



Web-enabled Implementation of the Financial Management Capability Maturity Model (FMCMM)

1. Introduction

The MFMA aims to modernise financial management in municipalities and municipal entities by developing advanced tools and reforms to enable sustainable delivery of services to communities. In managing a municipality's financial administration, the accounting officer must ensure, *inter alia*, that the municipality maintains effective, efficient and transparent systems of financial and risk management, and internal control.

The Financial Management Capability Maturity Model (FMCMM), was rolled out in 2015 as an enabling tool to assist municipalities and municipal entities in assessing the state of development of the internal controls, monitoring financial management capability, and identifying areas of financial weakness. The tool aims to improve municipalities and municipal entities' financial management capabilities and overall sustainability.

Based on the outcomes of the 2015 FMCMM assessments, it was evident that there were weaknesses in municipal policies, procedures and processes as well as compliance in several areas of financial management. These included poor Information and Communications Technology, Risk Management, Asset Management, Revenue Management, Supply Chain Management, and sustainable capacity. The development and implementation of action plans to address these weaknesses were slow.

The Auditor-General has continued to raise concerns around the extent of non-compliance with legislation that requires a response from municipalities and municipal entities.

The automated web-enabled FMCMM system will assist municipalities and municipal entities address these weaknesses by implementing actions and routinely executing duties that prevent financial loss, wastage and transgressions, which will lead to significant improvement in financial and performance management. This circular provides an overview of the web-enabled system for the FMCMM and supports implementation of MFMA Circular 71 on Financial Ratios and Norms.

2. The FMCMM – Continuous Improvement

The FMCMM is an assessment comprising several key financial management modules and addresses multiple disciplines. Each module contains several questions and assists in improving policies, procedures and processes, with risk identification and mitigation measures. The tool guides municipalities and municipal entities to

continuously improve and innovate in financial management towards effective, efficient and economical service delivery. The outcomes of the assessments serve as a proactive ‘early warning’ mechanism that supports improvements in financial management maturity, capabilities and contribute towards better audit outcomes.

Municipalities and municipal entities are expected to progress to higher maturity levels over time as the FMCMM assists management in implementing changes to address shortcomings, improve and develop practices for good strategic and financial management, and help sustain procedures and processes for effective and efficient financial management.

FMCMM Maturity Levels

The Municipal FMCMM consists of 6 maturity levels.

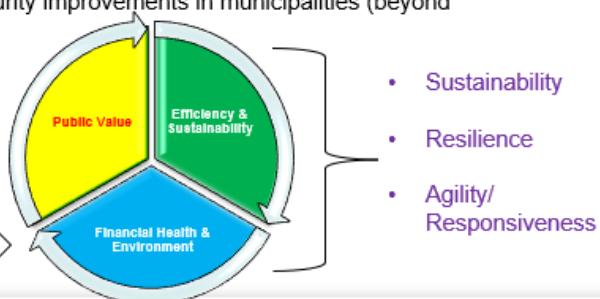
Levels 1, 2 and 3 - Assessment of compliance levels were completed. **Covers 21 Modules**. Municipalities are in the process of addressing gaps through action plans– include all game changers.

- Level 1 - Starting up
- Level 2 - Developmental
- Level 3 – Controlling

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

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

The modules



On the web-enabled system, the FMCMM 1, 2 and 3 assessments results provide municipalities with a list of prioritised actions that are manageable, can be completed per module, and the progress monitored. A municipality that addresses the shortcomings identified on Levels 1, 2, and 3 of a FMCMM assessment will be well placed to improve financial management and service delivery to communities and may proceed to levels 4, 5 and 6 of the FMCMM. The system automatically generates Action Plan templates to assist municipalities and break tasks into manageable sections.

Moreover, national and provincial departments responsible to support and build capacity in municipalities for efficient, effective and transparent financial management will be better placed to ensure that support is directed to areas most in need. Hence the development of corrective strategies and plans using the different area of financial management will assist in prioritising improvements. The reports generated from the FMCMM system depict outcomes at a national, provincial, district and municipal level.

