

KZN TREASURY:
Review of Municipal Annual Financial
Statements (AFS) Support Initiative in
selected municipalities of KwaZulu-Natal
(KZN)

FINAL EVALUATION REPORT

SEPTEMBER 2024



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Executive Summary

Introduction

This evaluation report, prepared by Mthente Research and Consulting Services, presents an in-depth assessment of the "Review of Municipal Annual Financial Statements (AFS) Support Initiative" as implemented in selected municipalities across KwaZulu-Natal (KZN). The initiative, spearheaded by the KZN Provincial Treasury's Municipal Accounting and Reporting Sub-Programme, aims to enhance financial governance and accountability within the regional municipalities by providing necessary support and monitoring their financial management practices. This support is crucial, particularly in ensuring compliance with the Generally Recognised Accounting Practice (GRAP) and the Municipal Finance Management Act (MFMA).

The primary purpose is to evaluate whether the AFS Reviews Support provided to delegated municipalities is being implemented as specified and to determine the efficacy of these efforts in enhancing the quality of AFS submissions and the audit opinions expressed by the Auditor General of South Africa (AGSA). One of the persistent challenges identified by AGSA in its audits is the poor quality of AFS submitted by municipalities, highlighting the critical need for this initiative. The support thus focuses on providing technical guidance and support in the review of AFS and supporting documents, ensuring they meet the rigorous requirements set by GRAP and MFMA, ultimately aiming to improve their quality before their submission to AGSA.

This report evaluates the effectiveness, relevance, coherence, efficiency, impact, and sustainability of the support provided, utilising a framework that addresses several key evaluation questions:

1. **Relevance:** How well the support responds to the financial management and compliance needs of the municipalities.
2. **Coherence:** The compatibility of the initiative with other financial management support and existing systems within the municipalities.
3. **Effectiveness:** The extent to which the initiative has achieved its objectives in improving the quality of AFS submissions.
4. **Efficiency:** The economic and timely utilisation of resources by the initiative.
5. **Impact:** The significant effects generated by the initiative on financial management practices within the municipalities.
6. **Sustainability:** The likelihood of the benefits of the initiative continuing beyond the initial implementation phase.

The key potential users of this document are the KZN Provincial Treasury. It may be shared with other stakeholders upon approval of the KZN Provincial Treasury. The insights and recommendations derived from this report are intended to support these stakeholders in making informed decisions that will sustain and enhance financial management practices across KwaZulu-Natal's municipalities. By providing a thorough understanding of the operational dynamics, achievements, and areas for improvement associated with the AFS Review support initiative, this report aims to contribute significantly to the ongoing efforts to enhance municipal financial management in the province.

Evaluation Methodology

This evaluation adopted a qualitative research design and was conducted in three distinct phases to ensure a comprehensive analysis of the "Review of Municipal Annual Financial Statements (AFS) Support Initiative" in selected municipalities of KwaZulu-Natal. Each phase was designed to build upon the insights of the previous one, culminating in a robust evaluation of the initiative's effectiveness, coherence, and impact.

Phase 1: Desktop Review

The evaluation commenced with a desktop review, which was initiated during the first meeting with the KZN Treasury project team. This phase involved an extensive review of critical documents provided by the KZN Treasury, which were essential for establishing a foundational understanding of the initiative. The primary objective of this phase was to familiarise the evaluation team with the overarching context of the study, including the aims, objectives, and specific requirements set by the KZN Provincial Treasury. This phase was crucial for the development of appropriate research instruments tailored to the unique aspects of the initiative. It is important to note that the documents shared during this phase were of a sensitive nature, and Mthente Research and Consulting Services was bound by confidentiality agreements, restricting the use of these documents to the purposes of this evaluation only.

Phase 2: Theory of Change Development and Workshop

Informed by the insights garnered from the desktop review, the second phase involved the development of a Theory of Change (TOC) for the Municipal AFS Review Support Initiative. This TOC was crafted to accurately reflect the initiative's intended outcomes, impacts, and the essential assumptions underlying its strategic objectives. A workshop was held on 26 April 2024 in Pietermaritzburg, where key stakeholders participated in confirming and refining the proposed TOC. This collaborative session ensured that the TOC comprehensively represented all critical external factors, intervening variables, inputs, outcomes, and impacts relevant to the initiative.

Phase 3: Semi-structured Interviews with Municipalities

The third phase of the evaluation consisted of conducting semi-structured interviews with key informants from each participating municipality. A total of 16 interviews were conducted, providing empirical evidence and firsthand accounts of the challenges and improvements associated with the AFS Review Support Initiative. These interviews were pivotal in gathering qualitative insights into how the initiative has been implemented across different municipalities and assessing its tangible impacts on the quality of AFS and the financial management practices within the municipalities.

Challenges in Data Collection

While the data collection process for the evaluation initially commenced smoothly with the successful scheduling of initial interviews, several challenges emerged as fieldworkers attempted to engage additional participants from our database. One significant issue was the difficulty in securing contact with participants, who were often unavailable or unresponsive despite multiple attempts made at different times and days. This difficulty was exacerbated by a lack of responses to numerous email correspondences, which further limited our ability to schedule interviews. Additionally, six individuals explicitly declined to participate, citing a lack of familiarity with the Annual Financial Statements (AFS) Review Support Initiative. This indicates a gap in awareness and engagement with the initiative's objectives and activities within some segments of the target population or could mean that certain staff who were not involved in the AFS Review Project were incorrectly added to the database. Furthermore, it should be noted that the AFS Reviews tested in this document were undertaken during the COVID-19 period resulting in limited physical access to the municipalities and mostly virtual interactions.

Further complications arose from changes in employment status, as some key informants had left their positions by the time of data collection. This not only reduced the pool of available informants but also affected the continuity and institutional memory regarding the initiative's implementation and impact. Personal circumstances and commitments also prevented some participants from engaging in the study, further reducing the diversity and representativeness of insights gathered. These challenges necessitated adjustments in our approach to data collection and led to an increased reliance on available participants who could provide detailed accounts of their experiences with the AFS Review Support Initiative. Despite these obstacles, the data collected provided valuable insights into the initiative's implementation and effects across the participating municipalities. However, it is important to consider these factors when interpreting the findings.

Summary of key evaluation findings

This section presents a summary of the findings of the evaluation. The findings are organised according to the key evaluation questions previously outlined, covering aspects such as relevance, coherence, effectiveness, efficiency, impact, and sustainability. Each area is examined to assess the extent to which the initiative has met its objectives, the challenges encountered, and the benefits realised. Through this analysis, the report aims to provide a nuanced understanding of how the initiative has influenced financial management practices within the municipalities and to offer insights that may guide future initiatives. The findings draw from a range of qualitative data sources, including desktop reviews, a theory of change workshop, and semi-structured interviews with key municipal officials.

1. Relevance:

- **Response to financial management and compliance needs:** The AFS Review support initiative aligns well with the financial management and compliance needs of the municipalities in KwaZulu-Natal. Respondents highlighted improvements in meeting compliance deadlines and content accuracy, which suggests that the initiative effectively addresses gaps in financial reporting and management practices.
- **Addressing GRAP and MFMA requirements:** The initiative specifically supports GRAP compliance, as indicated by improvements in transparency and alignment with MSCOA regulations. Respondents from Mandeni and Umuziwabantu mentioned the initiative's role in enhancing GRAP compliance, showing that the initiative is directly addressing the requirements outlined in GRAP and the MFMA.
- **Alignment with KZN Provincial Treasury and municipalities' priorities:** The design and objectives of the initiative seem to align with the priorities of both the KZN Provincial Treasury and the municipalities. The focus on GRAP compliance, timely submission of AFS, and the involvement of internal audits and MSCOA regulations are consistent with the broader financial management goals of the province.

