



Vuthela

ILEMBE LED PROGRAMME

VUTHELA ILEMBE LED PROGRAMME

BUDGET PROCESS MANAGEMENT – POLICY REVIEW, ASSESSMENT AND TRAINING
OF BUDGET AND REPORTING MANAGERS AND OFFICERS

CLOSE OUT REPORT

Report Date: 15 July 2022

PREPARED BY:



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1. Introduction

Inspired Financial Management Solutions (Inspired FMS) has been appointed to assist in improving budgeting skills and strengthening budget management processes for iLembe District Municipality, iLembe Enterprise and its local municipalities being KwaDukuza, Mandeni, Ndwedwe and Maphumulo.

The overall focus of this assignment is to improve integrated planning, budgeting and reporting throughout the budget process cycle by strengthening the budget management skills of budget managers and officers.

The outcomes of the assignment are therefore aimed at achieving the following:

- compliance with rules and regulations on preparing budgets and monitoring and in-year reporting on adopted budgets
- implementation of Municipal Standard Chart of Accounts which aims to improve the content of the budget
- ensure that the budgets prepared are more compliant, credible and service delivery is attained
- to ensure that adopted budgets are implemented in line with adopted IDP and SDBIP
- Strengthening of transparency and accountability will yield positive results in the attainment of service delivery

The project implementation plan consists of the following deliverables:

- Develop an Inception Report setting out a detailed project plan in consultation with the PCU.
- Conduct an in-depth review and analysis of budget policies for all municipalities on budget policies; standard operating procedure manuals and conduct training of budget office officials.
- Review of the Budget Structure and Consultation with stakeholders responsible for budget management on the structure and outputs of the project.
- Produce a comprehensive and implementable strategy, in consultation with the PCU and the municipalities concerned, to improve the budget planning and analysis, especially on capital projects including infrastructure and improving in-year reporting
- Conduct skills/ learning assessment of all Budget and Treasury unit (Budget Managers and other budget officials) staff including Interns
- Design a training plan taking into account the findings from the learning assessment
- Develop a training manual based on the need's analysis, using accredited manuals developed by National Treasury
- Conduct training for BTO Staff as per training plan and knowledge assessment

The project commenced on 29 July 2020 with the project being completed on 15 July 2022.

The purpose of this close out report is to provide documented feedback on the implementation of the project, its achievements, and the recommendations for the municipalities to consider going forward.

2. Project Implementation

The project has been successfully achieved against the planned deliverables as reported in the below mentioned table:

No.	Activities	Output	Municipalities	Start Date	Due Date	Date Achieved
1 Project Administration						
1.1	Conduct initiation meeting with the client to understand the scope and objectives of the project	Minutes for project initiation meeting	iLembe District, iLembe Enterprise,	29/07/2020	29/07/2020	Completed – August 2020
1.2	Prepare monthly project progress reports to provide feedback on progress and address challenges	Monthly progress report	Mandeni, KwaDukuza,	Monthly, by the 7th of the following month		Completed – July 2022
1.3	Conduct quarterly project progress meetings to provide feedback on progress and address challenges	Quarterly progress report	Maphumulo and Ndwedwe Municipalities	Quarterly, by the 7th following each quarter		Completed – July 2022
2 Develop an Inception Report setting out a detailed project plan in consultation with the PCU.						
2.1	Conduct inception consultations with stakeholders	Feedback documented in project inception report	iLembe District, iLembe Enterprise, Mandeni,	07/08/2020	07/08/2020	Completed – August 2020
2.2	High level assessment of current Provincial and National Treasury findings, and municipal budget data strings to incorporate weaknesses into the support strategy	High level Assessment incorporated in Project Inception Report	KwaDukuza, Maphumulo and Ndwedwe Municipalities	07/08/2020	11/08/2020	Completed - September 2020
2.3	Preparation of the Inception Report with detailed project plan	Project Inception Report		28/07/2020	11/08/2020	Completed - August 2020
2.4	Project Steering Committee Meeting to present the inception report and detailed project plan	Approved Project Inception Report		07/08/2020	07/08/2020	Completed - August 2020
3 Budget Process Review and Enhancement						
3.1 Conduct an in-depth review and analysis of budget policies for all municipalities on budget policies; standard operating procedure manuals and conduct training of budget office officials.						
3.1.1	Engagement sessions with the municipalities to understand their budgeting processes and current challenges	Progress Report with results of engagements documented	iLembe District, iLembe Enterprise,	10/08/2020	13/11/2020	Completed – September 2020

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No.	Activities	Output	Municipalities	Start Date	Due Date	Date Achieved
3.1.2	Review/Develop Budget related policies and procedure manuals focusing on alignment to mSCOA and best budgeting practices.	Amended Policies and Standard Operating Procedures	Mandeni, KwaDukuza	10/08/2020	15/07/2022	Completed – July 2022
3.1.3	Development of working paper templates to assist in the budgeting process and alignment to standard operating procedures	Developed Working Paper Templates		10/08/2020	15/07/2022	Completed – July 2022
3.1.4	Consider Provincial and National Treasury Budget assessment reports in the development of these processes	Amended Policies and Standard Operating Procedures		09/08/2020	13/11/2020	Completed – September 2020
3.1.5	Workshop with identified officials on the Recommended Policy and Procedures and consideration of their comments	Workshop Conducted		15/11/2020	15/07/2022	Completed – July 2022
3.1.6	Conduct Budget Policy workshop for MANCO and Councillors	Workshop Conducted		16/11/2020	15/07/2022	Senior management workshops were completed in June 2022. Vuthela has requested that Councillor workshops not be conducted due to this being achieved by SALGA.
3.1.7	Review of Provincial/National Treasury findings on in Year Reporting and provide technical assistance in addressing such findings	Technical assistance findings and guidance provided to municipalities		Monthly, as required		Completed – November 2021
3.2.	Review of the Budget Structure and Consultation with stakeholders responsible for budget management on the structure and outputs of the project.					
3.2.1	Conduct a review of the budget unit organogram, day to day functions, and engagements with the budget officials	Budget Structure Review Report	iLembe District, iLembe Enterprise, Mandeni,	02/11/2020	31/10/2021	Completed – October 2021
3.2.2.	A high level review of work performed by the budget unit will further be undertaken, to ensure that the recommended structure, roles and responsibilities include aspects not performed by the unit, where required.	Budget Structure Review Report	KwaDukuza Municipalities	02/11/2020	31/10/2021	Completed – October 2021
3.2.3	Consultations with Chief Financial Officers, budget managers, budget officers, budget interns and other key officials from the municipality, including other senior	Budget Structure Review Report		02/11/2020	30/11/2021	Completed – October 2021

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No.	Activities	Output	Municipalities	Start Date	Due Date	Date Achieved
	managers such as human resources, as required, to ensure that all gaps are addressed					
3.3	Produce a comprehensive and implementable strategy, in consultation with the PCU and the municipalities concerned, to improve the budget planning and analysis, especially on capital projects including infrastructure and improving in-year reporting					
3.3.1	Development of a comprehensive strategy the defines the following:		iLembe District, iLembe Enterprise,			
3.3.2	- A review of processes followed when compiling IDP and Budget and recommend improved processes. Consideration will further be given to the process followed by municipalities in reviewing the budget related policies	Documented Strategy on IDP and Budgeting Processes	Mandeni, KwaDukuza	01/10/2020	31/01/2022	Completed – July 2022
3.3.3	Review/Development of the IDP and Budget process plan for effective budgeting	IDP and Budget Process Plan		01/10/2020	31/01/2022	Completed – July 2022
3.3.4	Development of a model to budget for public investments projects including budgeting for infrastructure repairs and maintenance.	Budgeting Model for public investment budgets and repairs and maintenance		01/10/2020	15/07/2022	Completed – July 2022
4	Conduct skills/ learning assessment of all Budget and Treasury unit (Budget Managers and other budget officials) staff including Interns					
4.1	Development of a skills/learning needs assessment focusing on budget and reporting processes, mSCOA requirements and level of understanding, and MFMA Budget Legislation	Developed Skills Assessment	iLembe District, iLembe Enterprise, Mandeni, KwaDukuza,	01/09/2020	30/11/2021	Completed - November 2020
4.2	Undertake the skills/ learning assessment of all Budget and Treasury unit officials	Status Quo Report on BTO Assessment	Maphumulo and Ndwedwe Municipalities	03/09/2020	30/11/2021	Completed - November 2020
5	Design a training plan taking into account the findings from the learning assessment					
5.1	Design a training plan to respond to learning needs identified in the Status Quo Report. This training plan will indicate the scope to be addressed in the training plan and the dates of the training . The scope will be practical, taking into account the municipal data and addressing the current challenges experienced by the municipality	Training plan with defined scope and dates for training	iLembe District, iLembe Enterprise, Mandeni, KwaDukuza, Maphumulo and Ndwedwe Municipalities	08/09/2020	10/09/2020	Completed – November 2020

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No.	Activities	Output	Municipalities	Start Date	Due Date	Date Achieved
6	Develop a training manual based on the need's analysis, using accredited manuals developed by National Treasury					
6.1	Develop training manuals addressing the needs identified in the pre-assessment as well as NT legislation and frameworks. NT material will be considered with gaps addressed as identified.	Developed training manuals and assessments	iLembe District, iLembe Enterprise, Mandeni, KwaDukuza, Maphumulo and Ndwedwe Municipalities	10/09/2020	30/11/2021	Completed – November 2021
7	Conduct training for BTO Staff as per training plan and knowledge assessment					
7.1	Training sessions will be rolled out in line with the budget cycle, with the following readiness training sessions:		iLembe District, iLembe Enterprise, Mandeni, KwaDukuza, Maphumulo and Ndwedwe Municipalities	01/09/2020	Ongoing	
7.1.1.	- 2020/21 Special Adjustment Budget Readiness (2 days)	Completed Training Assessment Report		Date Dependent on Covid-19 Budget direction from NT		Completed - September 2020
7.1.2.	- 2020/21 Adjustment Budget Readiness (5 days)	Completed Training Assessment Report		To be agreed upon in training plan		Completed - December 2020
7.1.3.	- 2021/22 Tabled Budget Readiness (5 Days)	Completed Training Assessment Report		To be agreed upon in training plan		Completed - March 2021
7.1.4.	- 2021/22 Original Budget Readiness (5 Days)	Completed Training Assessment Report		To be agreed upon in training plan		Completed – April 2021
7.1.5	- 2021/22 Adjustment Budget Readiness (3 days)	Completed Training Assessment Report		To be agreed upon in training plan		Completed – January 2022
8	Close - Out Report					
8.1	Conduct Project Steering Committee Meeting to present the close out report	Project Steering Committee Meeting close out report	iLembe District, iLembe Enterprise, Mandeni, KwaDukuza, Maphumulo and Ndwedwe Municipalities	10/12/2021	15/07/2022	Completed – July 2022

3. Project Activities Performed

3.1 PROJECT ADMINISTRATION

A meeting was held with the Vuthela Project Manager to understand the requirements of the project and in particular, the requirements for the inception report and project plan on 29 July 2020.