3. FMCMM Levels 4, 5 and 6: Resilience, Sustainability, Agility and Responsiveness

The web-enabled system introduces advanced FMCMM Levels 4, 5 and 6. Both local and international research were undertaken in developing this aspect of the Model, and several key concepts have been incorporated in the assessments built into the web-enabled system. The assessment consists of Qualifying Questions and Module Questions. The Qualifying Questions serve as an indicator to determine the readiness of a municipality and municipal entity to be assessed for FMCMM levels 4, 5 and 6.

It also assess progressive maturity improvements beyond compliance and tests ability of the institution to deliver services to communities in a resilient, informed and sustainable manner, as follows:

- ❖ Financial Health Environment - Level 4 to Level 6: Assess a municipality's ability to create an environment to plan, manage and pay for critical public services; invest in infrastructure and finance sustainable borrowing; balance the critical financial and humanitarian interests.
- ❖ Efficiency and Sustainability - Level 4 to Level 6: Assess the maintenance and enhancement of environmental, social and economic resources to meet the needs of current and future generations.
- ❖ Public Value - Level 4 to Level 6: Assess a municipality's ability to develop a shared understanding of the important values that citizens want to see achieved by and reflected in the municipality's operations, achieving social outcomes, going beyond client satisfaction.

FMCMM 4, 5 and 6 assess municipalities through the lenses of resilience, sustainability, agility and responsiveness and is a call to improve processes and systems that will support future-fit and world-class municipalities. Resilient municipalities promote sustainable development, inclusive growth and address the needs of communities. There is a greater need for the public sector, including municipalities and municipal entities, to withstand shocks and guarantee services to the public. Moreover, it is not only expected that municipalities survive or cope under changing or challenging times, but that municipalities effectively anticipate risks, manage the risks and develop new capabilities and continue to provide services sustainably.

As we embrace the technological revolution; key concept included in FMCMM 4, 5 and 6 are innovation and technology improvements. The power of new information and communication technologies should be used to engage citizens and businesses to make the municipalities sustainable, more informed, and more connected. These new technologies should be used to transform the delivery of public services, allow greater interaction with citizens, and provide opportunities for decision-making to improve the quality of municipal services and citizen welfare.

For example, most municipalities were not prepared to manage the consequences of the global pandemic. Going forward, municipalities and municipal entities must assess the extent to which the ongoing uncertainty triggered by the pandemic or potential

future disruptions and shocks, impact on their operations and ability to respond through new strategies and initiatives in the future.

4. Financial Ratios and Norms – assessing the effectiveness of systems

The web-enabled system includes a mechanism to capture ratios using pre-audited, audited, restated Annual Financial Statements and projections. The financial ratios and norms cover a wide variety of matters designed to show outcomes or reflect the effectiveness of the financial management systems. The ratios and norms incorporated in the system relate to the following financial aspects and operations of a municipality or municipal entity:

1. Financial Position
2. Financial Performance
3. Budget Implementation

A detailed explanation of each ratio/norm and how they are calculated may be found in MFMA Circular 71 at <http://mfma.treasury.gov.za/Circulars/Pages/Circular71.aspx>. They include inter alia asset management, debtor management, liquidity, revenue management and grant dependency.

5. The web-enabled system - greater efficiencies achieved

The portal is a centralised system freely accessible to municipal and municipal entity users. No monetary outlay is required as no physical software download is necessary to use the system. Only a connection to the internet and the use of a standard browser is required. Working online provides municipal officials, the CFO, National and Provincial Treasuries, with real-time updated information without delay in submitting reports, as the reports will be extracted from the system and populated with relevant information in support of the users. This functionality will enable Treasuries and other stakeholders to prioritise support, training and improvement plans for municipalities and municipal entities.