2. Coherence:

- **Compatibility with other financial management initiatives:** The AFS Review support initiative is generally compatible with other financial management initiatives in KwaZulu-Natal. The integration of MSCOA regulations and the alignment of reporting practices across municipalities support this coherence. Whilst the financial systems challenges are a reality and impacts on the municipalities' outputs, the support on IT systems is not in the scope of the PT and rests with the municipality.
- **Complementing existing financial management systems:** The initiative complements existing financial management systems by providing clear guidelines and templates, which help in standardising reporting practices across municipalities. This standardisation is critical for improving financial transparency and accuracy.

- **Potential conflicts or overlaps:** Some respondents, like those from uMzimkhulu, mentioned challenges in focusing on multiple review inputs simultaneously. Time constraints and tight deadlines for AFS submission are a common challenge across multiple municipalities (uMzimkhulu, Umuziwabantu and Mandeni). This pressure likely exacerbates the difficulties faced in interpreting complex regulations and ensuring the accuracy of financial statements. In other cases, there are mix-ups emanating from multiple needs to report..

3. Effectiveness:

- **Achievement of objectives:** The initiative has achieved its objectives, as evidenced by improvements in the quality of AFS submissions, particularly in GRAP compliance and the accuracy of financial reporting. However, the effectiveness varies across municipalities, with some noting significant improvements and others reporting no noticeable changes.
- **Differences in quality of AFS submissions:** There have been improvements in the quality of AFS submissions, with some municipalities noting better alignment with compliance standards and reduced errors in financial statements. These changes indicate that the initiative has been effective in enhancing the quality of financial reporting.
- **Variability across municipalities:** The effectiveness of the initiative appears to vary across different municipalities. While some have integrated the changes effectively, others, like uMzimkhulu, felt that the intervention did not introduce anything new but rather reinforced ongoing processes. However, this reinforcement is often necessary to ensure that these processes are implemented as intended.

4. Efficiency:

- **Timeliness and economic delivery:** The support initiative has delivered results in a timely manner, with municipalities reporting improvements in meeting deadlines and reducing last-minute submissions. The economic aspect is less clear, as the data does not provide detailed cost analysis. However, the perceived efficiency gains, such as reduced errors and improved transparency, suggest that the initiative may be delivering value for the resources invested.
- **Cost vs. improvements in AFS quality:** Without specific cost data, it is challenging to fully assess efficiency. However, the improvements in AFS quality, particularly in terms of accuracy and compliance, indicate that the support initiative is likely cost-effective.
- **Optimisation opportunities:** Some areas, such as system integration could be optimised to enhance efficiency further. For example, ensuring that all relevant financial officials are adequately trained to continue AFS processes in the absence of key personnel would improve the support initiative's long-term efficiency.

5. Impact:

- **Effects on financial management practices:** The support initiative has had a positive impact on financial management practices within municipalities, especially in enhancing GRAP compliance and improving the accuracy of financial reporting. This has contributed to a more

transparent and reliable financial management landscape in KwaZulu-Natal.

- **Influence on broader financial reporting and auditing:** The alignment with MSCOA regulations and the focus on accurate, timely reporting have likely influenced broader financial reporting and auditing practices. The support initiatives support in ensuring GRAP compliance has also reinforced standardised practices across municipalities.
- **Unintended consequences:** An unintended consequence mentioned by some respondents, like those from uMzimkhulu, was the potential for review overload during critical periods. Given the legislated deadline for the final AFS review, there is a very small window for completing these reviews, and internal and external reviews often need to occur concurrently. This situation is exacerbated when municipalities submit the relevant documentation late, making concurrent reviews unavoidable and potentially detracting from the focus on completing AFS tasks effectively.

6. Sustainability:

- **Long-term continuation of benefits:** The long-term sustainability of the support initiatives benefits seems likely, especially where municipalities have effectively integrated the changes into their processes. Municipalities need to take ownership and accountability as required by the MFMA (S62 and S122).
- **Sustainability of AFS quality improvements:** The sustainability of improvements in AFS quality depends on the continued use of MSCOA and GRAP guidelines, as well as ongoing staff capacity building. Some concerns were raised about the reliance on specific personnel, which could jeopardise sustainability if not addressed.
- **Measures for continued effectiveness:** Measures such as ongoing training, regular updates to the MSCOA regulations, and internal audits will be critical in ensuring the continued effectiveness of the support initiative. These responsibilities lie with the municipal officials, who commit to them by signing off on the Close-out Report. Furthermore, municipalities should also adopt the recommendations provided by the KZN Provincial Treasury to sustain the improvements achieved.

The findings confirm that the initiative has substantially contributed to improving the quality of AFS submissions and has enhanced compliance with GRAP standards and MFMA. Municipalities have demonstrated notable progress in financial reporting accuracy and transparency, which has been supported by the development of a Theory of Change, comprehensive training, and targeted support in AFS review.

However, the evaluation also uncovered variability in the effectiveness of the initiative across different municipalities, largely influenced by local capacity, the level of engagement with the initiative, and the specific challenges encountered in integrating new practices. While some municipalities have shown significant improvements, others still face ongoing challenges that hinder their ability to fully realise

the benefits of the initiative.

Based on these findings, while the AFS Support Initiative has made important strides in enhancing municipal financial management, the onus is on municipalities that have benefited from the initiative to take ownership and accountability as expected of them in legislation.

Conclusion

The evaluation of the "Review of Municipal Annual Financial Statements (AFS) Support Initiative" in KwaZulu-Natal reveals that the initiative has had a positive impact on improving the quality of AFS submissions and enhancing financial management practices within the targeted municipalities. The initiative's relevance to the financial and compliance needs of the municipalities is evident, and its objectives align closely with the strategic priorities of both the KZN Provincial Treasury and the participating municipalities. While the effectiveness and coherence of the initiative are generally favourable, the evaluation identified variability in outcomes and some integration challenges that affect its overall efficiency and sustainability.

Recommendations

Based on the findings of this evaluation, the following recommendations are offered to enhance the effectiveness and sustainability of the AFS Support Initiative:

1. Municipalities should procure their own financial systems and collaborate with system vendors to address the technical challenges associated with integration. This includes receiving technical IT support from vendors to ensure system compatibility and the production of high-quality financial reports.
2. Improve coordination between different financial management support initiatives to prevent overlaps and ensure that municipalities receive coherent and consistent support. Regular coordination meetings and shared platforms for exchange of best practices could be beneficial.
3. While ongoing support from KZN Provincial Treasury is essential, it is the responsibility of municipalities to implement financial management practices in line with the MFMA. They can also make use of support that is provided through CFO forums, which offer training on updates to financial practices.
4. Enhancing communication and coordination among all stakeholders involved in the AFS process, including external consultants and internal audit teams, will be crucial. This will ensure that all parties are aligned and can contribute effectively to the AFS preparation and review process.

5. Regularly review and update the Theory of Change based on ongoing feedback and the changing needs of the municipalities. This will help maintain the initiative's relevance and effectiveness over time.
6. KZN Provincial Treasury should regularly monitor the implementation of its recommendations to promote sustainability.

Abbreviations

AFS	Annual Financial Statements
APP	Annual Performance Plan
AGSA	Auditor General South Africa
KZN	KwaZulu-Natal
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
TOC	Theory of Change

1 Introduction

This evaluation report, prepared by Mthente Research and Consulting Services, presents an in-depth assessment of the "Review of Municipal Annual Financial Statements (AFS) Support Initiative" as implemented in selected municipalities across KwaZulu-Natal (KZN). The initiative, spearheaded by the KZN Provincial Treasury's Municipal Accounting and Reporting Sub-programme, aims to enhance financial governance and accountability within the regional municipalities by providing necessary support and monitoring their financial management practices. This support is crucial, particularly in ensuring compliance with the Generally Recognised Accounting Practice (GRAP) and the Municipal Finance Management Act (MFMA).

The primary purpose of this report is to evaluate whether the support provided to delegated municipalities is being implemented as specified and to determine the efficacy of these efforts in enhancing the quality of AFS submissions and the audit opinions expressed by the Auditor General of South Africa (AGSA). One of the persistent challenges identified by AGSA in its audits is the poor quality of AFS submitted by municipalities, highlighting the critical need for this initiative. The initiative thus focuses on providing technical guidance and support in the preparation of AFS and supporting documents, ensuring they meet the rigorous standards set by GRAP and MFMA, ultimately aiming to improve their quality before their submission to AGSA.