A draft project plan was developed and presented at the first project steering committee meeting that took place with the municipality representatives. The terms of reference were adopted by the committee.

During the implementation of this project, project steering committee met to discuss progress reports, work performed to date as well as challenges on the below mentioned dates:

- 07 August 2020
- 04 September 2020
- 9 October 2020
- 04 December 2020
- 12 March 2021
- 11 June 2021
- 8 October 2021
- 12 November 2021
- 15 July 2022

3.2 INCEPTION REPORT AND STATUS ASSESSMENT

An inception report was compiled and presented at the first meeting of the project steering committee.

A status assessment for the five municipalities was conducted at the commencement of the project. The status assessment was conducted at two levels, one being an organisational assessment and the second being at an individual level.

ORGANISATIONAL STATUS ASSESSMENT:

The organisational status assessment was conducted by analysing the current Provincial Treasury findings for the five municipalities within the District. The purpose this assessment was to determine cross cutting weaknesses in the budgeting process and data, which will be the focus areas of the training. This was considered necessary in order to establish a consistent benchmark to measure the progress of the municipalities in resolving such findings.

The objective of this assessment was to identify the current budget issues identified by the Provincial Treasury that need attention, to assist in the planning of training and support to the client municipalities in the District.

The assessment further formed the basis for tracking progress made by the municipalities in resolving findings identified by Provincial Treasury and was updated accordingly as and when budget review findings are received.

A summary of the Provincial Treasury budget findings identified within the district are indicated below, including our assessment of the reasons contributing to these findings:

- **The budget adopted by Council did not reconcile to the A schedule generated from the NT portal.** This is largely due to mapping inconsistencies between the municipality's approach and National Treasury, as well as incomplete or inaccurate data strings being populated in the financial system of the municipality.
- **Supporting schedules (SA1 to SA38) were incomplete and/or incorrect in many instances.** This is attributed to municipalities manually populating these schedules, as well as the lack of information and time required to validate the information populated.
- **Incomplete IDP information, including inaccurate alignment of strategic objectives in comparison with projects being budgeted for is evident.** The involvement of the IDP officials in completion of the IDP data strings on the system, as well as refinement of the IDP and budget process alignment will assist in strengthening the quality of this information.
- **Incomplete/inaccurate cash flow and balance sheet budgeting were performed in the creation of the budget data strings.** This can be attributed to many municipalities implementing this at a data string level for the first time, as opposed to the high level balance sheet and cash flow budgeting being done previously. Additionally, the functionality for budgeting within the various modules such as payroll, assets and billing is limited or non-existent within the financial systems, resulting in these calculations being performed manually and then inputted into the financial systems.
- **Budgeted opening balances did not balance for all municipalities.** This was due to a combination of National Treasury not creating an opening balance guid for non-current finance lease liabilities, as well as errors in the opening balance calculations and segment usage of municipalities.
- **The use of the region segment, particularly the allocation of all revenue at a ward or regional level, was incomplete or not undertaken by the municipalities.** This is largely due to the information not being readily available to implement at this level.
- **Costing has not been implemented for waste, water, waste water and electricity services.** This is largely due to municipalities not having a costing methodology in place to redistribute expenditure to the respective functions and limited business processes in this regard.
- **The use of core and non-core functions were incorrect in the detailed budget data strings.** Municipalities have not documented core and non-core functions in the current policies and procedures for application during the budgeting process. Additionally, certain grey areas exist, which require consultations with the Provincial Treasury and ourselves to clarify these.
- **Municipalities were requested to review the use of cash backed reserves and transfer from operational revenue.** Municipalities require clarity on the use of the segments, particularly where capital assets is funded from internal reserves. Additionally, policies and procedures need to be aligned to address the use of these funding sources adequately.
- **The use of the fund segment to ensure funds are balanced and correctly aligned needs to be reviewed.** Clarity is required by municipalities on the use of the fund segment, including the funding

of opening balances. Additionally, the fund policy needs to be revised to indicate how the fund segment should be used.

- **The budgeting for VAT, including the funding of the VAT, as well as accounting for VAT in terms of grants requires review by the municipalities.** Training is required on the process for budgeting for VAT, including the allocation of the VAT by funding source, and grants. The budgeting for VAT is also new to the municipalities, and hence detailed VAT working papers/templates will assist in applying this process.
- **The classification on the item segment accounts utilised needs to be reviewed.** The item segment is very detailed in terms of the nature and municipalities are required to budget correctly within these various classifications, A clear understanding on certain account classifications is required by the municipalities to ensure that the budget and actual transactions are being budgeted for correctly and are aligned to GRAP at its lowest level.
- **The alignment of the income statement accounts to the balance sheet accounts requires review.** Municipalities are required to budget as they would transact, hence it is important to ensure that compliance with GRAP standards are achieved at a budget level. Change management is required to therefore implement processes to realign income statement accounts to the correct balance sheet accounts. More importantly, budget data needs to be calculated and available from the various business units in order to budget at this level.
- **Review consideration of budgeting for expenditure in terms of cost containment.** Municipalities are required to consider the cost containment regulations when preparing their budgets. The consideration of the cost containment should be documented in the budget documentation provided to Provincial Treasury to demonstrate that such regulations were adequately considered and savings/re-allocations undertaken.
- **The budgeting for projects, particularly the alignment between project and item segments needs to be reviewed.** Municipalities did not align certain items to municipal running costs, default and typical work stream projects correctly. This is largely attributed to limited information being provided by business units, therefore hindering the ability in the align all items to the correct project. Capacitation is also required in terms of the use of the projects segment to strengthen the understanding of municipalities in this regard, including the budgeting for cost of free basic services.
- **Municipalities did not adequately budget for Covid-19 transactions.** National Treasury issued guidance on the budget data strings Covid 19 on 9 June 2020 (mSCOA Circular No.9). Majority of the municipalities were complete or almost complete with their budget at that stage and were finalising the schedules for adoption in Council. Hence, due to the timing, municipalities were not able to fully implement the requirements of the Circular, and further did not fully comprehend what was required at that stage.

Based on the above mentioned, there will be significant effort required by municipalities to address the Provincial Treasury findings, with municipalities required extensive capacitation and support, as well as business process reviews and enhancements.

The approach to training was therefore established to be a progressive one, with individuals building on the knowledge gained throughout the assignment. The training will include both practical training based on

day to day functions delivered in classroom style sessions, virtual sessions as well as one on one coaching, where day to day functions performed by officials are reviewed during this phase and feedback provided to the respective officials on errors identified and additional guidance and support given directly to these officials on the areas that still require attention.

The individual status assessment is discussed in section 3.6 of this report.

3.3 BUDGET POLICIES, STANDARD OPERATING PROCEDURE MANUALS AND CONDUCT TRAINING

DEVELOPMENT OF POLICIES:

The budget related policies were requested from the municipalities and focus was given to the following policies for review:

- Funding and Reserves Policy
- Budget Policy
- Virement Policy

Due to the various weaknesses identified in the review of the policies and the non-alignment to mSCOA requirements and National Treasury Circulars, it was considered beneficial to the municipalities to develop standardised policies for the above mentioned, which could then be utilised by the municipalities going forward. Standardised policies were then developed for Funding and Reserves Policy, Budget Policy and Virement Policy, which was then workshopped with the municipalities in December 2020 and March 2021.

DEVELOPMENT OF PROCEDURE MANUALS:

It was further established that the municipalities lacked standard operating procedure manuals in terms of the budgeting process. The following standard operating procedure manuals were then developed, taking into account the mSCOA and GRAP requirements, which can be applied within the organisation. Processes were established to enable that organisational reform in the budgeting process, therefore enabling various role players within the organisation take accountability for the budget inputs in accordance with the legislative requirements. The procedure manuals developed are structured as follows:

- Budget Process Flow Chart that highlights the timelines and processes that should be adhered to throughout a budget cycle
- Budget Process Procedure Manual that provides the overview of key budget requirements, timelines, responsibilities, and source documentation required
- Annexure 1 to 6 – Detailed budget procedures for revenue, expenditure, gains and losses, assets, liabilities, and net assets aligned to segmentation requirements in terms of mSCOA and GRAP
- Annexure 7 - Budget Process Model for budgeting for capital investments including infrastructure projects
- Annexure 8 - Budget Process Model for budgeting for repairs and maintenance
- Annexure 9 - IDP and Budget Process timetable

DEVELOPMENT OF BUDGET WORKING PAPER TEMPLATES:

In addition to the above mentioned, working paper templates were designed to assist in the budgeting process as follows:

- Working Paper 1 – Budgeting for electricity revenue

- Working Paper 2 – Budgeting for water revenue
- Working Paper 3 – Budgeting for sanitation revenue
- Working Paper 4 – Budgeting for property rates revenue
- Working Paper 5 – Budgeting for interest on receivables
- Working Paper 6 – Budgeting for payroll
- Working Paper 7 – Departmental budget inputs

DEVELOPMENT OF METHODOLOGIES:

Additionally, it was identified that municipalities lacked a segment reporting methodology as required in terms of GRAP 18, which has a direct impact on the functional setup of the budget within the municipality. A segment reporting methodology was then developed to assist the municipalities in setting up the budget as well as accounting for the requirements of GRAP in the disclosure of the AFS from day-to-day transactions.