The reporting function produces tailored reports according to the requirements of the user. The information that will populate a report is filtered based on the combination of fields selected by the end-user. Consistent, relevant, and comparable financial and operational (non-financial) information and reports are provided that meet the users' needs and depend on the quality of the information input into the system. The reports are also intended to meet the needs of the oversight bodies and can serve at various forums to improve financial governance. Dashboards allow for easy monitoring of the status of implementation of action plans and also enable the results to be grouped by local or district municipality, province or nationally. Below is a summary of additional efficiencies which will be introduced through the use of the web-enabled system:

- ❖ The assessments are completed mainly through selection from drop-down menus, can be assigned to different officials, thereby reducing time spent completing the assessment.

- ❖ Action plans are created once a module is fully populated, saved, and submitted. An automatic generation of an FMCMM Action Plan is when “no” and “partial” responses were captured.
- ❖ Each module or remedial action is assigned to the responsible municipal official. Internal audit testing capability is incorporated.
- ❖ The system sends simultaneous accessibility to key users in all three spheres of government (National, Provincial and Local). Oversight is enhanced as Provincial Treasury and National Treasury review of the process is mandatory, allowing for feedback and recommendations on the FMCMM Action Plan.
- ❖ In addition, the FMCMM Action Plan approval process makes provision for the Council approval of FMCMM Action Plan. This will improve councillor oversight. In addition, municipalities are advised to submit the revised FMCMM 123 which has been built into the system.
- ❖ Reporting and submissions are no longer required manually, as the system is accessible by multiple users, including the CFO of the municipality, Provincial Treasury and National Treasury.
- ❖ A database of assessments will be created over the years, allowing further analysis to assist municipalities and municipal entities to build sustainable, efficient institutions.
- ❖ Provision of a comprehensive Help function is built into the system, incorporating a detailed User Guide, an online query function for logging enquiry tickets, and a database of Frequently Asked Questions. In addition, NT has introduced a helpdesk e-mail for the web-enabled system (fmcmm.aap@treasury.gov.za).

6. Monitoring and Oversight

The system allows for various reports to be generated based on the FMCMM and Financial ratio assessments. It is expected that the FMCMM and financial ratio reports indicating a municipality's maturity level and performance in several financial management areas as well as the FMCMM Action Plans, are considered and engaged with in the finance portfolio committees of municipalities and are tabled in Council and meetings of the Board of Directors of municipal entities. The Council resolution or resolutions of the Board and recommendations made can accordingly be captured in the web-enabled system.

The role of the supporting and oversight national and provincial departments will be enhanced as information from these tools are available on the system. National and provincial departments are able to ascertain progress being made by the municipalities and municipalities in a live environment, hence allowing the departments to target support towards those municipalities whose performance is declining. The province wide or district wide maturity level reports and ratio outcomes can be tabled at various provincial and national inter-governmental structures, as well as provincial forums which include, *inter alia*, provincial chairpersons of finance forum, Mayor's forum, Municipal Managers and Chief Financial Officers' forum.

7. Rollout

Several municipalities of differing categories and locations were selected to test the system. The web-enabled FMCMM and Ratio system is accessible at the following URL link: <https://fmcmmaap.treasury.gov.za/>. Below is the annual implementation plan for the FMCMM 1, 2 and 3 assessments and development of FMCMM Action Plans.

Plan for FMCMM 123	
Timeframes	Modules and Action Plans
July	Bank, Cash and Investments; Compensation of employees; Revenue Management
August	Annual Reports; Expenditure Management; Capacity Building
September	Reassessment: Annual Financial Statements
October	No modules will be assessed
November	No modules will be assessed
December	Entities; Reassessment: Revenue Management
January	Reporting; BTO; Reassessment: Bank, Cash & Investments
February	Risk Management; Grants and Subsidies; Reassessment: Annual Reports
March	Supply Chain Management; Asset Management; Human Resources
April	Internal Audit; Borrowing; Budget
May	Liability Management; Public, Private and Partnerships
June	Annual Financial Statements; Reporting; Reassessment: Budget

The FMCMM 4, 5, and 6 assessments will initially be undertaken by Metropolitan and larger municipalities. At a minimum, the other municipalities will be required to complete the Qualifying Questions sections for FMCMM 4, 5 and 6 to assess their readiness and, if ready, can proceed with completing the full assessment.

