

Reimagining MFMA Implementation for Improved Municipal Performance

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Chartered Institute of
Government Finance, Audit & Risk Officers

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THE MFMA PROMISE

When we speak about the MFMA, it is easy to reduce it to a collection of requirements.

- Budgets.
- Annual financial statements.
- In-year reporting.
- Supply chain management.
- Internal controls.
- Financial delegations.
- Audit action plans.
- Oversight.
- Compliance.

THE MFMA PROMISE

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However, MFMA was never intended to become an exercise in producing documents simply because legislation requires them. At its core, the MFMA is about something much bigger.

It is about creating municipalities that are financially responsible, accountable, sustainable and capable of delivering services to their communities.

The legislation provides the framework, yet the framework itself cannot deliver those outcomes.

- ❑ People implement it
- ❑ Institutions embed it
- ❑ Leaders drive it
- ❑ Systems enable it
- ❑ and management decisions ultimately determine whether it translates into performance.

That distinction is important.

As we all know having a compliant process does not automatically mean that we have a high-performing institution.

WHERE ARE WE NOW

So, where are we after years of MFMA implementation?

The answer is not entirely negative; there has undoubtedly been amazing progress.

Municipal financial management has evolved significantly.

- We have stronger reporting frameworks.
- More structured budgeting processes.
- Greater transparency.
- More sophisticated financial systems.
- Improved oversight mechanisms.
- And considerably more information available to decision-makers.

The evidence also tells us that progress in financial management has not always translated into consistent municipal performance. And this is where we need to be honest with ourselves.

WHERE ARE WE NOW

When / If a municipality produces all the required reports, submits its financial statements, maintains policies and procedures, and can demonstrate compliance with numerous legislative requirements yet continues to experience:

- weak revenue collection,
- cash-flow pressures,
- underspending on critical infrastructure,
- irregular expenditure,
- weak internal controls,
- and poor service delivery outcomes…

then we must ask ourselves:

What exactly are we measuring when we say the municipality is performing?

THE COMPLIANCE–PERFORMANCE GAP

This brings me to what I believe is one of the most important issues we need to confront:

The compliance-performance gap.

Compliance: tells us whether a requirement has been met.

Performance: tells us whether that compliance has contributed to a meaningful outcome.

Those are not necessarily the same thing.

- ❑ A municipality may comply with the requirement to prepare a budget.
- ✓ But is that budget improving financial sustainability?
- ❑ A municipality may produce an audit action plan.
- ✓ But are the underlying control weaknesses being resolved?
- ❑ A municipality may have a revenue policy.
- ✓ But is revenue collection improving?
- ❑ A municipality may have a financial system.
- ✓ But is management using the information generated by that system to make better decisions?

These questions move us from:
"Did we do what the legislation requires?" to: **"Did what we do actually improve the municipality?"**

WHY IMPLEMENTATION IS NOT ALWAYS TRANSLATING INTO PERFORMANCE

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So why does this gap exist?

There is no single answer.

Municipal performance is influenced by leadership, governance, institutional capacity, financial discipline, revenue management, infrastructure, political-administrative relationships, technology, skills and accountability.

I would argue that one of the challenges is fragmentation.

We often manage municipal functions as separate processes.

- Expenditure manages Expenditure
- Revenue manages revenue.
- Supply chain manages procurement.
- Infrastructure manages projects.
- Performance management tracks indicators.
- Internal audit identifies weaknesses.
- External audit assesses compliance.



WHY IMPLEMENTATION IS NOT ALWAYS TRANSLATING INTO PERFORMANCE

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The municipality itself is one institution. The resident does not experience these functions separately.

A resident experiences whether the municipality can provide:

- When they open their taps there is clean drinking water
- Uninterrupted continuously electrical supply
- Functional roads, that will drive development
- Waste removal
- Infrastructure development
- Reliable services.

Therefore, our financial management approach must ultimately connect the financial decision to the operational outcome. Because a financially compliant transaction that does not contribute to value, sustainability or service delivery should make us uncomfortable.

WHAT DOES REIMAGINING MFMA IMPLEMENTATION MEAN?

Reimagining does not mean abandoning the MFMA. It means changing how we think about implementation.

It means moving from viewing the MFMA primarily as a compliance framework to viewing it as a performance-enabling framework. I believe this requires several important shifts.

FIRST

From compliance to outcomes.

Instead of asking only: "Are we compliant?"

we should also ask:

"What outcome has this compliance produced?"

SECOND

From transactions to strategic financial management.

The finance function cannot only be concerned with processing transactions and producing reports.

Financial information must help management understand:

Where are we financially?

Where are we heading?

What risks are emerging?

What decisions need to be made?

And what will those decisions mean for municipal sustainability?