Four out of five municipalities had further not implemented costing requirements when preparing their budgets, and therefore a costing methodology was developed to assist the municipalities.

Based on National Treasury guidance related to water inventory, it was established that municipalities were not accounting for water inventory in accordance with GRAP 12. A water inventory methodology was further developed to assist iLembe District Municipality with budgeting and accounting for water inventory.

Workshops and engagements were held with the municipalities on 23 June 2022 and 15 July 2022 to discuss the policies, procedure manuals, templates and methodologies developed.

3.4 REVIEW OF THE BUDGET STRUCTURE AND AS IS ASSESSMENT

The organogram for the respective budget sections of the municipalities have been reviewed to determine the capacity of the municipality. An onsite assessment was conducted in October 2021, which addressed the following:

- 3.4.1 Current capacity of the budget office to render the job functions relating to budget
- 3.4.2 Roles and responsibilities for the respective finance officials and user departments in the budget process
- 3.4.3 Current process flow for budget preparation, where weaknesses were considered in the proposed procedure manuals
- 3.4.4 Current challenges being experienced by the budget office and recommendations for improvement

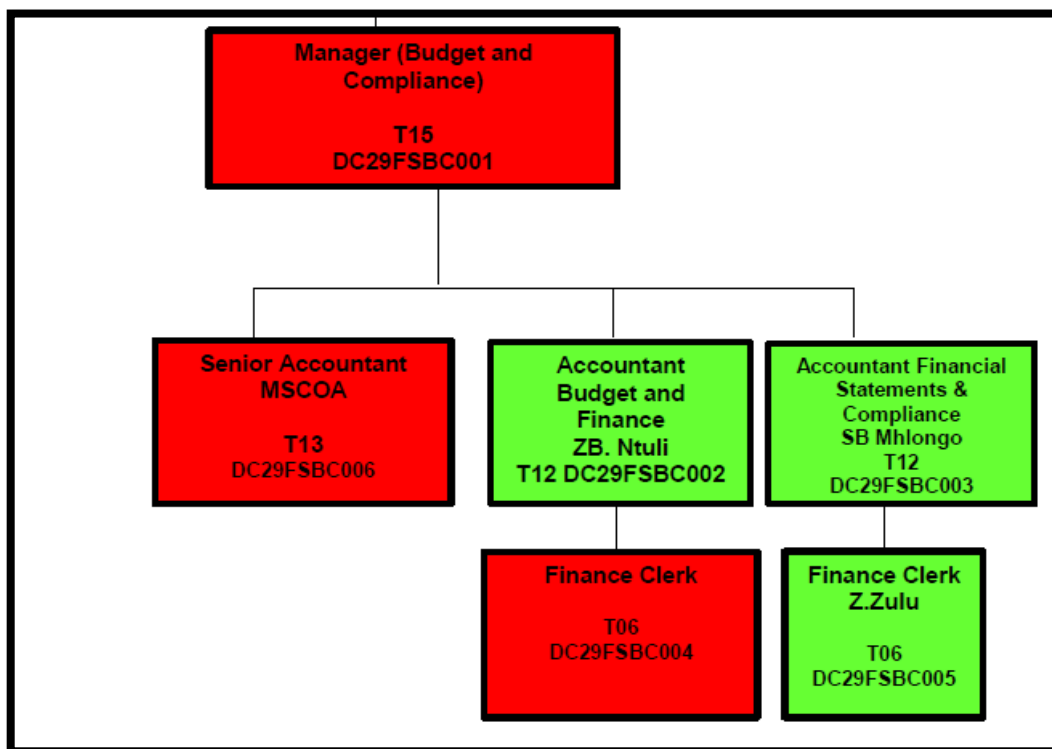
The onsite assessments were conducted on the below mentioned dates:

Date	Municipality
11 October 2021	iLembe District Municipality
12 October 2021	KwaDukuza Municipality
18 October 2021	Mandeni Municipality
19 October 2021	Maphumulo Municipality
20 October 2021	Ndwedwe Municipality

ORGANOGRAM REVIEW:

iLembe District Municipality:

The current organogram for the Budget and Compliance Office at KwaDukuza Municipality is reflected below:



The Budget and Compliance Unit is responsible for Budget and In Year Reporting as well as AFS. Asset Management is separated from the Budget Office, which is considered appropriate taking into account the volume of work in relation to assets.

The municipality has a Manager: Budget and Compliance appointed, however the Senior Accountant: mSCOA is vacant. Taking into account that mSCOA is the responsibility of all officials and sections within the municipality, it is therefore recommended that the Senior Accountant: mSCOA position be reviewed to ensure compliance with implementation and monitoring of internal controls and systems. This post is considered crucial to improve the quality of the transactions and processes within the organisation.

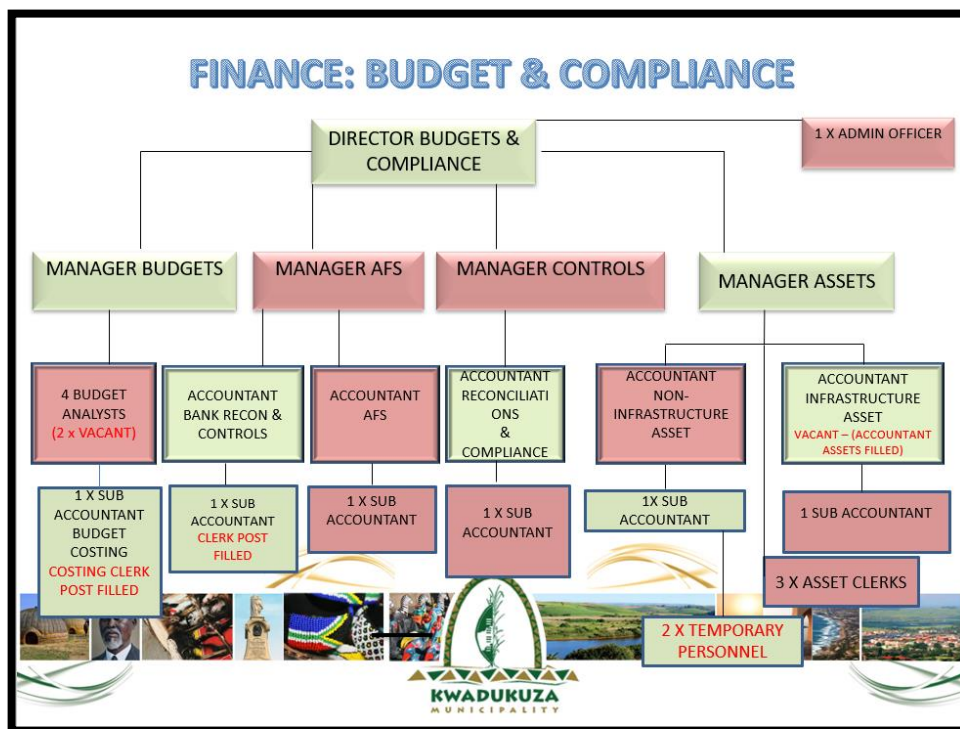
A significant challenge for the budget team is the changes that are made very close to the budget approval date, which limits the ability of the budget unit to effect the impact of these changes on the Budgeted Financial Position and Budgeted Cash Flow Statement timeously. The schedule reporting to Council on a monthly basis is now automated to Caseware, however time is required to validate that the reports are correct when being extracted from the system. Additionally, there are certain inputs that have to be captured directly into Caseware, and this delays to submission to Council significantly, when amendments to the budget estimates are received too late. The filling of the one vacant position for the Finance Clerk is required in order to ensure capacitation to finalise budget data timeously.

Attempts have been made to capacitate Finance Officials in the budgeting process over the period of this project, however this must be strengthened to enable credible information being included in the budget, especially with regard to Financial Position and Cash Flow information.

With the increasing legislative requirements, consideration should be given to the appointment/designation of dedicated individuals who have a finance background to be responsible for providing day to day financial management hands on assistance and support to the user departments, in particular but not limited to, the larger departments such as technical services and community services. Resources may be shared between departments, and all financial management matters may be managed at a Department level. It is further important to ensure that these resources report to Finance functionally, to enable work allocations that will address the weaknesses identified, audit matters and legislative matters that require attention within the respective Departments.

KwaDukuza Municipality:

The current organogram for the Budget and Compliance Office at KwaDukuza Municipality is reflected below:



The Budget and Compliance Unit has dedicated Managers responsible for AFS, Budget and In Year Reporting, and Assets. This is considered appropriate taking into account the volume of work required under each of these components. The Budget Unit is responsible for budgets as well as in year reporting.

The municipality has a Manager: Controls position on the organogram, however this post is vacant. The objective of this position is to ensure compliance with implementation and monitoring of internal controls and systems. This post is considered crucial to improve the quality of the transactions and processes within the organisation.

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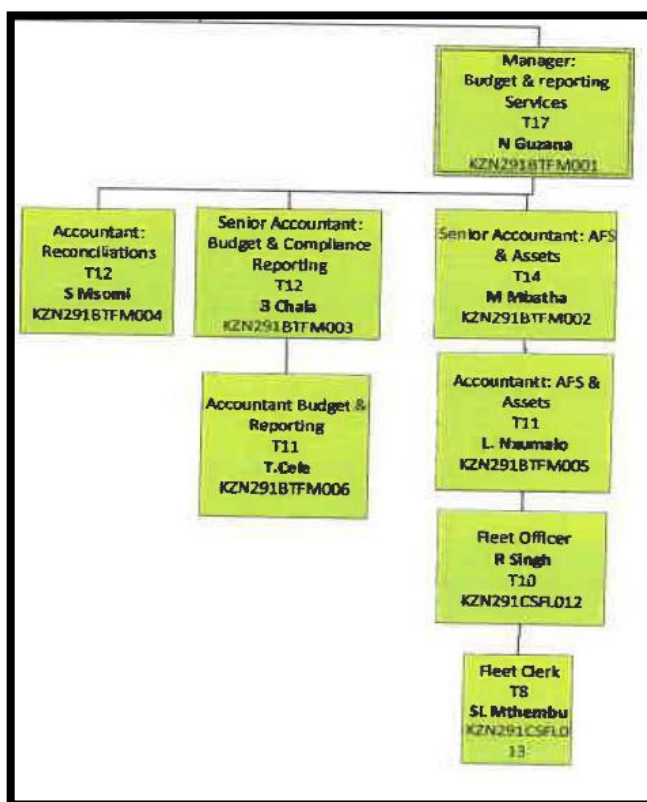
A significant challenge for the budget office is the delayed input received from Departments with the required information and the changes that are made very close to the budget approval date, which limits the ability of the budget unit to effect the impact of these changes on the Budgeted Financial Position and Budgeted Cash Flow Statement timeously. The schedule reporting to Council on a monthly basis is now automated, however time is required to validate that the reports are correct when being extracted from the system. The filling of the two vacant positions for the budget analysts is required in order to ensure capacitation to finalise budget data timeously.