1.1 Description of Programme 5 - Municipal Finance Management

The purpose of the Municipal Finance Management unit is to provide oversight, technical support and guidance to delegated municipalities. Skills transfer is a key element of all the support initiatives provided by the Municipal Finance Management unit which is aimed at improving the financial management capability of the municipalities supported so as to contribute to the MTSF Priority of Building a Capable, Ethical & Developmental State

The function of the Municipal Finance Unit is process driven and is largely determined by statutory deadlines as stipulated in the MFMA. Monthly, quarterly and annual reporting is required on the municipal budgets. The purpose of this programme is to provide oversight, technical support and guidance to delegated municipalities. It consists of the following measurable sub-programmes:

Table 1: Municipal finance management sub-programmes

Sub-programme No.	Sub-programme name	Sub-programme purpose
5.1	Municipal Budget	Promote optimal and sustainable municipal budgets as well as promote optimal implementation of budgets by municipalities and reporting on related compliance
5.2	Municipal Accounting and Reporting	Assist, support and monitor municipalities with financial management and compliance with the Generally Recognised Accounting Practice (GRAP) and relevant legislation
5.3	Municipal Support Programme	Assist and provide technical support to delegated municipalities to promote sound financial management and sustainability.
5.4	Municipal Revenue and Debt Management	Assist and provide technical support to delegated municipalities on revenue and debt management

As shown in the table above, Financial Statement Reviews and Financial Management Support are initiatives undertaken by the Municipal Accounting and Reporting sub-programme. The Review of Annual Financial Statements, including audit support assists targeted municipalities with technical guidance on the preparation of the Annual Financial Statements and supporting documents which are in compliance with GRAP and MFMA requirements. The reviews and audit support are aimed at improving the quality of the Annual Financial Statements prior to submission to the Auditor-General of South Africa (AGSA). These projects therefore not only aim to assist with the improvement of the municipalities' financial management capability, but also aim to assist towards the improvement of audit opinions (KZN APP 2023/2024).

1.2. Four Selected KZN Municipalities

Four municipalities, comprising Mandeni, Umuziwabantu, uMzimkhulu and Umdoni, were selected by the KZN Treasury project steering committee for inclusion in this evaluation. Below are brief descriptions of the municipalities.

1.2.1. Mandeni Local Municipality

Mandeni Local Municipality is a Category B municipality situated within the iLembe District of KwaZulu-Natal Province. Covering an area that stretches from the Amatikulu River in the north to a line south of the uThukela River just north of Darnall, Mandeni is the smallest of the four municipalities in the district.

Strategically located midway between the major port cities of Durban and Richards Bay, Mandeni lies on a crucial development corridor that links these economic hubs. This positioning on major railway and road transportation routes enhances its economic significance, a fact acknowledged by the Provincial Spatial Framework, which designates Mandeni as a key growth node in the northern coast corridor. The development of the Dube Trade Port and King Shaka International Airport further amplifies the municipality's economic, social, and employment potential.

Mandeni itself serves as the primary urban settlement and service center for a significant hinterland, though it is characterised by fragmented pockets of intensive urban development interspersed with areas of minimal development. The municipality is also home to four rural settlements—Hlomendlini, Macambini, Mathonsi, and Ndulinde—each governed by an Inkosi. These rural areas are notably underdeveloped and face considerable backlogs in service provision. Additionally, the municipality struggles with capacity issues in supplying electricity across the entire area.

Despite these challenges, Mandeni benefits from well-developed transport infrastructure, including high-standard road and rail services. The population of Mandeni is approximately 180,000, with its economy primarily driven by manufacturing (37%), followed by finance, insurance, real estate, and business services (29%). Other key economic sectors include wholesale and retail trade, catering and accommodation (19%), transport (5%), agriculture (4%), and general government (4%).¹

1.2.2. Umdoni Local Municipality

Umdoni Local Municipality, situated within the Ugu District, is the smallest of the district's four municipalities, serving a population of approximately 156,443 residents. Its geographic footprint encompasses a 40-kilometer stretch of coastline, contributing significantly to its unique local character. The municipality is characterised by a predominantly rural landscape, organised into the following wards: Amahlongwa, Amandawe, Umzinto, Ghandinagar, Shayamoya, Park Rynie, Scottburgh, Hazelwood, Asoka Heights, Malibu Heights, Pennington, Sezela, Ifafa, Bazley, Mtwalume, Malangeni, and Esperanza.

¹ <https://municipalities.co.za/overview/1071/mandeni-local-municipality>

Economically, Umdoni's main activity revolves around agriculture, reflecting its significant engagement in commercial farming. The municipality's land use can be broadly categorised into three major areas: commercial agriculture, traditional authority zones, and coastal urban nodes. This division highlights Umdoni's blend of economic activities and its diverse socio-economic landscape.²

1.2.3. Umuziwabantu Local Municipality

Umuziwabantu Local Municipality is situated on the western edge of the Ugu District, nestled at the foot of the Ingeli Mountain Range. Its southern boundary is defined by the Umtamvuna River, while it shares borders to the north, west, and south with the Eastern Cape, and to the east with the uMzumbe and Ray Nkonyeni Municipalities.

The municipality is predominantly rural, characterised by a mix of urban development, agricultural land, commercially-grown forests, and traditional authority areas. The town of Harding, which serves as the seat of the municipality, stands as the principal urban settlement. Apart from Harding, the municipality's landscape is largely shaped by individually-owned commercial farms and the Weza afforestation region, which together cover 56% of its area. The remaining 42% of the municipality is occupied by six tribal authority areas—KwaMachi, KwaJala, KwaMbotho, KwaFodo, Dumisa, and Bashweni.

With a population of approximately 115,780, Umuziwabantu's economy is driven primarily by manufacturing, agriculture, and timber industries. The municipality's diverse economic activities reflect its rich natural resources and strategic location within the region.³

1.2.4. uMzimkhulu Local Municipality

uMzimkhulu Local Municipality, located in KwaZulu-Natal, is one of the five local municipalities within the Harry Gwala District Municipality (formerly Sisonke District Municipality). It is the most populous among the Harry Gwala municipalities, with a total population of approximately 220,620 residents. The municipality covers about a quarter of the district's geographical area and is organised into 20 wards. Traditional areas account for 48% of the region.

The municipality is characterised by a high proportion of female-headed households, highlighting a significant demographic trend that underscores the need for targeted youth development programs

² http://www.kznonline.gov.za/index.php?option=com_content&view=article&id=231&Itemid=602

³ http://www.kznonline.gov.za/index.php?option=com_content&view=article&id=232&Itemid=603

and initiatives aimed at stimulating economic growth, particularly for women.

uMzimkhulu Town, along with the adjoining Clydesdale peri-urban area, serves as the primary administrative and economic hub of the municipality. Secondary nodes such as Rietvlei, Riversdale, and Ibisi function as important rural service centers. Additionally, settlements like Mountain Home, Glengarry, Ntsikeni, and Ncambele (Gowan Lea) serve as minor service centers, while Creighton and Franklin provide economic services to the north-western part of the municipality, and Harding serves the southern part.

