEB- ENABLED AAP

OVERVIEW OF WEB-ENABLED AUDIT ACTION PLAN SYSTEM: CIRCULAR 113

Add Audit Action Plan

Financial Year* 2016/2017

Annexure* Matters Affecting Audit Report

Section* Non-compliance with laws and regulations

Subsection Unauthorized, irregular and fruitless and wasteful expenditure

Line Items Choose one...

Finding* Unauthorized Expenditure: Authorization is not supported by appropriate evidence and is not effectively investigated

- **Alignment** with AGSA audit and management reports.
- **Copy and paste** functionality.
- **Dropdown menus** for easy and accurate selection.
- **Recurring findings** are identified for special attention.
- **Accountability** is ensured by allocating tasks to specific individuals.
- **Built in approvals** by Management, CFO, Internal audit.

- Allows for **comments at various stages**.
- **Audit trail enabled**.
- **Consideration of NT/PT recommendations** is required.

Action Plan Approval Stages			
User	Date	Comments	Action
Management Approval	01 Jul 2021	Approved	
CFO Approval	02 Jul 2021	Approved	
Internal Auditor Approval	21 Jul 2021	Reviewed and Approved	Save

Audit Committee Approval	21 Jul 2021	Approved
Council Approval	21 Jul 2021	Approved