There has been a progressive improvement in the role that the Finance Officials from the remaining sections are playing in the budgeting process over the period of this project, however this must be strengthened to enable credible information being included in the budget, especially with regard to Financial Position and Cash Flow information.

With the increasing legislative requirements, consideration should be given to the appointment/designation of dedicated individuals who have a finance background to be responsible for providing day to day financial management hands on assistance and support to the user departments, in particular but not limited to, the larger departments such as technical services and community services. Resources may be shared between departments, and all financial management matters may be managed at a Department level. It is further important to ensure that these resources report to Finance functionally, to enable work allocations that will address the weaknesses identified, audit matters and legislative matters that require attention within the respective Departments.

Mandeni Municipality:

The current organogram for the Budget and Compliance Office at Mandeni Municipality is reflected below:



The Budget and Compliance Unit is responsible for Budget and In Year Reporting, Annual Financial Statements, Asset Management and Fleet Management. This is a significant portfolio to manage, and consideration should be given to splitting AFS and Budget from Asset and Fleet Management, and to ensure that officials are at the appropriate level to drive the workstreams and responsibilities within the respective sections.

The municipality does not have any dedicated post for implementation and monitoring of internal controls and systems. As reforms are implemented within local government and the increasing legislative responsibilities, this post is considered crucial to improve the quality of the transactions and processes within the organisation, and will not only benefit budget and compliance, but will have a direct impact on all Departments within the municipality from a financial management improvement perspective.

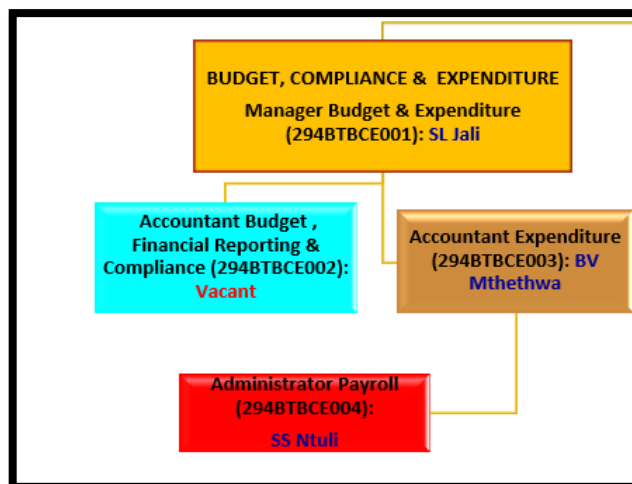
The major challenge experienced by the municipality, is also the delayed input received from Departments with the required information and the changes that are made very close to the budget approval date, which limits the ability of the budget unit to effect the impact of these changes on the Budgeted Financial Position and Budgeted Cash Flow Statement timeously. The schedule reporting to Council on a monthly basis is now automated, however time is required to validate that the reports are correct when being extracted from the system.

There is limited input in the role that the Finance Officials from the remaining sections are playing in the budgeting process over the period of this project, however this is being addressed to enable credible information being included in the budget, especially with regard to Financial Position and Cash Flow information.

With the increasing legislative requirements, consideration should be given to the appointment/designation of dedicated individuals who have a finance background to be responsible for providing day to day financial management hands on assistance and support to the user departments, in particular but not limited to, the larger departments such as technical services and community services. Resources may be shared between departments, and all financial management matters may be managed at a Department level. It is further important to ensure that these resources report to Finance functionally, to enable work allocations that will address the weaknesses identified, audit matters and legislative matters that require attention within the respective Departments.

Maphumulo Municipality:

The current organogram for the Budget and Compliance Office at Maphumulo Municipality is reflected below:



The Budget and Compliance Unit is responsible for Budget and In Year Reporting, Annual Financial Statements, Expenditure and Payroll.

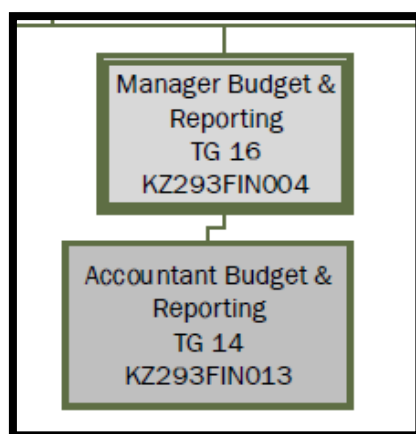
The municipality does not have any dedicated post within the Finance Department for implementation and monitoring of internal controls and systems. As reforms are implemented within local government and the increasing legislative responsibilities, this post is considered crucial to improve the quality of the transactions and processes within the organisation, and will not only benefit budget and compliance, but will have a direct impact on all Departments within the municipality from a financial management improvement perspective.

As with other municipalities, the major challenge experienced is also the delayed input received from Departments with the required information and the changes that are made very close to the budget approval date, which limits the ability of the budget unit to effect the impact of these changes on the Budgeted Financial Position and Budgeted Cash Flow Statement timeously. The schedule reporting to Council on a monthly basis is now automated, however time is required to validate that the reports are correct when being extracted from the system.

Since majority of the functions relating to expenditure, AFS and payroll rests with the budget office, there is an increased drive to capacitate revenue section in the budgeting process over the period of this project, to enable credible information being included in the budget, especially with regard to Financial Position and Cash Flow information.

Ndwedwe Municipality:

The current organogram for the Budget and Compliance Office at Ndwedwe Municipality is reflected below:



The Budget and Compliance Unit is responsible for Budget and In Year Reporting and Annual Financial Statements.

The municipality does not have any dedicated post within the Finance Department for implementation and monitoring of internal controls and systems. As reforms are implemented within local government and the increasing legislative responsibilities, this post is considered crucial to improve the quality of the transactions and processes within the organisation, and will not only benefit budget and compliance, but will have a direct impact on all Departments within the municipality from a financial management improvement perspective.

As with other municipalities, the major challenge experienced is also the delayed input received from Departments with the required information and the changes that are made very close to the budget approval date, which limits the ability of the budget unit to effect the impact of these changes on the Budgeted Financial Position and Budgeted Cash Flow Statement timeously. The schedule reporting to Council on a monthly basis is now automated, however time is required to validate that the reports are correct when being extracted from the system.

Since majority of the functions relating to expenditure, AFS and payroll rests with the budget office, there is an increased drive to capacitate revenue section in the budgeting process over the period of this project, to enable credible information being included in the budget, especially with regard to Financial Position and Cash Flow information.

AS IS ASSESSMENT:

An as-is assessment subsequent to the training and workshops taking place has been conducted to measure the improvements made by the municipalities and the current challenges. This assessment takes into consideration the current budget data information approved by Council and submitted to the National Treasury portal.

Progress to address Provincial Treasury Findings:

Close Out Report as at 15 July 2022

At the commencement of this project, an assessment of Provincial Treasury findings was performed on the ORGB data for 20-21 Financial Year and consolidated by municipality in order to establish a baseline for measurement purposes. The Provincial Treasury has not undertaken a review for the 2022-23 ORGB as yet, and therefore a review was performed by Inspired FMS to determine the progress made by the municipalities in addressing these findings.

The results of the assessment follows:

	ORGB 2020/21					ORGB 2022/23				
	iLembe DM	KwaDukuza LM	Mandeni LM	Maphumulo LM	Ndwedwe LM	iLembe DM	KwaDukuza LM	Mandeni LM	Maphumulo LM	Ndwedwe LM
Finding Present, Municipality to resolve	49	55	52	48	50	11	7	7	7	14
Finding Resolved	0	0	0	0	0	43	61	49	39	35
Finding Present, however difference due to NT mapping	0	3	0	0	0	0	2	0	0	1
Finding Present, interpretation matter with PT	5	11	0	2	0	0	0	0	0	0
% of Findings Resolved						80%	88%	94%	78%	70%

The Provincial Treasury does not assess iLembe Enterprise separate from the iLembe District Municipality. It is for this reason, that the findings of the entity is not reported separately above, as it is inclusive of the District Municipality. There has been significant improvement from the commencement of the project to address the findings raised by the Provincial Treasury, which demonstrates the growth in knowledge obtained and willingness to improve the quality of the budget data.

The following matters still require attention by municipalities:

- **VAT** – VAT has been budgeted for by all municipalities, however, consideration must be given to the funding sources associated with the VAT.
- **Budgeted Opening Balances** – Opening Balances were not in balance for two of the municipalities which require attention.
- **The use of the region segment, particularly the allocation of all revenue at a ward or regional level, was incomplete or not undertaken by the municipalities.** This is largely due to the information not being readily available to implement at this level.
- **Costing has not been implemented for waste, water and waste water.** This is largely due to municipalities not having a costing methodology in place to redistribute expenditure to the respective functions and limited business processes in this regard. KwaDukuza has implemented costing for electricity and waste management services.
- **The budgeting for projects, particularly the alignment between project and item segments needs to be reviewed.** Municipalities have made significant improvement in realigning certain items to municipal running costs, default and typical work stream projects correctly. However, there are a few items remaining that needs to be considered as indicated in the detailed status assessment report.

Additional Findings raised by Inspired FMS during the project:

Close Out Report as at 15 July 2022

During the implementation of this project, National Treasury requirements and clarification on matters were being communicated via Circulars to the municipalities, and therefore matters that were not reported as findings previously, were then subsequently assessed to be findings in following budget cycles. In addition, municipalities previously had limited findings at the commencement of this project, as majority of the municipalities had not undertaken extensive budgeting, in particular balance sheet and cash flow budgeting. However, as the knowledge of the officials progressed, the extent of work undertaken on balance sheet and cash flow budgeting expanded, and therefore additional findings were raised on the work performed. Taking into account that iLembe Enterprise was not assessed separately by the Provincial Treasury, the entity was then assessed separately by Inspired FMS.