The municipality's economy is predominantly driven by agriculture, followed by forestry. Other significant sectors include community, social, and personal services, trade, and tourism. This economic structure reflects the municipality's reliance on its natural resources and the need for diversified development to support its growing population.⁴

1.3. Problems facing the selected KZN municipalities

During the desk review phase of the project, which included close-out reports of the municipalities, several issues emerged.⁵ Across the municipalities of uMdoni, uMuziwabantu, uMzimkhulu, and Mandeni, several common challenges in financial management and compliance emerge:

1. **Material Misstatements:** All municipalities experienced material misstatements in their, indicating issues with the accuracy and reliability of reported performance information.
2. **Irregular Expenditure:** Irregular expenditure was a recurring issue, often caused by non-compliance with Supply Chain Management regulations or inadequate steps taken to prevent such expenditures.
3. **Non-Compliance with Legislation:** Instances of non-compliance with key legislation, such as the Municipal Finance Management Act (MFMA) and preferential procurement regulations, were identified across all municipalities.
4. **Lack of Oversight:** Deficiencies in oversight and monitoring over compliance with laws, regulations, and financial reporting were noted, indicating gaps in management's control and supervision.
5. **Procurement Challenges:** Procurement processes were problematic, with issues such as insufficient documentation, contracts awarded to non-compliant providers, and lack of competitive bidding processes being common challenges.
6. **Investigations into Maladministration:** Allegations of maladministration, fraud, and

⁴ http://www.kznonline.gov.za/index.php?option=com_content&view=article&id=223&Itemid=596

⁵ See the list of documents in the reference list of this report

corruption were investigated by relevant authorities in some municipalities, indicating broader governance concerns.

7. **Inadequate Controls and Processes:** Senior management's failure to effectively implement controls and processes over financial reporting and compliance monitoring was evident, leading to material adjustments and irregularities.

1.4. Rationale of the evaluation

To assess the impact of the support provided to municipalities in improving the quality of AFS submitted to be in compliance with key requirements of GRAP standards and MFMA.

1.5. Scope of AFS review

The deliverables of the project are as follows:

- Conduct a technical assessment of the draft pre-audited 2020/21 annual financial statements and related supporting working papers, utilising the KZN PT AFS review checklist and NT GRAP disclosure checklist to ensure compliance with the GRAP and MFMA disclosure requirements.
- High level review of the key registers, reconciliations, schedules and working papers e.g. fixed assets register, grants register, retentions schedule/register etc. to ensure compliance with the GRAP standards and MFMA disclosure requirements (Risk based approach);
- Provide technical assistance in addressing financial statement review queries as required including queries from the Auditor-General on key financial statement matters having an impact on fair presentation; and
- Provide skills transfer to the internal audit component and/or relevant finance officials of the municipality, by providing training on the process of reviewing the financial statements and working papers as well as managing the audit queries.

1.6. Purpose and objective of the study

The main purpose of this study is to assess whether the AFS Reviews support provided to delegated municipalities are being implemented as specified and to determine if there has been an improvement in the quality of AFS submitted and audits opinions expressed on the AFS.

As stipulated in the Terms of References, the primary research questions for this evaluation are:

- To examine whether the number of audit findings of the municipality's AFS improved after the implementation of the initiative.
- To assess whether the AFS has been submitted within the legislative timeframe.

- To assess whether the recommended improvements made during the support initiative s have been incorporated by the municipality in the AFS and working papers.

1.7. Evaluation questions

The Terms of Reference have suggested that there is need to revise the current evaluation questions as they are insufficient to address the scope of the evaluation adequately. Mthente has gone further to align the evaluation questions with the Organisation for Economic Co-operation and Development's Development Assistance Committee criteria:

A. Relevance:

- How well does the AFS Review support initiative respond to the financial management and compliance needs of the municipalities in KwaZulu-Natal?
- To what extent does the initiative address the specific requirements outlined in GRAP and the MFMA?
- Are the objectives and design of the initiative aligned with the priorities and policies of the KZN Provincial Treasury and the municipalities?

B. Coherence:

- How compatible is the AFS Review support initiative with other financial management initiative or initiatives in KwaZulu-Natal?
- To what extent does the initiative complement existing financial management systems and practices within the municipalities?
- Are there any potential conflicts or overlaps with other support programs or initiatives?

C. Effectiveness:

- What is the extent to which the AFS Review support initiative has achieved its objectives in improving the quality of AFS submitted by the municipalities?
- Have there been any notable differences in the quality of AFS submissions before and after the implementation of the initiative?
- How do the results of the initiative vary across different municipalities and groups within them?

D. Efficiency:

- How economically and timely has the AFS Review support initiative delivered results?
- What are the costs associated with implementing the initiative compared to the improvements in AFS quality achieved?
- Are there any areas where the initiative could be optimised to enhance efficiency?

E. Impact:

- What significant positive or negative effects has the initiative generated at higher levels, such as financial management practices within the municipalities?
- How have the outcomes of the initiative influenced the broader financial reporting and

auditing landscape in KwaZulu-Natal?

- Have there been any unintended consequences or side effects resulting from the initiative?

F. Sustainability:

- To what extent are the benefits of the initiative likely to continue beyond the initial implementation phase?
- Are the improvements in AFS quality sustainable in the long term, considering factors such as institutional capacity and ongoing support?
- What measures are in place to ensure the continued effectiveness of the initiative beyond the evaluation period?

The above questions were used to inform the evaluation matrix after the theory of change workshop. They also guided the development of data collection instruments.

1.8. Intended users and stakeholders of the evaluation

The key potential users of this document are the KZN Provincial Treasury. It may be shared with other stakeholders upon approval of the KZN Provincial Treasury. The insights and recommendations derived from this report are intended to support these stakeholders in making informed decisions that will sustain and enhance financial management practices across KwaZulu-Natal's municipalities.

2. Theory of Change (TOC) for the Review of AFS Support Initiative

In developing the TOC of this evaluation, there are some key starting points which have been consulted. The discussion below will highlight some of the suggestions which Mthente made with regards to the key components of the TOC that was developed at the workshop.

2.1. Impact statements

It can be demonstrated, from the reviewed documents that include Auditor-General reports, final management reports and close-out reports, that the intended goal is to make sure the targeted municipalities improve on their reporting by adopting the Generally Recognised Accounting Practice (GRAP) and Municipal Finance Management Act (MFMA) principles and ensuring that overall adherence to accountability is attained. Below are some suggested impact statements:

"Through our Municipal Annual Financial Statements Support Initiative, we aim to significantly enhance the financial reporting capabilities of selected municipalities in KwaZulu-Natal. By providing targeted assistance and technical guidance, we strive to improve the quality and compliance of Annual Financial Statements with Generally Recognized Accounting Practice (GRAP) and Municipal Finance Management Act (MFMA) requirements. Our initiative seeks to reduce the number of audit findings, ensure timely submission of financial statements, and foster a culture of accountability and transparency within local government. Ultimately, we envision empowered municipalities capable of producing accurate, reliable, and comprehensive financial statements, thereby facilitating better decision-making and enhancing public trust in municipal governance."