8. Council Approval and Oversight on the implementation of the FMCMM and Financial Ratios

The FMCMM online web-based system will make input, data collection, and access to recommended actions faster and easier. User accessibility and inputs are heightened, and barriers to essential communication and duplications are eliminated.

Analysis by the system will also assist Provincial Treasuries and CoGTAs to prioritise actions, monitor and evaluate progress, and provide targeted and customised support to municipalities.

9. Assistance with the web-enabled system

If municipalities require further assistance with the web-enabled system, in addition to the Help function built into the system, the following officials from Provincial Treasuries and National Treasury can be contacted.

Province	Responsible official	Cell. No.	E-mail address
Eastern Cape	Nkosinathi Ngwenya	083 746 2216	Nkosinathi.Ngwenya@ectreasury.gov.za
Free State	Thandi Mazibuko	082 868 5123	mazibuko.thandi@treasury.fs.gov.za
Gauteng	Kgabo Moloto	072 260 3294	kgabo.moloto2@gauteng.gov.za
KwaZulu-Natal	Wayne Donnelly	083 788 0682	wayne.donnelly@kzntreasury.gov.za
Limpopo	Gladys Rapholo	079 895 7874	rapholomg@treasury.limpopo.gov.za
Mpumalanga	Shadrack Masombuka	082 901 7209	smasombuka@mpg.gov.za
Northern Cape	Lareze Petersen	084 281 7444	ldavid@ncpg.gov.za
North West	Sello Mokwepa	061 212 0364	smokwepa@nwpg.gov.za
Western Cape	Melissa van Niekerk	021 483 6695	Melissa.vanNiekerk@westerncape.gov.za
National Treasury FMCMM Helpdesk			
fmcmm.aap@treasury.gov.za			

10. Conclusion

The web-enabled and online FMCMM and Financial Ratio system will support municipal officials and councillors as well as municipal entities assess their financial management capability and capacity to make continuous improvements to policies, procedures and processes, develop action plans, monitor progress thereof and develop friendly reports in a real time basis. It also facilitates recommended actions faster and easier. User accessibility and inputs are heightened, and barriers to essential communication and duplications are eliminated.

Analysis by the system will also assist Provinces to prioritise actions, monitor and evaluate progress, provide targeted and customised support to municipalities and municipal entities.

By embracing the system, municipalities will propel themselves towards improved operations and ultimately improved service delivery.

This Circular is to be brought to the attention of municipal Councils, Board of Directors of entities and the relevant oversight structures, such as Finance Committees as well as Municipal Public Accounts Committees.

Contact



national treasury

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National Treasury
REPUBLIC OF SOUTH AFRICA

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Website www.treasury.gov.za/mfma

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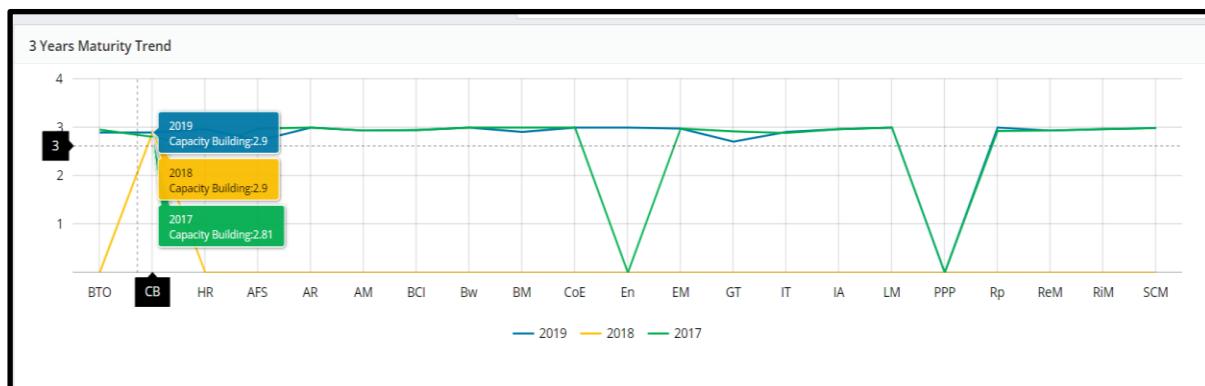
Annexure A: Contains an extract of dashboards and reports generated by the system for FMCMM levels 1, 2 and 3 and levels 4,5 and 6, FMCMM Action plans and Financial Ratios and Norms.