The results of the assessment follows:

Finding	ORGB 2020/21						ORGB 2021/22						ORGB 2022/23					
	iLembe DM	Enteprise iLembe	KwaDukuza LM	Mandeni LM	Maphumulo LM	Ndwedwe LM	iLembe DM	Enteprise iLembe	KwaDukuza LM	Mandeni LM	Maphumulo LM	Ndwedwe LM	iLembe DM	Enteprise iLembe	KwaDukuza LM	Mandeni LM	Maphumulo LM	Ndwedwe LM
Finding Present, Municipality to resolve	49	60	55	52	48	50	50	25	67	135	90	162	44	8	35	37	58	50
Finding Resolved	0	0	0	0	0	0	25	44	47	31	26	11	36	23	60	115	86	137
Finding Present, however difference due to NT mapping	0	0	3	0	0	0	0	0	3	0	0	0	1	0	2	1	1	1
Finding Present, interpretation matter with PT	5	0	11	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0
% of Findings Resolved							46%	73%	68%	60%	52%	22%	72%	92%	86%	85%	96%	85%

The progress made by municipalities to address the findings raised may be assessed using the % of findings resolved from one budget cycle to the next. This demonstrates the level of maturity in budgeting that has been achieved within a municipality and reflects the positive outcomes of this project. Ideally, municipalities should strive for nil findings, however, with the changes being implemented from year to year by National Treasury, this may not be achievable. Additionally, due to the volume of data strings that municipalities prepare in the budgeting process, it is prone to human error, and therefore there is always a risk that findings may arise due to errors. However, as municipal systems evolve over time in the future, modifications and enhancements to system processes will reduce the level of these errors, and effort should be made to ensure that any errors are minimal.

The additional key findings that still require attention by municipalities are as follows:

- **Cash Flow Statement does not balance to the cash position on A6** – This is largely due to the municipalities not budgeting against the correct data strings, and therefore effort must be made to identify the reasons for the cash flow not balancing. However, it must be noted that the consumer

deposits mapping by National Treasury is still not correct on the NT portal, even in instances where the municipalities have applied the cash flow principles as indicated in the Circulars for consumer deposits, and therefore this has a direct impact on the Cash Flow Statement.

- **Fixed Asset Register Summary of Closing Balances on A9 does not balance to Property, Plant and Equipment on A6** – The work in progress for the fixed asset register summary of closing balances on A9 is not mapped by National Treasury, and therefore this results in the difference between the fixed asset register summary and the PPE on the Financial Position.
- **Funding segment does not balance for grant funded projects** – Using the fund segment, grant funded expenditure and liability payments must equal the total value of the grants received, taking into account the VAT. Municipalities must review the funding sources for each of the grants, and ensure that this is balanced, as this has a direct impact on the grants register from the financial system and grants reporting to National Treasury.
- **Funding segment does not balance for internal funding sources** – Using the fund segment, each fund source, excluding grants, should have expenditure and withdrawals from the bank that is less than or equal to the revenue and bank deposits to be received. However, it has been identified that bank withdrawals are often higher than the deposits for the relevant funding sources, and therefore this must be reviewed and corrected.
- **Alignment of contra accounts contains errors in certain instances** – It has been identified that the contra accounts for Financial Performance and Financial Position items are not entirely correct, in certain instances, and therefore municipalities need to review the contra accounts utilised to ensure correct alignment.
- **VAT funding sources not aligned to the original revenue and expenditure funding sources** – The VAT data strings have not been set up with the relevant funding sources aligned to the original revenue and expenditure funding sources being incurred. In accordance with the NT Circulars, the cash to be received or paid to SARS in relation to VAT is required to maintain the funding source Surcharges and Taxes, whilst the remaining data strings for the accrual and recognition of the asset or liability of VAT must maintain the original funding source as the initial transaction. This is due to the VAT having a direct impact on the grants register and grants reporting.

3.5 BUDGET PLANNING AND ANALYSIS, INCLUDING CAPITAL PROJECTS AND IMPROVING IN YEAR REPORTING

The strategy to improve budget planning and analysis involved undertaking various levels of training to budget officials, finance officials as well as non-finance officials, including but not limited to technical services officials and officials responsible for project management within the municipality.

In addition, the focus was on improving processes, which the development of procedure manuals, templates and methodologies is aimed at enabling improved planning and budgeting processes.

Transactional training was further focused on, to provide officials with the relevant skill and expertise to improve their understanding of accounts and day to day processes aligned to the Municipal Budget and Reporting Regulations, mSCOA and GRAP.

These strategies were documented in the project plan, inception report as well as training plans rolled out to municipalities.

Additionally, hands on assistance was provided to the municipalities during the preparation of the budget cycles by reviewing budget data and providing technical guidance to the teams.

Extensive senior management training was further rolled out which addressed processes to be implemented at a planning stage to improve the quality of the reporting on the budget and day to day transactions.

The support rendered to municipalities in this component is highlighted below:

ADJUSTMENT BUDGET SUPPORT – 20/21 FINANCIAL YEAR:

Effort was made to hold budget sessions with the respective budget units during January and February 2021. However, municipalities had indicated that they were behind schedule with the budget preparation, and were therefore not ready for these sessions to be held. In certain instances, we had cancellations the day before the scheduled sessions.

KwaDukuza Municipality had submitted the unspent grants data strings and non-current assets opening balances for review. Findings were documented and submitted to the municipality for consideration.

Mandeni Municipality had submitted an opening balance journal that was required to be processed on the system for review. Discussions were held with Mandeni on the budgeting for opening balances and the processing of actual opening balances as a journal.

iLembe District Municipality's budgeted opening balances and budget data strings were reviewed. The funding on revenue required correction, as well as the segmentation on opening balances.

iLembe Enterprise's opening balances were reviewed and agreed to the annual financial statements. Differences were identified and a virtual session with the entity was undertaken to discuss the actual transactions and the errors identified for correction. The budget was further submitted for review, and the findings were discussed with the entity, particularly on the funding sources and the accounting treatment for unspent grants.

However, it must be noted, that with the exception of iLembe District Municipality and iLembe Enterprise, the municipalities adjustment budget was not reviewed prior to adoption by Council.

BUDGET WORKING GROUP SESSIONS – TABLED BUDGET READINESS 21/22 FINANCIAL YEAR

Due to the limited support provided during the adjustment budget, a change in strategy was required for the draft budget, to enable us to review the budget information throughout the budget preparation process.

A meeting was held with the Vuthela Project Manager on 22 February 2021 and it was apparent from the meeting that the change in strategy was required to be able to review budget information and provide assistance to the municipality in resolving the previous findings received from Provincial Treasury in the draft budget preparation process, as well as providing guidance in ensuring that the budget estimates are credible and realistic.

Workstreams were identified as critical areas that needed urgent attention to ensure that budgeting is credible and aligned to the requirements of National Treasury. The purpose of these sessions was to provide practical guidance to the respective sections in undertaking the budget input preparation, as indicated in the attached amended support plan.

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Due to time constraints, the working group sessions were set up with short notice, and therefore registration of officials could not be undertaken prior to the sessions. The invitations were forwarded to budget officials and chief financial officers for forwarding to the relevant officials.

The attendance at the working group sessions were as follows:

	03/03/21	03/03/21	04/03/21	04/03/21	05/03/21
Municipality	Budget Update Session	Revenue and Debtors	Expenditure and Creditors	Infrastructure and Maintenance	Payroll and Salary Control
iLembe Enterprise	0	0	0	0	0
iLembe District	1	1	0	0	0
KwaDukuza	1	6	5	10	4
Mandeni	3	1	2	1	1
Maphumulo	0	4	2	2	1
Ndwedwe	0	0	0	0	0
Total	5	13	9	13	6

The sessions addressed the process of obtaining budget amounts for inclusion in the budget, in accordance with source documentation, rather than estimating a % increase from the prior year. It further included a review of the budget for the respective sections using municipality information, as well actual transactions to identify areas of correction.

The infrastructure and maintenance working group session focused on providing practical ways to obtain budget inputs, despite the lack of the maintenance plan, and emphasised the need to budget for realistic amounts in accordance with past bill of quantities for similar assets and tender estimates. The linkage of projects to the IDP were further emphasised during these sessions.

Working papers for budget input from the respective sections were required to submitted for review by 11 March 2021, however no working papers were submitted for review during this period.

TABLED AND ORIGINAL BUDGET SUPPORT 21/22 FINANCIAL YEAR

A session was held with Maphumulo Municipality on 17 April 2021 to review their adjustment budget workings, to assist them in finalising the approach for the tabled budget.

Due to time constraints, a limited review on iLembe District, iLembe Enterprise and KwaDukuza draft budgets were performed to address the incorrect use of funding and impact on the cash flow, and guidance was provided to these municipalities on the corrections required. Additional reviews were done on the budgeted opening balances for iLembe District and iLembe Enterprise.

Subsequent to the tabling of the budgets to Council, a detailed review of all municipalities tabled budgets were undertaken.

Significant progress has been made by iLembe, KwaDukuza and Maphumulo to apply the principles taught over the past few months on budgeting and transacting in terms of mSCOA and GRAP. Most notably is the significant improvement made by Maphumulo Municipality on balance sheet and cash flow budgeting.

Training sessions on a one-one basis were held as follows, to address the review findings raised, clarify the GRAP treatment of certain items, such as budgeting for rebates and VAT:

- 9 April 2021 – iLembe District and iLembe Enterprise
- 21 April 2021 – Mandeni, Ndwedwe and Maphumulo
- 29 and 30 April 2021 – KwaDukuza

Detailed reviews of the original budgets were performed for all municipalities, with the exception of Ndwedwe Municipality, as this municipality was still in the process of adoption of the budget.

Findings have been identified on the detailed data strings of the budgets for correction by the municipalities, provided that it does not have an overall impact on the numbers adopted by Council.