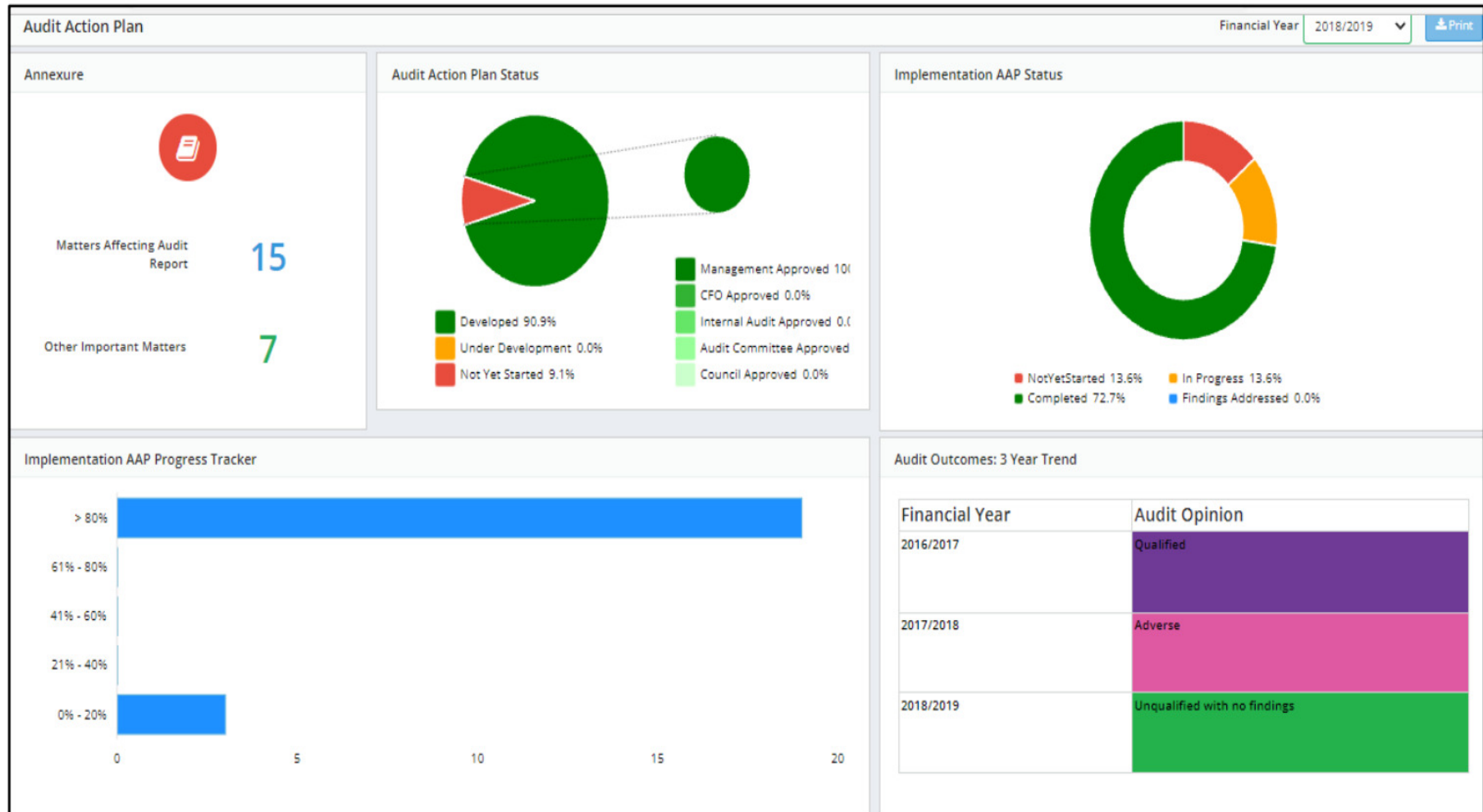
Considered NT/PT Recommendations? N/A

Has findings been addressed for the current year? Yes

No

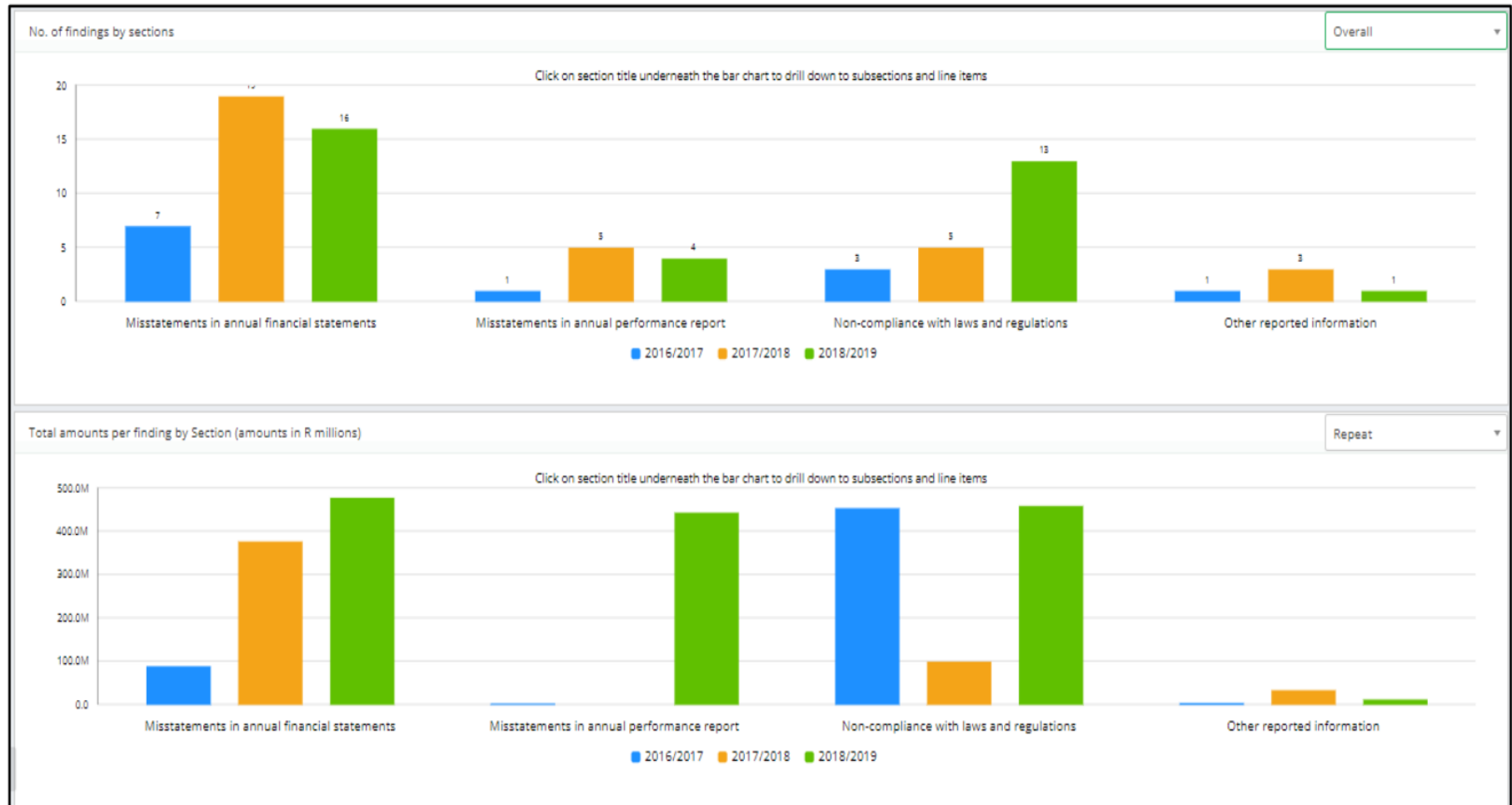
Source: National Treasury (2022)