Annexure A: Web-enabled system dashboards and reports

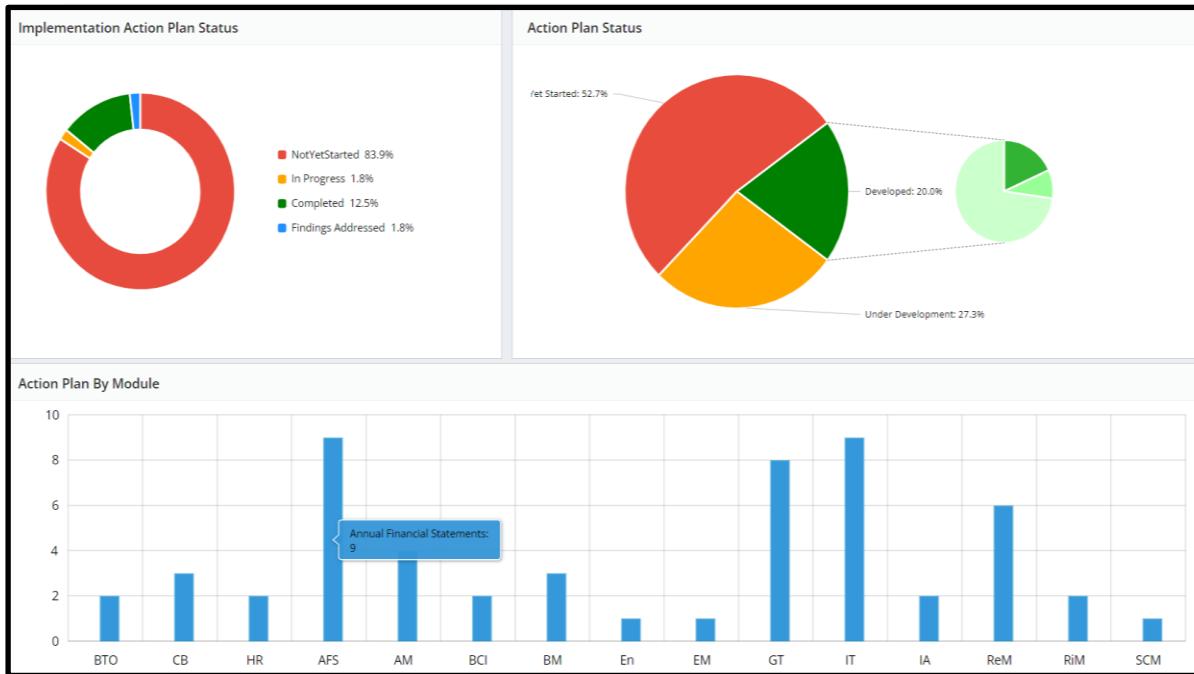
FMCMM 1,2,3 and Financial Ratios dashboard: On completing modules, the system provides a simple to follow colour coded table of results and suggested actions. High-level dashboards provide a quick and easy snapshot of the overall position of the municipality in terms of the maturity level of different components as well as significant ratios, as shown below. The Financial Ratio outcomes show ratios within and outside the norm.