ADJUSTMENT BUDGET SUPPORT 21/22 FINANCIAL YEAR

Assistance was provided to iLembe District Municipality in finalising the cash flow, by reviewing the NT mapping and the municipality data. Errors identified in the data strings affecting the cash flow were identified and the municipality was required to correct these errors.

Water inventory methodology session was held with iLembe District Municipality on 18 January 2022, to provide further clarity on the methodology to the team in readiness for adjustment budget.

TABLED AND ORIGINAL BUDGET SUPPORT 22/23 FINANCIAL YEAR

A review of the tabled budgets was conducted for iLembe District Municipality, Mandeni Municipality as well as KwaDukuza Municipality. Findings were raised for the attention of the municipalities to address in the original budget submissions. The cash flow mapping was further reviewed and corrections were requested to be made by the municipalities.

On site sessions were held with the municipalities to address the review of the 2022/23 tabled budgets as follows:

Date	Municipality
13 April 2022	Mandeni Municipality – Physical session to address findings identified
16 April 2022	iLembe District Municipality – Physical session to address budgeting for VAT, including retention
12 May 2022	KwaDukuza Municipality – Virtual session on budgeting for VAT and feedback on review notes

An onsite session was further held with KwaDukuza on 21 and 22 June 2022, to address outstanding issues on the budget and transactional information. Sessions were held with Budget, AFS, Revenue, Expenditure and Assets officials to unpack the queries and challenges experienced in budgeting and transacting in accordance with mSCOA and GRAP.

3.6 SKILLS/LEARNING ASSESSMENT OF BUDGET AND TREASURY UNIT

Two detailed electronic pre-assessments were designed and completed for Finance and Non-Finance Officials respectively, taking into account the following legislative frameworks:

- Municipal Finance Management Act, No. 56 of 2003
- Municipal Budget and Reporting Regulations
- Municipal Standard Chart of Accounts Regulation
- Generally Recognised Accounting Practice
- NT Circular 89 - Virements
- NT mSCOA Circular No. 10 – Cash Flow Budgeting
- Cost Containment Regulation

Individual delegates that were nominated for the training were required to complete a pre-assessment before attending the training, to ensure that all gaps identified were addressed in the training plan.

The number of officials that completed the pre-assessment are as follows:

Municipality	Finance Pre-Assessment	Non-Finance Pre-Assessment
iLembe Enterprise	1	
iLembe District	2	1
KwaDukuza	14	4
Mandeni	4	
Maphumulo	2	
Ndwedwe	1	
Total	25	5

The individual status assessment has been conducted from 27 October 2020 to 2 November 2020, with a second attempt being given to delegates that did not undertake the assessment until 18 November 2020.

The result per municipality is reflected below:

Municipality	Finance Officials Registered	Finance Pre-Assessment Completed	Finance Average Result	Non-Finance Officials Registered	Non-Finance Pre-Assessment Completed	Non-Finance Average Result
iLembe Enterprise	1	1	36%			
iLembe District	11	2	40%	1	1 [^]	-
KwaDukuza	17	14	51%	3	4 [*]	55%
Mandeni	4	4	51%			
Maphumulo	2	2	66%			
Ndwedwe	1	1	76%			
Total	36	25	52%	4	5	55%

* 1 Finance Official attempted both the Non-Finance and Finance pre-assessments

[^] 1 Finance Official had incorrectly attempted to Non-Finance pre-assessment. Result not included under non-finance.

The detailed status assessment reports have been attached as an Annexure to this close out report.

3.7 DESIGN A TRAINING PLAN TAKING INTO ACCOUNT THE FINDINGS FROM THE LEARNING ASSESSMENT

A training plan was designed at the commencement of this project, taking into account the results of the learning assessment.

Training sessions were planned to be rolled out in line with the budget cycle, with the following sessions to a maximum of 20 days:

- 2020/21 Special Adjustment Budget Readiness (2 days)
- 2020/21 Adjustment Budget Readiness (5 days)
- 2021/22 Tabled Budget Readiness (5 Days)
- 2021/22 Original Budget Readiness (5 Days)
- 2021/22 Adjustment Budget Readiness (3 days)

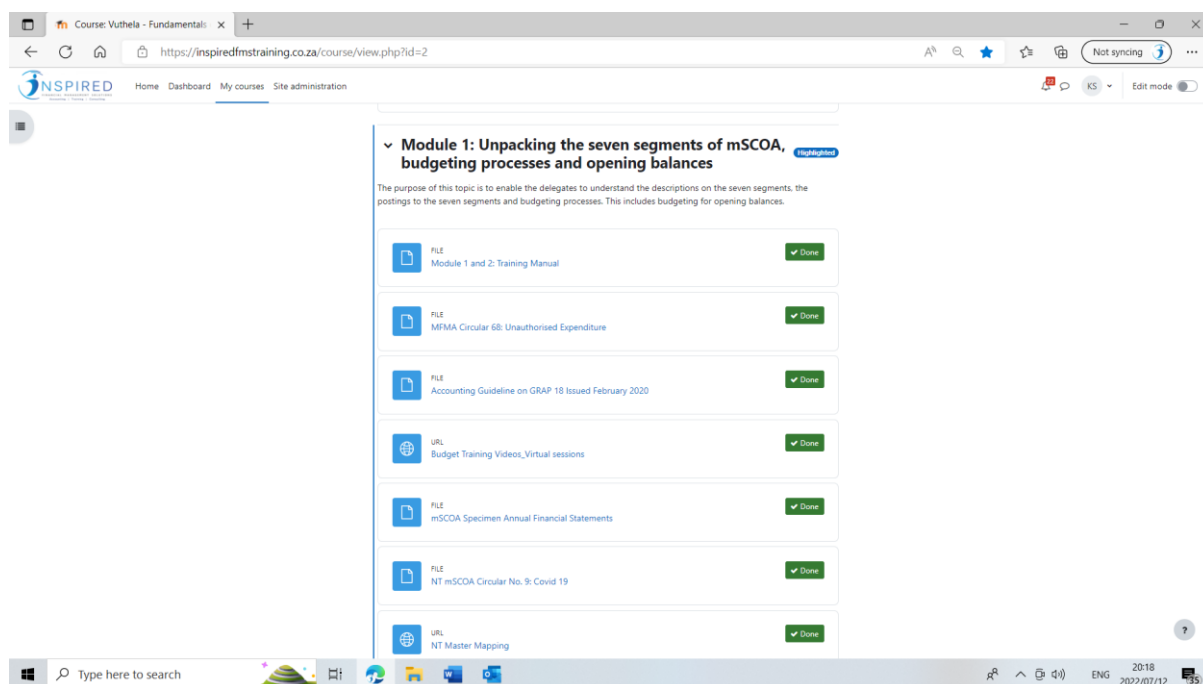
However, as the project progressed, we were able to roll out 24.25 training sessions addressing the needs of the officials, including finance and non-finance officials, as follows, in addition to the onsite support:

Dates	No. of Days	Training Focus Area
10, 11 & 16 Sep 2020	3	Covid 19 Budgeting and Special Adjustment Budget Training
02 to 05 Nov 2020	4	IDP alignment to the budget, unpacking the seven segments of mSCOA, budgeting processes and opening balances
30 Nov to 2 Dec 2020	3	Balance Sheet and Cash Flow Budgeting training sessions, including MBRR schedules and NT mapping
03 Mar 2021	1	Budget Update Session
04 Mar 2021	1	Working Group Session: Revenue and Debtors Budgeting
05 Mar 2021	1	Working Group Session: Expenditure and Creditors Budgeting
25 Oct 2021	0.25	Working Group Session: Infrastructure and Maintenance Budgeting
28 Oct 2021	1	Working Group Session: Payroll and Salary control budgeting
4 Nov 2021	1	Transactional training: Revenue, Debtors, Housing Operating Account, Unspent Grants, VAT
8 Nov 2021	1	Transactional training: Capital asset projects, repairs and maintenance, inventory, depreciation and impairment
11 Nov 2021	1	Transactional training: Water inventory
25 Jan 2022	1	Transactional training: Expenditure, creditors, provisions, leases, inventory, payroll and VAT
6 Jun 2022	1	Transactional training: Cash and Cash equivalents, investments, Reserves and Accumulated surplus, Alignment of GRAP TO AFS
13 Jun 2022	1	Budget Update Training Session including Costing Methodology
20 Jun 2022	1	Senior Management Workshop: Mandeni Municipality
23 Jun 2022	1	Senior Management Workshop: KwaDukuza Municipality
24 Jun 2022	1	Senior Management Workshop: Maphumulo Municipality
		Budget Procedure Manuals Workshop
		Senior Management Workshop: iLembe District Municipality

3.8 DEVELOP TRAINING MANUAL, USING ACCREDITED MANUALS DEVELOPED BY NATIONAL TREASURY

An electronic training platform was developed to enable to completion of activities and assessments by delegates electronically, as well as access training material and supplementary documents.

Delegates were given unique access using usernames and passwords to access the training material over the course of this project, with the below mentioned being an extract of the material provided to such delegates:



Comprehensive training manuals were developed for each of the training sessions, and taking into account that our Director, Kashnee Sewnarain, is an accredited mSCOA trainer with Cigfaro and National Treasury, Treasury training material was further utilised to supplement the manuals developed.

The training material was designed to address the following:

- **Module 1: Unpacking the seven segments of mSCOA, budgeting processes and opening balances**
The purpose of this topic is to enable the delegates to understand the descriptions on the seven segments, the postings to the seven segments and budgeting processes. This includes budgeting for opening balances as well as foundational principles of balance sheet and cash flow budgeting.
- **Module 2: Balance sheet and cash flow budgeting**
To enable delegates to prepare the budgeted balance sheet and cash flow data strings in accordance with mSCOA and GRAP requirements. This is a comprehensive session where detailed balance sheet and cash flow data strings will be prepared in readiness for the adjustment budget.
- **Module 3: National Treasury alignment on the NT portal**
The purpose of this topic is to enable delegates to understand the NT mapping and address differences between the NT schedules and the Council adopted budgets

- Module 4: Funding of a municipal budget
The purpose of this topic is to enable delegates to align the budget to the funding policy of the municipality and balance the funding sources.
- Module 5: Review of the budget and transactional data strings
The purpose of this topic is to enable delegates to review the budget and transactional information and correct the data strings accordingly.