THIRD

from annual reporting to continuous financial intelligence..

WHAT DOES REIMAGINING MFMA IMPLEMENTATION MEAN?

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A report produced at the end of a financial period is useful - Information that allows management to identify a problem before it becomes an audit finding or financial crisis is far more valuable.

The future of municipal financial management must therefore be increasingly data driven.

➢ REIMAGINING REVENUE MANAGEMENT

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Revenue is not simply an accounting function; it is the lifeblood of municipal sustainability.

A municipality can have an excellent budget on paper; it can have sophisticated financial policies. However, if the municipality cannot collect the revenue that it has billed, its ability to fund services becomes increasingly constrained.

We then need to move beyond asking:

"How much did we bill?"

and even beyond:

"How much did we collect?"

➢ REIMAGINING REVENUE MANAGEMENT

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We need to ask:

- Why are we not collecting what we bill?
- Where are the losses?
- Which customer segments are driving the problem?

- Are our billing systems accurate?
- Are our indigent registers credible?
- Are our debt-management strategies effective?

- Are we using data to identify trends?
- Are our revenue-management interventions improving the municipality's financial position?

➢ REIMAGINING THE ROLE OF SYSTEMS AND DATA

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Technology also has an important role to play. We can agree that having a financial system is not the same as being a data-driven municipality.

Systems should not simply help us record what happened, they should help us understand

- ✓ what is happening
- ✓ why it is happening
- ✓ what we should do about it

Imagine a municipal finance environment where revenue trends, expenditure patterns, procurement information, cash flow, debtor behaviour and budget performance are not viewed in isolation.

Imagine decision-makers receiving information early enough to intervene, that is where technology becomes more than an administrative tool.

It becomes a performance enabler

➢ REIMAGINING ACCOUNTABILITY

The same principle applies to accountability. We have become very good at identifying problems, Audit reports identify findings, Internal audit identifies control weaknesses, Management identifies risks and Oversight committees raise concerns.

Identifying a problem is only the beginning.

The real questions are:

- ✓ What happens next?
- ✓ Who owns the problem?
- ✓ What action is taken?

- ✓ By when?
- ✓ What changes?
- ✓ How do we know that the change has worked?

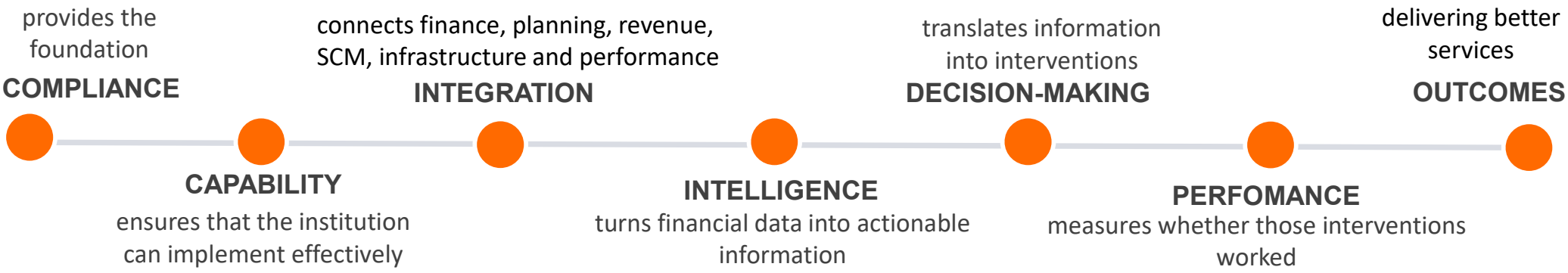
An audit action plan should therefore not simply be a response to an audit finding.

It should be a mechanism for institutional learning and improvement

FROM COMPLIANCE TO PERFORMANCE

Perhaps the future requires us to think about MFMA implementation differently.

Not as a linear journey that ends at compliance… but as a working cycle



CLOSING

The MFMA has given South Africa an important framework for municipal financial management.

The question before us is not whether that framework matters - It does.

The question is whether our approach to implementing that framework is sufficiently ambitious. Because municipalities do not exist to produce compliant documents.

They do not exist to achieve favourable audit outcomes alone.

They exist to serve communities And therefore, the ultimate test of municipal financial management cannot simply be:

"**Did we comply**?"

It must also be:

"**Did our financial management contribute to a better-performing municipality?"**

Perhaps it is time to move from compliance as the destination to compliance as the foundation.

- ❑ From reporting to intelligence.
- ❑ From identifying findings to fixing root causes.
- ❑ From managing transactions to managing performance.
- ❑ From implementing the MFMA because we must — to implementing the MFMA in a way that makes municipalities better



Thank You!

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