FMCMM 123 - Financial Ratio		Financial Year	2018/2019	Print
Module Maturity Level		Financial Position		Ratio Type
		Category	Sub Category	Result
BTO (BTO)	2.9	FINANCIAL POSITION	Capital Expenditure to Total Expenditure	11%
Capacity Building (CB)	2.9		Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%
Human Resources (HR)	2.97		Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	5%
Annual Financial Statements (AFS)	2.73		Bad Debts Written-off as % of Provision for Bad Debt	28%
Annual Reports (AR)	2.3		Collection Rate	89%
Asset Management (AM)	2.94		Net Debtors Days	60 Days
Bank, Cash and Investments (BCI)	2.95		Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	3%
Borrowing (Bw)	3		Debt (Total Borrowings) / Revenue	19%
Budget Management (BM)	2.91		Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	3 Months
Compensation of Employees (CoE)	3		Current Ratio	2.2
Entities (En)	3	Liability Management	Electricity Distribution Losses (Percentage)	12%
Expenditure Management (EM)	2.98		Water Distribution Losses (Percentage)	27%
Grants and Transfers (GT)	2.71	Liquidity Management		
Information Technology (IT)	2.91			
Internal Audit (IA)	2.97			
Liability Management (LM)	3			
Public Private Partnerships (PPP)	0	Distribution Losses		
Reporting (Rp)	3			
Revenue Management (ReM)	2.94			
Risk Management (RIM)	2.97			
Supply Chain Management (SCM)	2.99			
0 0.5 1 1.5 2 2.5 3				

The system also tracks improvements/regressions in the maturity scoring.



FMCMM Action Plans are created per module, and the system tracks the status of the development and implementation of FMCMM Action.



The Maturity Level Trend Report for FMCMM 1,2,3 assessments reflect the five-year outcomes.

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

Dashboards and reports can be generated at a national, provincial, district or individual municipality level.

Category	Modules	National	Province	District Agg	A Municipality	B Municipality	C Municipality	D Municipality
INSTITUTIONAL	BTO	2.65	2.77	2.79	2.84	2.69	2.75	2.88
	Capacity Building	2.50	2.66	2.64	2.55	2.58	2.82	2.64
	Human Resources	2.58	2.73	2.69	2.81	2.41	2.97	2.59
TECHNICAL	Annual Financial Statements	2.73	2.85	2.80	2.92	2.82	2.55	2.94
	Annual Reports	2.67	2.79	2.91	2.80	2.91	2.96	3.00
	Asset Management	2.58	2.72	2.88	2.94	2.96	2.81	2.84
	Bank, Cash and Investments	2.83	2.92	2.94	3.00	2.92	2.88	2.96
	Borrowing	2.71	2.91	2.96		2.91	3.00	2.97
	Budget Management	2.81	2.91	2.85	2.84	2.75	2.83	2.99
	Compensation of Employees	2.75	2.83	2.87	2.80	2.93	2.76	3.00
	Entities	2.81	2.83					
	Expenditure Management	2.72	2.80	2.85	2.78	2.89	2.81	2.92
	Grants and Transfers	2.68	2.74	2.72	2.60	2.55	2.93	2.80
	Information Technology	2.37	2.63	2.68	2.58	2.77	2.55	2.82
	Internal Audit	2.68	2.76	2.80	2.65	2.89	2.70	2.96
	Liability Management	2.59	2.78	2.75	2.70	2.77	2.57	2.97
	Public Private Partnerships	2.89	2.74	2.85		2.85		
	Reporting	2.73	2.86	2.82	2.92	2.71	2.68	2.97
	Revenue Management	2.67	2.80	2.77	2.79	2.86	2.59	2.84
	Risk Management	2.39	2.75	2.76	2.62	2.66	2.82	2.96
	Supply Chain Management	2.68	2.80	2.80	2.67	2.82	2.76	2.95
TOTAL		2.67	2.79	2.80	2.76	2.78	2.77	2.89

Financial Ratios 3-year trend Report enables a comparison of current and past performance. Various reports may be extracted, including a detailed current year analysis, 3-year trends, and ratios within and outside the uniform ratios and norms.

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

The FMCMM 4, 5, and 6 dashboard makes for a quick and easy overview of the scoring of the municipality, as they pertain to the Qualifying questions and the three levels of Financial Health and Environment, Efficiency and Sustainability and Public Value. Drill down functionalities on each element of the above graphs grant the user access to additional details of the modules.