Separate training material has been developed for Non-Finance Officials, including activities and a post-assessment. This material focuses on the IDP process driving the budgeting, as well as the funding allocations. It further enables officials to unpack the budget into the respective segments and address budgeting weaknesses relating to information provided to the budget office during the budget process.

Training material was further designed for transactional training sessions, as well as Senior Management sessions.

3.9 CONDUCT TRAINING FOR BTO STAFF AS PER TRAINING PLAN AND KNOWLEDGE ASSESSMENT

The following formal training sessions was conducted during the implementation of the project:

COVID 19 BUDGETING AND SPECIAL ADJUSTMENT BUDGET TRAINING – SEPTEMBER 2020

Training sessions on budgeting for Covid-19 projects in accordance with mSCOA Circular No. 9 were conducted virtually with the respective municipalities during the month of September 2020. The training was aimed at assisting municipalities with the creation of Covid-19 projects and data strings in readiness for the special adjustment budget adoption by Council required at the end of October 2020. It further addressed additional areas of clarity required on the findings received from the Provincial Treasury. The attendance of officials is reflected below:

Municipality	10 Sep 2020	11 Sep 2020	16 Sep 2020
iLembe District Municipality	6		
Ndwedwe Municipality	1		
Maphumulo Municipality	2		
KwaDukuza Municipality		7	
Mandeni Municipality			5
Total no. of officials	9	7	5

UNPACKING THE SEVEN SEGMENTS OF MSCOA, BUDGETING AND OPENING BALANCES – NOVEMBER 2020

This training session addressed Module 1: Unpacking the seven segments of mSCOA, budgeting processes and opening balances was scheduled virtually via Microsoft Teams, from 2 to 4 November 2020. A total number of 40 delegates registered to attend the training, with 36 delegates being Finance Officials and 4 delegates being Non-Finance Officials.

The virtual training was conducted on Monday, 2 November and Tuesday, 3 November. The virtual training proved to be challenging, as certain delegates experienced loss in connection due to network issues resulting in a request in undertaking the examples again. Additionally, it was difficult to assist the delegates

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when undertaking the activities themselves, and limited feedback were received from the delegates. Delegates were further being distracted in the sessions due to our work commitments.

It was then agreed on 3 November to reschedule the training to in-person sessions on Wednesday, 4 November and Thursday, 5 November. The venue scheduled was eBandla Hotel, with Covid-19 protocols in place. Finance officials were requested to attend the in-person sessions, with a separate session for non-finance officials being scheduled for a later date.

The following number of officials attended the training sessions:

Municipality	02/11/20	03/11/20	04/11/20	05/11/20
iLembe Enterprise	1	1	1	1
iLembe District	8	7	6	7
KwaDukuza	16	12	10	8
Mandeni	3	3	4	3
Maphumulo	1	0	0	0
Ndwedwe	1	1	1	1
Total	30	24	22	20

Delegates that attended the training were required to complete a post assessment, with the results being as follows:

Municipality	Finance Pre-Assessment No. of officials completed	Average % of the assessment
iLembe Enterprise	1	51%
iLembe District	2	41.5%
KwaDukuza	9	64.8%
Mandeni	1	4%
Maphumulo	2	66%
Ndwedwe	1	80%
Total	16	53%

The post assessment indicated that refinement is required on balance sheet and cash flow budgeting, including the budgeting for VAT.

Activity 1 on projection of potential unauthorised expenditure by vote and item, and well on the disclosure required in the AFS has been understood, as the principle has been demonstrated adequately by all delegates. However, delegates have incorrectly considered function as a vote, as opposed to the organisational structure, which will be clarified in the next training session.

Activity 2: Budgeting for opening balances and Activity 3: Analysis on the use of segments have been attempted by certain delegates, however refinement in the working paper calculations is required. Additionally, many delegates did not submit these activities, and hence an extension has been granted to enable the submission. It was further discussed and explained in Module 2 of the training, and we anticipate an improved response.

BALANCE SHEET AND CASH FLOW BUDGETING – DECEMBER 2020

Physical training on Module 2 and 3, being Balance Sheet and Cash Flow Budgeting, as well as National Treasury alignment on the NT portal was undertaken from 30 November to 2 December 2020. The session focused on the practical application of balance sheet and cash flow transactions, by creating budgeting working papers for opening balances, balance sheet and cash flow adjustments, and VAT calculations. It further addressed weaknesses identified in the post assessment, and activities were performed in the training to assist in clarifying the understanding.

The following number of officials attended the Module 2: Balance Sheet and Cash Flow Budgeting training sessions:

Municipality	30/11/20	01/11/20	02/11/20
iLembe Enterprise	1	1	1
iLembe District	5	6	5
KwaDukuza	9	9	8
Mandeni	0	3	3
Maphumulo	6	3	4
Ndwedwe	1	1	1
Total	22	23	22

The session focused on the practical application of balance sheet and cash flow transactions, by creating budgeting working papers for opening balances, balance sheet and cash flow adjustments, and VAT calculations. It further addressed weaknesses identified in the post assessment, and activities were performed in the training to assist in clarifying the understanding.

The results of the post assessment summative quiz follows:

Municipality	Finance Post-Assessment No. of officials completed	Average % of the assessment
iLembe Enterprise	0	0%
iLembe District	0	0%
KwaDukuza	4	55%
Mandeni	2	51%
Maphumulo	1	64%
Ndwedwe	0	0%
Total	7	56%

The question averages obtained from the training assessment are indicated below:

No.	Question category	Kwa-Dukuza	Mandeni	Maphumulo	Average % per category
1	Agency Services	57%	78%	56%	63%
2	Use of Non-Funding	35%	70%	100%	68%

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3	Profit or loss on sale of assets	70%	60%	80%	70%
4	Housing Operating Account	25%	0%	100%	42%
5	Investments	8%	11%	11%	10%
6	Bad debt written off	68%	47%	44%	53%
7	Input VAT	86%	69%	85%	80%
8	Output VAT	64%	56%	56%	58%
9	Trade and Other Payables	64%	61%	61%	62%
11	Opening Balances	72%	56%	44%	57%
Average % per municipality		55%	51%	64%	56%

The results of the activities have been indicated below:

	Activity 2 – Opening Balances		Activity 3 – Use of segments		Activity 4 – Creation of balance sheet and cash flow strings	
Municipality	Average % obtained	No. of officials completed	Average % obtained	No. of officials completed	Average % obtained	
iLembe Enterprise	0	0%	1	20%	0	0%
iLembe District	1	20%	0	0%	0	0%
KwaDukuza	8	63%	4	78%	6	83%
Mandeni	1	50%	0	0%	2	90%
Maphumulo	3	62%	2	40%	4	91%
Ndwedwe	1	90%	1	30%	1	78%
Total	14	41%	8	42%	13	86%

TRAINING FOR NON-FINANCE OFFICIALS – DECEMBER 2020

Training for non-finance officials has been conducted for Mandeni, Maphumulo and Ndwedwe officials on 8 December 2020. The non-finance training was targeted at addressing the concepts of budgeting, including the process of driving the budgeting process for the IDP. It further addressed the information that needed to be included in terms of budget inputs from user departments, with the project being the key aspect in preparation of budgeting requirements. The training further was practical to enable officials with identification of projects within the departments and determining the budget items that should be allocated to each project.

A total number of 31 non-finance officials were registered to attend the training, with the actual attendance of 25 officials on the day, represented as follows:

Municipality	08/12/20
Mandeni	11
Maphumulo	9
Ndwedwe	5
Total	25

The results of the summative assessment completed by the Non-Finance Officials follows:

Municipality	Non-Finance Post-Assessment No. of officials completed	Average % of the assessment
Mandeni	13	57%
Maphumulo	8	59%
Ndwedwe	4	54%
Total	25	57%

The question averages obtained from the training assessment are indicated below:

No.	Question category	Mandeni	Maphumulo	Ndwedwe	Average % per category
1	Use of mSCOA segments	48%	40%	30%	39%
2	Use of the project segment	76%	64%	65%	68%
3	Budget Preparation	63%	56%	60%	60%
4	Budgeting for projects	35%	43%	35%	38%
5	Frameworks	38%	63%	50%	50%
6	IDP	62%	56%	50%	56%
7	Operational projects	72%	83%	83%	79%
8	Repairs and maintenance	71%	70%	65%	69%
9	Zero Base Budgeting	49%	54%	50%	51%
Average % per municipality		57%	59%	54%	57%

Activity 1, which involved practical completion of a budget input template was required to be completed by all attendees, with only 3 officials that have submitted the completed activity, being Mandeni and Maphumulo Municipalities. The officials did struggle with completing this activity, particularly determining the correct project and item to be utilised.

Due to the rise in Covid 19 infections during the month of January and early February 2021, it was not possible to proceed further with the physical training for iLembe and KwaDukuza officials.

It was further considered best that virtual sessions per municipality be held during January and February 2021 to review the work undertaken in preparation of the budget, prior to the adoption of the adjustment budget by Council.

Separate training material has been developed for Non-Finance Officials, including activities and a post-assessment. This material focuses on the IDP process driving the budgeting, as well as the funding allocations. It further enables officials to unpack the budget into the respective segments and address budgeting weaknesses relating to information provided to the budget office during the budget process.

BUDGET UPDATE SESSION AND BUDGET WORKING GROUP SESSIONS (REVENUE AND DEBTORS, EXPENDITURE AND CREDITORS, INFRASTRUCTURE AND MAINTENANCE, AND PAYROLL AND SALARY CONTROL) – MARCH 2021

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A budget update session, as well as working group sessions were held with the municipalities from 3 to 5 March 2021 to address challenges in the budgeting process and ensure alignment with the National Treasury requirements.

These sessions were due to the limited support provided during the adjustment budget, as municipalities were unable to submit the data for review prior to adoption in Council. The focus was to ensure that officials understood the requirements for budgeting within their respective components, and support can be rendered during the preparation process should challenges be experienced.

Workstreams were identified as critical areas that needed urgent attention to ensure that budgeting is credible and aligned to the requirements of National Treasury. The purpose of these sessions was to provide practical guidance to the respective sections in undertaking the budget input preparation, as indicated in the amended support plan.