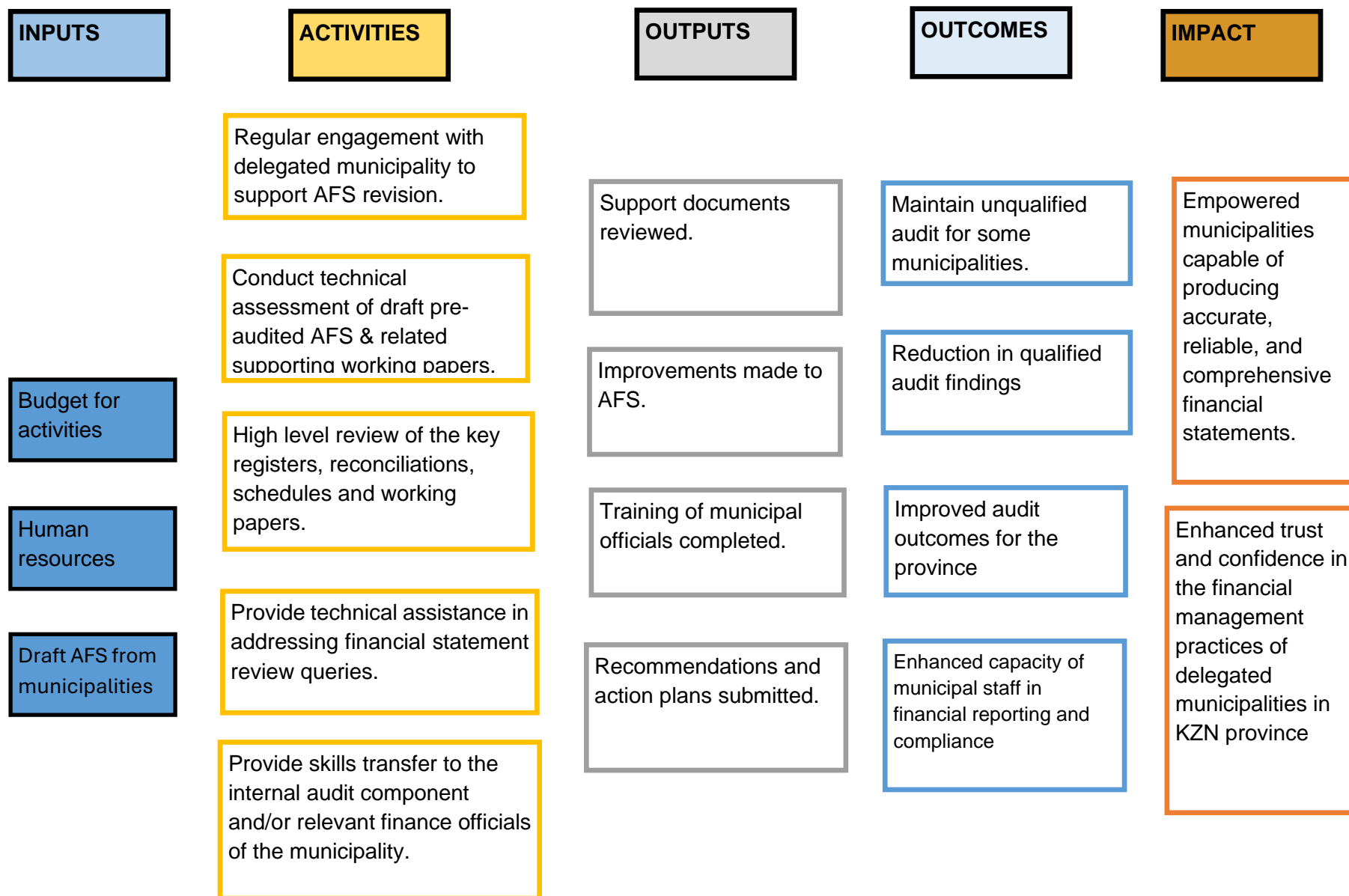
Using the if-then-eventually-logic which characterises most TOCs, Mthente recommended the following outcome statement, which can be further refined:

If delegated KZN municipalities receive comprehensive support in reviewing their financial statements and if they implement recommended improvements, **then** they will be better equipped to comply with key requirements of GRAP and the MFMA, **eventually** leading to improved transparency, accountability, and financial management practices within the municipalities.

The same TOC logic is further explained in the figure below:

Figure 1: TOC Logic

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The above TOC is high level and it does not cover all the details about the outcomes and outputs intended for the AFS review. Therefore, below we outline the detailed explanations which can be adopted in the final TOC.

2.2. Outcomes

Outcomes are key to any initiative, so the following are suggestions which the project can consider:

Immediate Outcomes:

1. Increased understanding and awareness among municipal finance personnel regarding GRAP and MFMA requirements.
2. Improved accuracy and completeness of financial data collection and documentation within municipalities.
3. Enhanced capacity of municipal staff in financial reporting and compliance with accounting standards.
4. Identification and rectification of common errors and deficiencies in Annual Financial Statements (AFS) preparation.
5. Strengthened internal controls and processes related to financial management and reporting.

Intermediate Outcomes:

1. Reduction in the number of audit findings and qualifications in the AFS submitted to the Auditor General of South Africa (AGSA).
2. Timely submission of AFS within legislated timeframes, leading to improved compliance with regulatory requirements.
3. Enhanced credibility and reliability of financial information provided by municipalities, fostering trust among stakeholders.
4. Increased efficiency and effectiveness in municipal financial management practices.
5. Greater confidence among municipal officials and stakeholders in the accuracy and transparency of financial reporting processes.
6. Improved decision-making capabilities based on more reliable financial data and analysis.
7. Strengthened accountability mechanisms within municipalities, leading to better governance outcomes.

3. Methodology

3.1. Evaluation design

This evaluation adopted a qualitative research design to ensure a comprehensive analysis of the Municipal AFS Support Initiative in four selected municipalities of KwaZulu-Natal. According to Newman (2014), qualitative methodologies focus on understanding specific "cases" or instances as they organically occur, while also considering the socio-historical contexts that influence these cases. This approach is particularly suited to evaluations where socio-historical contexts play a significant role in shaping the phenomena under study.

In contrast to quantitative research, which prioritises the measurement of variables and the testing of hypotheses to establish causal relationships, qualitative research focuses on interpreting patterns found in textual or visual data. As Newman (2014) suggests, qualitative methodologies are adept at handling data represented through words, symbols, and sentences, which require distinct collection and analysis techniques that differ markedly from those used for numeric data.

This qualitative framework was chosen for the evaluation to capture the implementation successes and challenges of the AFS Support Initiative and to understand the diverse experiences and perceptions of the municipal officials involved. The design allowed for a flexible, responsive approach to data collection, accommodating the complex dynamics of financial management practices within municipalities.

3.2. Methods

When monitoring and evaluating projects, there are various methods that can be applied. Each of these methods provide different kinds of data. Depending on the objectives of the evaluation, evaluation questions and intended purpose, appropriate methods will be applied. The qualitative approach in this evaluation was structured in three distinct phases. Each phase was designed not only to build upon the insights from the previous but also to adapt to emerging data and contexts, ensuring a comprehensive understanding of the initiative's impact.

3.2.1. Phase 1: Desktop Review

The evaluation commenced with a desktop review, which was initiated during the first meeting with the KZN Treasury project team. This phase involved an extensive review of critical documents provided by the KZN Treasury, which were essential for establishing a foundational understanding of the initiative. The primary objective of this phase was to familiarise the evaluation team with the overarching context of the study, including the aims, objectives, and specific requirements set by the KZN Provincial Treasury. This phase was crucial for the development of appropriate research instruments tailored to the unique aspects of the initiative. It is important to note that the documents shared during this phase were of a sensitive nature, and Mthente Research and Consulting Services was bound by confidentiality agreements, restricting the use of these documents to the purposes of this evaluation only.

3.2.2. Phase 2: Theory of Change Development and Workshop

Informed by the insights garnered from the desktop review, the second phase involved the development of a Theory of Change (TOC) for the Municipal AFS Review Support Initiative. This TOC was crafted to accurately reflect the initiative's intended outcomes, impacts, and the essential assumptions underlying its strategic objectives. A workshop was held on 26 April 2024 in Pietermaritzburg, where key stakeholders participated in confirming and refining the proposed TOC. This collaborative session ensured that the TOC comprehensively represented all critical external factors, intervening variables, inputs, outcomes, and impacts relevant to the initiative.

3.2.3. Phase 3: Semi-structured Interviews with Municipalities

The third phase of the evaluation consisted of conducting semi-structured interviews with key informants from each participating municipality. A total of 16 interviews were conducted, providing empirical evidence and firsthand accounts of the challenges and improvements associated with the AFS Review Support Initiative. These interviews were pivotal in gathering qualitative insights into how the initiative has been implemented across different municipalities and assessing its tangible impacts on the quality of AFS and the financial management practices within the municipalities.

Below is a summary of the interviews in a table.

Table 2: Database statistics

Sector	Refused	Unreachable	Completed
Umdoni	0	7	3
Umuziwabantu	3	4	5
Mandeni	2	7	3
Umzimkhulu	1	11	2
	6	29	13

3.2.4. Challenges in Data Collection

While the data collection process for the evaluation initially commenced smoothly with the successful scheduling of initial interviews, several challenges emerged as fieldworkers attempted to engage additional participants from our database. One significant issue was the difficulty in securing contact with participants, who were often unavailable or unresponsive despite multiple attempts made at different times and days. This difficulty was exacerbated by a lack of responses to numerous email correspondences, which further limited our ability to schedule interviews. Additionally, six individuals explicitly declined to participate, citing a lack of familiarity with the AFS Review Support Initiative. This indicates a gap in awareness and engagement with the initiative's objectives and activities within some segments of the target population.