OVERVIEW OF THE WEB- ENABLED AAP



Dashboard high level overview – trends and progress on the implementation of AAP

OVERVIEW OF THE WEB- ENABLED AAP



Dashboard high level overview – areas of weakness and repeat or recurring findings

OVERVIEW OF THE WEB- ENABLED AAP

Audit Action Plans

[+ Add Action Plan](#)

Summary

Matters Affecting Audit Report

Matters Affecting Management Report

Financial Year

2019/2020

Audit Action Plan	No of Findings		
	Matters Affecting Audit Report	Matters Affecting Management Report	Total
Not Yet Started	4	0	4
Under Development	0	0	0
Developed - Management Approved	0	0	0
Developed - CFO Approved	0	0	0
Developed - Internal Auditor Approved	0	0	0
Developed - Audit Committee Approved	0	0	0
Developed - Council Approved	0	0	0
Total	4	0	4

Implementation	No of Findings		
	Matters Affecting Audit Report	Matters Affecting Management Report	Total
Not Yet Started	4	0	4
In Progress	0	0	0
Completed	0	0	0
Agreed Findings Addressed	0	0	0
Total	4	0	4
Findings also addressed in current year	0	0	0

Dashboard high level overview – status on the implementation of the AAP

OVERVIEW OF THE WEB- ENABLED AAP



Audit Action Plans

+ Add Action Plan

Summary

Matters Affecting Audit Report

Other Important Matters

Audit Opinion

Select Option

Financial Year

2020/2021

Audit Action Plan Status

All

Implementation Status

Not Yet Started

In Progress

Completed

Agreed Findings Addressed

Date Created

dd MM yyyy

Due Date From

dd MM yyyy

Due Date Till

dd MM yyyy

Filter

Download

25

Reference	Section	Subsection	Line Item	Finding	Remedial Action Taken	Action Plan Status	Repeat Finding	Progress	Implementation Status	Responsible Person	Due Date	Completed Date	Action
AAP158-2021	Misstateme..	Long term ..	Long-term ..	79. ISS.12..	eeee	Under Development	No	100%	Completed	Director Financial Reporting	22 Jul 2021	11 Oct 2021	
AAP177-2021	Misstateme..	Short term..	Short-term..	8. ISS.91..	null	Not Yet Started	No	0%	Not Yet Started	Midvaal CFO	22 Jul 2021		
AAP178-2021	Misstateme..	Short term..	Short-term..	10. ISS.11..	null	Not Yet Started	No	0%	Not Yet Started	Financial Manager	08 Oct 2021		

Showing 1 to 3 of 3

1

Dashboard high level overview – stagnant or slow moving findings identified (EWS)

Uploading of documents capability

Promotes Accountability and Consequence Management

PUTTING THE REFORMS TOGETHER

**Sustainable
Delivery**

Service

**Integrated and Long Term
Planning**

**Stakeholder /
Customer Centricity**

Leadership and Decision Making

Transparency and Accountability

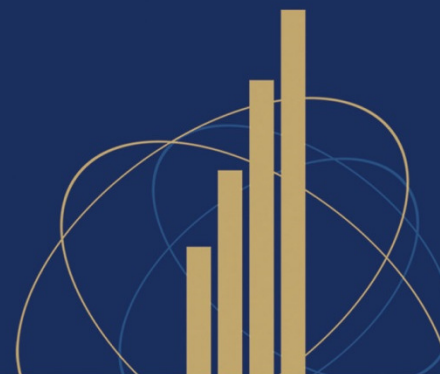
**Financial Sustainability
and Resilience**

**Execution, Monitoring and
Evaluation**

**Governance and Risk
Management**



Thank You!



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