Due to time constraints, the working group sessions were set up with short notice, and therefore registration of officials could not be undertaken prior to the sessions. The invitations were forwarded to budget officials and chief financial officers for forwarding to the relevant officials.

The attendance at the working group sessions were as follows:

	03/03/21	03/03/21	04/03/21	04/03/21	05/03/21
Municipality	Budget Update Session	Revenue and Debtors	Expenditure and Creditors	Infrastructure and Maintenance	Payroll and Salary Control
iLembe Enterprise	0	0	0	0	0
iLembe District	1	1	0	0	0
KwaDukuza	1	6	5	10	4
Mandeni	3	1	2	1	1
Maphumulo	0	4	2	2	1
Ndwedwe	0	0	0	0	0
Total	5	13	9	13	6

The sessions addressed the process of obtaining budget amounts for inclusion in the budget, in accordance with source documentation, rather than estimating a % increase from the prior year. It further included a review of the budget for the respective sections using municipality information, as well actual transactions to identify areas of correction.

The infrastructure and maintenance working group session focused on providing practical ways to obtain budget inputs, despite the lack of the maintenance plan, and emphasised the need to budget for realistic amounts in accordance with past bill of quantities for similar assets and tender estimates. The linkage of projects to the IDP were further emphasised during these sessions.

TRANSACTIONAL TRAINING SESSIONS (REVENUE AND DEBTORS, EXPENDITURE AND CREDITORS, CAPITAL ASSETS AND MAINTENANCE, WATER INVENTORY AND IMPACT ON AFS) – OCTOBER AND NOVEMBER 2021

Subsequent to the many training sessions held in this process, there had been further guidance issued by the National Treasury on the manner in which we budget and transact in mSCOA requirements.

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Whilst we acknowledge that the budget officials have the required knowledge to budget effectively from the extensive working group sessions and training undertaken, our focus required to be shifted to the remaining finance officials, in ensuring that they are transacting against the budget correctly, and therefore will strengthen the budgeting estimates going forward.

Training material was updated for the transactional training sessions, in accordance with the latest changes made by National Treasury on the budgeting and transacting process, as well as GRAP.

Training sessions were held with officials in relation to the manner in which transactions are processed on the financial systems, as per the following:

Focus Area	Target Audience	Date
Revenue, Debtors, Housing Operating Account, Unspent Grants, VAT	Revenue officials and officials responsible for grant management, AFS officials	25 October 2021
Capital asset projects, repairs and maintenance, inventory, depreciation and impairment	Asset officials, key technical services officials, project management unit, and AFS officials	28 October 2021
Expenditure, creditors, provisions, leases, inventory, payroll and VAT	Expenditure, Payroll officials and AFS officials	8 November 2021
Water inventory	Officials from iLembe District Municipality responsible for accounting for water inventory	4 November 2021
Cash and Cash equivalents, investments, Reserves and Accumulated surplus, Alignment of GRAP TO AFS	Officials responsible for bank reconciliations, investments and unspent grants, AFS Officials	11 November 2021

The attendance of the officials at the training sessions per municipality is reflected below:

Delegates	iLembe District	iLembe Enterprise	Mandeni	KwaDukuza	Maphumulo	Ndwedwe	Total
Revenue and Debtors, Unspent Grants and Output VAT	8	0	2	9	4	5	28
Capital assets, repairs and maintenance, inventory, depreciation and impairment	6	0	2	12	2	7	29
Expenditure, creditors, input VAT, payroll, provisions, leases and inventory	4	0	8	13	5	7	37
Cash and Cash equivalents, investments, Reserves, Accumulated surplus, GRAP alignment to AFS	7	2	7	9	3	4	32
Water Inventory	11	N/A	N/A	N/A	N/A	N/A	11

BUDGET UPDATE SESSION AND COSTING METHODOLOGY SESSION – JAN 2022

A budget update session was held on 25 January 2022 that addressed the latest requirements of National Treasury, based on the Circulars released in December 2021. In addition, the changes to Version 6.6 of the mSCOA Chart was explained, to enable municipalities to budget for the Tabled and Original Budgets in accordance with these changes.

A detailed costing methodology was prepared, and municipalities were trained on the application of the costing methodology to their municipalities. The attendance of the training session is documented below:

Municipality	24/01/2022
iLembe District Municipality	0
iLembe Enterprise	2
Ndwedwe Municipality	2
Maphumulo Municipality	4
KwaDukuza Municipality	6
Mandeni Municipality	3
Total no. of officials	17

SENIOR MANAGEMENT TRAINING – JUNE 2022

Training material was developed for senior management with the aim of providing detailed guidance to senior management and section heads of municipalities on the process to undertake budgeting in accordance with the Municipal Standard Chart of Accounts Regulation (mSCOA), the Municipal Budget and Reporting Regulation (MBRR) and Generally Recognised Accounting Practice (GRAP). The training material was further aimed at addressing the processes for budgeting as well as transacting within the budget year, to ensure that the budget is prepared in the manner that transactions will occur in the system, and that actual transactions are aligned to the budget.

Additionally, taking into account our mSCOA Trainer accreditation with the Cigfaro and National Treasury, we were in a position to utilise a combination of our training materials, supplemented by the National Treasury training material in the rollout of the training. A clear distinction between developed training material and National Treasury training material was made in the training sessions to the audience.

The training focused on the following:

- Introduction to the Budget Process Management Project and its achievements
- mSCOA Introduction Video which explained the process that led up to mSCOA and its implementation requirements
- Understanding the Budgeting Process and Fundamentals of mSCOA
- Importance of a Roadmap
- mSCOA Implementation Oversight
- Change Management
- Presentation on the Proposed Budget and Virement Policy
- Presentation on the Proposed Funding and Reserves Policy
- Implementation of the Costing Methodology
- Disaster Management Budgeting and Reporting

A day session was held with each of the municipalities, with the attendance being as follows:

Municipality	06/06/2022	13/06/2022	20/06/2022	24/06/2022
iLembe District Municipality				17
Ndwedwe Municipality			0	
Maphumulo Municipality			13	
KwaDukuza Municipality		36		
Mandeni Municipality	20			
Total no. of officials	20	36	13	17

It is noted that Ndwedwe Municipality was invited to attend the training session for senior management on 20 June 2022 with Maphumulo Municipality, however, no response was received from the municipality, despite follow ups being made.

3.10 CLOSE OUT REPORTING

A comprehensive close out report has been prepared the report was presented to the Project Steering Committee on 15 July 2022. Various recommendations have been made in Section 5 of the report, which needs to be considered going forward within the respective municipalities.

4 Challenges and Recommendations

- 4.1 During the implementation of the project, there were challenges experienced in all delegates that registered to attend, physically attending on the day. However, overall, the project had a high attendance rate, in particular the budget and AFS officials of the municipality.
- 4.2 There are identified system limitations in certain of the municipalities, which has prevented these municipalities from fully implementing the knowledge gained from this project effectively.
- 4.3 The timing of receiving information and being able to complete the data strings in compliance with mSCOA and GRAP is a challenge internally for all municipalities, and therefore it is critical that timelines are set and adhered to, to enable the budget officials to effectively comply with the budget requirements in finalisation of budget information in accordance with NT requirements. Roles and responsibilities of the budget process must be clarified with all levels of management.
- 4.4 Significant effort has been made to change to mindset of the organisation that the budgeting processes must be driven from the IDP and that all officials from the respective sections must be involved in providing credible budget inputs, linked to the project and funding of each of the requests. This still remains to be a challenge and needs to be driven at an organisational level.
- 4.5 The transactional data of municipalities largely contains errors, with the incorrect funding segments being used. Additionally, the processes in effecting payments within the municipality does not take into account the principles of accrual accounting, and the creditors module is not fully implemented. Effort needs to be to ensure that all submodules are implemented, that parameters are reviewed to ensure the correct posting of transactions, and the principle of accrual accounting on day to day transactions is fully adopted and embedded with the processes followed by the municipalities.



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- 4.6 Additionally, officials need to process the correcting journals to address the transactions during the financial year which have been incorrectly posted, which will strengthen the quality of the input that this provided for the budget process, and have a direct benefit to the AFS process.
- 4.7 Taking into account that this project has reached conclusion, it is considered critical to establish a mechanism to enable efforts made thus far to be fully maximised within the municipalities, and to continue to share knowledge and provide assistance in addressing the current challenges. It is therefore recommended that a District Forum/Committee be established with the core purpose of ensuring that the budget updates and challenges are addressed, as well as drive the correction of actuals within the respective municipalities.
- 4.8 Dedicated budget champions must be appointed within municipalities to oversee the implementation of improved budget management in municipalities to foster consistency of practice, and to mitigate the over-reliance on the use of consultants.
- 4.9 Whilst considerable attention has been afforded to Integrated Development Planning and Budgeting Processes, a concomitant response to Performance Management Systems (PMS) is lacking as a municipal-wide function. Traditionally, PMS appears to be the sole preserve of the PMS office as a staff function in the Municipal Manager’s Office, with officials in other functional units operating in silos, submitting compliance reports and data sets on regulated dates. To give effect to best-in-class budget management, it is important to emphasize the critical role played by monitoring and evaluating “value-for-money spend” as key elements of an institutionalized Performance Management System. PMS addresses the challenge of translating budget plans and financial projections into service delivery actions economically, efficiently, and effectively. The legal mandate for monitoring and evaluation derives from the Constitution Act 108 of 1996 and the MFMA Act No. 56 of 2003 which focuses on institutional, organizational and individuals as strategic areas to ensure Public Finance Management efforts and “value-for-money spend”.

5 Conclusion

We would like to acknowledge our appreciation for the co-operation received from the Vuthela LED officials as well as the representatives of each municipality for the provision of information, training attendance and participation, including the unwavering willingness to implement changes to improve the quality of budgeting and reporting within their municipalities.

6 Approval of the Close Out Report

	PREPARED BY:	APPROVED BY:
Signature:		
Name and Surname:	Kashnee Sewnarain	Zama Soji
Project Designation:	Project Manager	Project Director
Organisation:	Inspired Financial Management Solutions	Vuthela LED Programme
Date:	22 August 2022	22/08/2022