The outdated or incorrect information in the database not only impacted our ability to engage participants but also pointed to the need for more robust data management practices.

Further complications arose from changes in employment status, as some key informants had left their positions by the time of data collection. This not only reduced the pool of available informants but also affected the continuity and institutional memory regarding the initiative's implementation and impact. Personal circumstances and commitments also prevented some participants from engaging in the study, further reducing the diversity and representativeness of the insights gathered. These challenges necessitated adjustments in our approach to data collection and led to an increased reliance on available participants who could provide detailed accounts of their

experiences with the AFS Support Initiative. Despite these obstacles, the data collected provided valuable insights into the initiative's implementation and effects across the participating municipalities. However, it is important to consider these factors when interpreting the findings.

3.3. Limitations

Several limitations affected this evaluation.

Firstly, the primary challenge was the outdated and inaccurate database. Out of 51 respondents listed, only 22 were eligible,. This limitation impacted our ability to engage a representative sample and points to the necessity for more robust data management practices in future evaluations.

Secondly, the review was constrained by its geographic scope. It covered only four municipalities, which may not be representative of all areas where the AFS Review Support Initiative was implemented. This limited geographic coverage restricts the generalisability of the findings to other regions where the initiative may have been applied.

Finally, while the initial proposal included the use of multiple data collection modes, both quantitative and qualitative, logistical constraints and resource limitations made this approach unfeasible. As a result, the evaluation relied on fewer data collection methods than originally planned, potentially affecting the depth and breadth of the data collected. Addressing these limitations will be crucial for enhancing the future evaluations.

3.4. Evaluation criteria

In any evaluation, there is need to have a set criterion which can be used to guide the evaluation. The criteria to be used follows global practices defined by Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC) as well as the South African Department of Planning, Monitoring and Evaluation (DPME)'s Evaluation Framework (2019). Below is a brief explanation of the six evaluation criteria:

Relevance: The extent to which the initiative objectives and design respond to beneficiaries, global, country, and partner/institution needs, policies, and priorities, and continue to do so if circumstances change.

Coherence: The compatibility of the initiative with other interventions in a country, sector or institution.

Effectiveness: The extent to which the initiative achieved, or is expected to achieve, its objectives, and its results, including any differential results across groups.

Efficiency: The extent to which the initiative delivers, or is likely to deliver, results in an economic and timely way.

Impact: The extent to which the initiative has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects.

Sustainability: The extent to which the net benefits of the initiative continue or are likely to continue.

4. Evaluation findings

This section presents the findings of the evaluation. The findings are organised according to the key evaluation questions previously outlined, covering aspects such as relevance, coherence, effectiveness, efficiency, impact, and sustainability. Each area is examined to assess the extent to which the initiative has met its objectives, the challenges encountered, and the benefits realised. Through this analysis, the report aims to provide a nuanced understanding of how the initiative has influenced financial management practices within the municipalities and to offer insights that may guide future initiatives. The findings draw from a range of qualitative data sources, including desktop reviews, a theory of change workshop, and semi-structured interviews with key municipal officials as provided on the database supplied to Mthente by the KZN Provincial Treasury Team. Designations of the officials ranged from the Chief Financial Officers (CFOs) to officials responsible for submitting financial information.

4.1. Relevance

4.1.1. Response to financial management and compliance needs

The AFS Review support initiative aligns well with the financial management and compliance needs of the municipalities in KwaZulu-Natal. Respondents highlighted improvements in meeting compliance deadlines and content accuracy, which suggests that the initiative effectively addresses gaps in financial reporting and management practices. A few examples are worth noting. In Umuziwanantu Municipality the implementation of a support program has improved daily and monthly review processes, reducing the need for excessive overtime. Staff now work more efficiently, with less need for extended hours, thanks to better alignment and streamlined processes introduced by the support program. One official remarked:

“There used to be a great deal of overtime, which is no longer in place. People left at 2 am or 4 am. Now they leave at 6 pm due to the support programme and the mSCOA.”
[Interview Respondent, Umuziwabantu].

“We definitely need AFS support, that’s one of the areas we always seem to have problems.”
[Interview Respondent, uMdoni].

The introduction of support programs has had a positive impact on financial management practices, reducing the number of findings and improving overall efficiency in the AFS submission process. While some municipalities have managed to mitigate the impact of AFS submission challenges on their financial management practices, others continue to face difficulties that require ongoing attention and support. Among municipalities which still have a long way to address their challenges, they still commend the efforts of Provincial Treasury. uMzimkhulu Municipality has developed an AFS preparation plan to ensure that issues are identified and resolved well before the final submission. This plan has helped the municipality be more proactive in managing its financial reporting processes.

4.1.2. Addressing GRAP and MFMA requirements

The initiative specifically supports GRAP compliance, as indicated by improvements in transparency and alignment with mSCOA regulations. Respondents from Mandeni and Umuziwabantu mentioned the initiative's role in enhancing GRAP compliance, showing that the initiative is directly addressing the requirements outlined in GRAP and the MFMA.

“Complexity of AFS guidelines and regulations (e.g., GRAP, MFMA) – ‘sometimes a GRAP standard issued in between may have different interpretations and may lead to improper interpretation of GRAP requirements’. [Interview Respondent, Umuziwabantu]

“So, I can say for us it's lack of training because we only started this year to attend CaseWare training and GRAP training, but we didn't finish GRAP Standards.” [Interview Respondent, uMdoni]

“AFS training is usually conducted annually. We are also trained in terms of latest reviews of GRAP and new regulations for the AFS. Between 2018 and 2019, treasury offered support in AFS training. Training takes place in June or July near municipality end of financial year.” [Interview Respondent, Mandeni]

Respondents from the Mandeni municipality frequently mention the complexity of AFS guidelines and regulations, such as GRAP and MFMA, as a significant challenge. The evolving nature of these guidelines, with occasional updates or new interpretations, creates confusion and difficulty

in proper compliance.

4.1.3. Alignment with KZN Provincial Treasury and municipalities' priorities

The design and objectives of the initiative seem to align with the priorities of both the KZN Provincial Treasury and the municipalities. The focus on GRAP compliance, timely submission of AFS, and the involvement of internal audits and mSCOA frameworks are consistent with the broader financial management goals of the region.

4.2. Coherence

4.2.1. Compatibility with other financial management initiatives

The AFS Review support initiative is generally compatible with other financial management initiatives in KwaZulu-Natal. The integration of mSCOA regulations and the alignment of reporting practices across municipalities support this coherence. However, there is a challenge with the integration of different systems, which could create potential overlaps or conflicts. Officials expressed the following sentiments:

“Mostly around the assets section because Treasury was assisting around assets and were double checking if they were GRAP compliant and if calculations were correct. It is where they used to lack. They assist so you know if they detect errors, and you can see where the next area is that you need to fix. And they now work based on the feedback on assets. They also prepare working papers files to make the AFS process easier” [Interview Respondent, Umuziwabantu]

“As I mentioned before they assisted us with our reconciliations so that sort of helps us now filter everything through to the AFS, so what happens is we are reconciling monthly, streamlining all the charts and what we're doing now is we're sort of doing our recons in relation to the way we report. For example, on the General Ledger, it just shows the debtors, rates, refuse and electricity and we streamline it and improve because we report it separately on the AFS then we separate it so that it just filters, and it works and its sort of easier to reconcile back to the AFS.” [Interview Respondent, Umuziwabantu].

4.2.2. Complementing existing financial management systems

The initiative complements existing financial management systems by providing clear guidelines and templates, which help in standardising reporting practices across municipalities. This standardisation is critical for improving financial transparency and accuracy.

4.2.3. Potential conflicts or overlaps

Some respondents, like those from uMzimkhulu, mentioned challenges in focusing on multiple review inputs simultaneously. Time constraints and tight deadlines for AFS submission are a common challenge across multiple municipalities (uMzimkhulu, Umuziwabantu and Mandeni). This pressure likely exacerbates the difficulties faced in interpreting complex regulations and ensuring the accuracy of financial statements. In other cases, there are mix-ups emanating from multiple needs to report. Take for instance the following experience:

“Firstly, the support that we received was support of the review. They were reviewing our AFS, so, the only thing that I can say is that they came here towards the end of our preparation of the AFS, and they reviewed the AFS and added their input wherever they felt we needed to rectify. It's not as if they came in the beginning of the financial year and provided support, but they were there as reviewers of the financial statements and one of the challenges was that what at time it was the critical time where we were chasing time to submit and they also wanted the same information that we were trying to prepare and also the internal audit and audit committee were looking at the same information, so we ended up mixing many people instead of focusing on what we were doing. We ended up trying to provide information to people whilst we were still doing work in progress and were not even complete and they kept on giving their reviews and comments while the segments were not yet completed.” [Interview Respondent, uMzimkhulu Municipality].

4.3. Effectiveness

4.3.1. Achievement of objectives

The initiative has achieved its objectives to a notable extent, as evidenced by improvements in the quality of AFS submissions, particularly in GRAP compliance and the accuracy of financial reporting. However, the effectiveness varies across municipalities, with some noting significant improvements and others reporting no noticeable changes. Below are some of the sentiments expressed by interviewed officials.

“Significant progress observed. Used to have approximately 19 findings – now in the last audit they had only 3 findings which impacted the audit report and maybe another 2-3 that impact management report. The staff within finance has gained a lot of exposure and knowledge due to the initiative. Now the in-house financial statements have been boosted. The staff is more capable and confident since and it is a good milestone.” [Interview Respondent, Mandeni]

“There was an improvement because I just recall from 2017 when we implemented, there was a lot of findings and then when the treasury came on board and supported us, then the findings did reduce and that's why we went from roughly 21 findings to now seven findings.” [Interview Respondent, Umuziwabantu]

In another case, an official from Umuziwabantu highlighted that in 2019, there were no findings on the AFS disclosures themselves, reflecting a marked improvement from 2018, the year they received support from Treasury. The respondent noted that the understanding of mSCOA helped identify mistakes in their own General Ledgers (GLs), leading to fewer errors and no need to redo the AFS. This progress was also seen across various departments, and even the Mayor observed a smoother audit process that year [Interview Respondent, Umuziwabantu]. Overall, the AFS Support Initiative has led to positive changes in many municipalities, particularly in reducing audit findings and improving the overall audit process, although certain challenges remain. For instance,

- Several municipalities, particularly Mandeni and Umuziwabantu, observed a significant reduction in audit findings following the implementation of the AFS Review Support Initiative. This suggests that the initiative has positively impacted their financial management processes, leading to better-prepared financial statements and a smoother audit process.
- .
- There were varying levels of awareness and engagement with the AFS Review Support initiative among respondents, with some not observing any changes or being unaware of the audit findings altogether. This might point to a need for broader communication and involvement across personnel within the finance department to maximise the benefits of the support initiative.

4.3.2. Differences in quality of AFS submissions

There have been improvements in the quality of AFS submissions, with some municipalities noting better alignment with compliance standards and reduced errors in financial statements. These changes indicate that the initiative has been effective in enhancing the quality of financial reporting.

4.3.3. Variability across municipalities

The effectiveness of the initiative appears to vary across different municipalities. While some have integrated the changes effectively, others, like uMzimkhulu, felt that the initiative did not introduce anything new but rather reinforced ongoing processes. However, this reinforcement is often necessary to ensure that these processes are implemented as intended.

4.4. Efficiency

4.4.1. Timeliness and economic delivery

The initiative has delivered results in a timely manner, with municipalities reporting improvements in meeting deadlines and reducing last-minute submissions. The economic aspect is less clear, as the data does not provide detailed cost analysis. However, the perceived efficiency gains, such as reduced errors and improved transparency, suggest that the initiative may be delivering value for the resources invested.

“The issue of accuracy in terms of the information that is reported and the issue of compliance, it’s not just looking at the final product, but even as you operate during the year there are issues of compliance that a municipality must be aware of and must adhere to. So, there has been positive changes in that now.” [Interview Respondent, Mandeni]

“After the submission you are given time to check your findings and check to see if the auditors made mistakes – all handled by managers. And an audit committee handles all raised concerns from the findings. But she herself is not sure of. After submission, management is given a chance to review the findings and correct anything that needs to be corrected.” [Interview Respondent, Mandeni].

The issue of timeliness addresses the initial objective to assess whether the AFS has been submitted within the legislative timeframe. In responding to that question, all municipalities did indicate that they submitted their AFS on time. To some extent, Umdoni’s responses indicated

some uncertainty, especially a lack of specific confirmation about timely submissions raised questions about consistency in meeting legislative requirements

In particular, Mandeni and Umuziwabantu demonstrated improvements in their processes, including the timely submission of AFS. For instance, Mandeni has noted that despite challenges, their finance department has managed to continue operations effectively, suggesting that the submission of AFS likely occurred within the required timeframes. This is supported by the reported improvements in compliance and the absence of non-compliance reports, indicating adherence to legislative requirements, including timely submissions. In Umuziwabantu, the mention of regular reconciliations and proactive preparation for year-end reporting suggests that the municipality has put measures in place to ensure AFS are submitted on time. The internal systems described, including the adherence to a timetable and ongoing review processes, further indicate a focus on meeting deadlines.

4.4.2. Cost vs. improvements in AFS quality

Since specific cost data was not requested during the evaluation, it is challenging to assess efficiency fully. However, the improvements in AFS quality, particularly in terms of accuracy and compliance, indicate that the initiative is likely cost-effective.

4.4.3. Optimisation opportunities

Some areas, such as system integration and staff training, could be optimised to enhance efficiency further. For example, ensuring that all staff are adequately trained to continue AFS processes in the absence of key personnel would improve the initiative's long-term efficiency. There were several observations by officials:

“One of the biggest challenges in our municipality is that they are battling to get a CFO, so what happens is one of us will be asked to act, either myself or the budget manager and then it puts a bit of strain on us because you have to do your work and then oversee other departments which I felt was a bit difficult during my tenure of acting, that’s why I asked to step down. You end up finding gaps that you missed something in your in your section because now you're worried about everything else.” [Interview Respondent, Umuziwabantu].

4.5. Impact

4.5.1. Effects on financial management practices

The initiative has had a positive impact on financial management practices within municipalities, especially in enhancing GRAP compliance and improving the accuracy of financial reporting. This has contributed to a more transparent and reliable financial management landscape in KwaZulu-Natal.

“Once we do the audit action plan then we have to go back and sort of address those issues so when Treasury came on board, they assisted us with changing our format of reconciliations and we're trying to streamline the new chart of accounts so yeah it did assist us to improve.” [Interview Respondent, Umuziwabantu].

“There is definitely an improvement because with the recons being done to fit the AFS, so if you need to look for receivables from exchange transactions it means its refuse, and electricity only, so you will know when you go back to your general Ledger recon, it's showing those two, whereas in the past you had to sort of drill down and really look. Now it is sort of streamlined to the AFS.” [Interview Respondent, Umuziwabantu].

Overall, the incorporation of changes recommended by the AFS Review Support Initiative has led to some tangible benefits, particularly in the areas of accuracy and transparency of financial reporting. However, the extent of these improvements varies across municipalities, with some experiencing significant gains and others some challenges. Challenges related to system integration, misallocations, and the willingness of staff to act on the recommendations continue to affect the overall effectiveness of these changes. Regular communication, proper training, and a strong commitment from the staff seem to be key factors in realising these improvements.

4.5.2. Influence on broader financial reporting and auditing

The alignment with mSCOA regulations and the focus on accurate, timely reporting have likely influenced broader financial reporting and auditing practices. The initiative's support in ensuring GRAP compliance has also reinforced standardised practices across municipalities.

“The internal audit is using a different method of reporting and reviewing the AFS (mSCOA), and the financial department is using the old method (offered by the accounting system they use – did not give a name despite prompting) and it requires more work of

explaining to the auditors. So, an increase in communication and training on the correct regulations for reporting and reviewing are necessary.” [Interview Respondent, Umuziwabantu].

4.5.3. Unintended consequences

Some respondents, such as those from uMzimkhulu, mentioned a potential for review overload during critical periods, which could detract from effectively completing AFS tasks. However, this overload is primarily due to the late submission of draft AFS to the PT team for review. If the AFS preparation plan is implemented on time, there would be sufficient opportunity for a thorough review, avoiding last-minute pressures.

The AFS Review Support Initiative has brought about significant improvements in the financial management practices across various municipalities in KwaZulu-Natal. In Mandeni, the initiative has fostered enhanced technical awareness among finance staff and improved compliance with MFMA requirements, leading to improved audit opinions audits and no non-compliance reports. Similarly, in uMzimkhulu and Umuziwabantu, new practices such as thorough monthly controls and improved credibility in AFS submissions have been effectively integrated, significantly enhancing financial oversight and reporting accuracy. These changes have not only increased revenue but have also strengthened the overall financial governance within these municipalities.

However, the impact of the AFS Review Support Initiative has been uneven across the board, with some municipalities like uMdoni reporting a lack of direct involvement or awareness of the initiative's benefits. Challenges such as gaps in personnel, notably during periods without a CFO, have hindered the ability to fully assess and realise the potential improvements. This variability highlights the necessity for ongoing support and a broader engagement strategy to ensure all municipal staff are well-informed and capable of sustaining the enhanced financial management practices introduced by the initiative.

4.6. Sustainability

4.6.1. Long-term continuation of benefits

The long-term sustainability of the initiative 's benefits seems likely, particularly where municipalities have effectively integrated the changes into their processes. In the interviews below, the municipal officials indicated some of their wishes with regards to the way support is

provided: .

“Personnel capacity – need proper training on GRAP. If we fully understand GRAP and its interpretation, it would be easy for them to understand the accounting system and may streamline the process more. Open other ventures to attend such trainings.” [Interview Respondent, Mandeni].

The treasury offer support near year-end. Would assist the municipalities if the treasury can come earlier and offer support in December to assist the municipality to prepare an interim AFS during the year and get someone to review the interim so they can address any shortfalls or findings they find 6 months prior to the final AFS submission. [Interview Respondent, Mandeni]

However, rather than relying solely on continuous support from KZN PT, sustainability will rely on municipalities taking ownership and accountability, as required by the MFMA. Ongoing capacity-building can be facilitated through CFO forums and training workshops.

4.6.2. Sustainability of AFS quality improvements

The sustainability of improvements in AFS quality depends on the continued use of mSCOA and GRAP guidelines, as well as ongoing staff capacity building. Some concerns were raised about the reliance on specific personnel, which could jeopardise sustainability if not addressed.

4.6.3. Measures for continued effectiveness

Measures such as ongoing training, regular updates to the MSCOA regulations, and internal audits will be critical in ensuring the continued effectiveness of the support initiative. These responsibilities lie with the municipal officials, who commit to them by signing off on the Close-out Report. Furthermore, municipalities should also adopt the recommendations provided by the Provincial Treasury to sustain the improvements achieved.

The responses regarding the sustainability of changes made to financial reporting practices following the AFS Review Support Initiative demonstrate a diverse level of awareness and implementation of sustainability measures across KwaZulu-Natal municipalities. In Mandeni, the finance department has managed to maintain continuity and operational effectiveness despite the absence of a CFO for a year, thanks to the active involvement of staff and regular departmental meetings that keep all units informed and engaged. This municipality also highlights a robust financial health characterized by good current ratios and budget surpluses that underpin its

sustainable financial practices.

Moreover, in uMzimkhulu, sustainability is fostered through the continuous updating of procedural manuals to incorporate new recommendations and the hosting of training sessions aimed at addressing knowledge gaps. This ensures that improvements in financial management are embedded into daily operations. Mandeni has further emphasised the use of various compliance tools like GRAP and AFS checklists, although it notes the need for updates to keep these tools relevant and effective. Umuziwabantu points to the strength of internal systems that enable the municipality to maintain or even improve audit outcomes independently of yearly external support. The practice of regular ledger reconciliations and preliminary financial reviews before year-end is particularly noted for its importance in aiming for clean audits. Additionally, uMdoni has implemented regular meetings and tracking systems to ensure AFS readiness, emphasising the structured approach to maintaining timelines and preparedness for audits.

The necessity for updated compliance and reporting tools was a recurring theme in the interviews, which is crucial for ensuring that municipalities remain aligned with best practices and regulatory requirements. Thus, while many municipalities have implemented effective measures to sustain the improvements brought by the AFS Review Support Initiative, there remains a significant need for ongoing training, the updating of tools, and better engagement and communication to ensure these measures are comprehensive and fully effective. Addressing these needs will help mitigate potential risks associated with personnel changes and maintain the quality of financial management practices across the municipalities.

4.7. Conclusion

The findings confirm that the initiative has substantially contributed to improving the quality of AFS submissions and has enhanced compliance with GRAP standards and MFMA. Municipalities have demonstrated notable progress in financial reporting accuracy and transparency, which has been supported by the development of a Theory of Change, comprehensive training, and targeted support in AFS review.

However, the evaluation also uncovered variability in the effectiveness of the initiative across different municipalities, largely influenced by local capacity, the level of engagement with the initiative, and the specific challenges encountered in integrating new practices. While some municipalities have shown significant improvements, others still face ongoing challenges within

the municipality that hinder their ability to fully realise the benefits of the initiative.

Based on these findings, it is clear that while the AFS Review Support Initiative has made important strides in enhancing municipal financial management, continued support, tailored initiatives, and increased training are necessary to ensure that all municipalities can achieve and sustain high standards of financial reporting. This conclusion sets the stage for specific recommendations aimed at enhancing the initiative's effectiveness and sustainability across all participating municipalities.

5 Conclusion and recommendations

5.1. Conclusion

The evaluation of the AFS Review Support Initiative in KwaZulu-Natal reveals that the initiative has had a positive impact on improving the quality of AFS submissions and enhancing financial management practices within the targeted municipalities. The initiative's relevance to the financial and compliance needs of the municipalities is evident, and its objectives align closely with the strategic priorities of both the KZN Provincial Treasury and the participating municipalities. While the effectiveness and coherence of the initiative are generally favourable, the evaluation identified variability in outcomes and some integration challenges that affect its overall efficiency and sustainability.

5.2. Recommendations

Based on the findings of this evaluation, the following recommendations are offered to enhance the effectiveness and sustainability of the AFS Review Support Initiative:

1. Based on the findings of this evaluation, the following recommendations are offered to enhance the effectiveness and sustainability of the AFS Support Initiative:
2. Improve coordination between different financial management support initiatives to prevent overlaps and ensure that municipalities receive coherent and consistent support. Regular coordination meetings and shared platforms for exchange of best practices could be beneficial.
3. While ongoing support from KZN Provincial Treasury is essential, it is the responsibility of municipalities to implement financial management practices in line with the MFMA. They must also make use of support that is provided through CFO forums, which offer training on updates to financial practices.
4. Enhancing communication and coordination among all stakeholders involved in the AFS process, including external consultants and internal audit teams, will be crucial. This will ensure that all parties are aligned and can contribute effectively to the AFS preparation and review process.
5. Regularly review and update the Theory of Change based on ongoing feedback and the changing needs of the municipalities. This will help maintain the initiative's relevance and effectiveness over time.
6. Monitor the implementation of KZN PT recommendations to promote sustainability.

7. Municipalities should procure their own financial systems and collaborate with system vendors to address the technical challenges associated with integration. This includes receiving technical IT support from vendors to ensure system compatibility and the production of high-quality financial reports.

6. Reference List

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7. Report Endorsement

Report prepared by:

Dr Nedson Pophiwa

Umthente Research and Consulting Services



Signature

Report approved by:

Ishreen Ismail

Umthente Research and Consulting Services



Signature

Report endorsed by:

KZN Provincial Treasury



Signature

22/01/25

Date