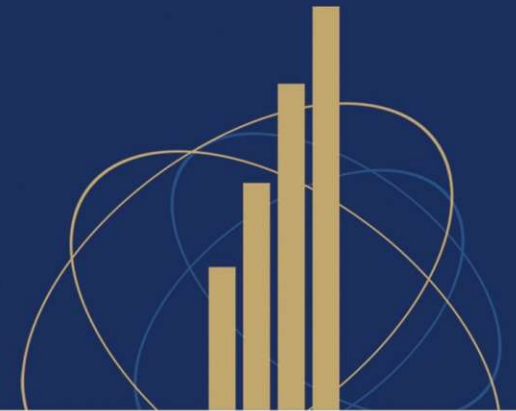




# Topic: Closing the Loop - From Budget Approval to Clean Audit



**Presentation By:** Siyakudumisa Nokwe - Professional Accountant (SA)

**Institution:** Greater Tzaneen Municipality

**Position:** Senior Accountant – Bank Reconciliation, Budget and Financial Reporting



# Presentation Objectives

## Introduction:

### What You Will Learn Today:

- **Understand the full cycle: Budget → Implementation → AFS → Audit**

Importance of each cycle and how it aligns to each other

- **Identify where interns contribute to good governance**

Daily tasks (capturing, filing, reconciling) directly support audit evidence and compliance.

- **Apply key MFMA requirements in daily work**

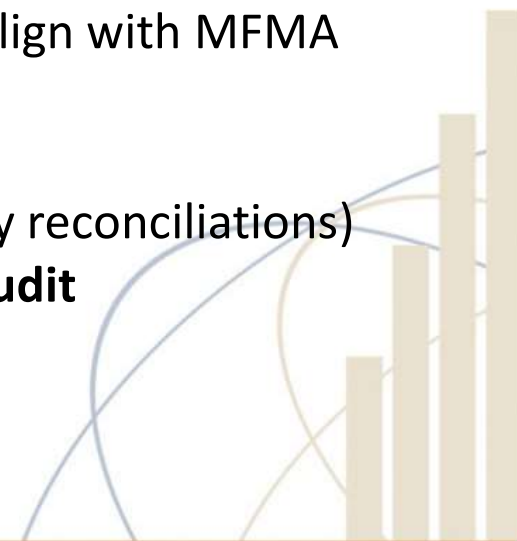
Translate legislation into practice—what you do each day must align with MFMA controls and responsibilities.

- **Recognise risks that lead to audit findings**

Common issues (Poor SCM Planning, unfunded budgets, monthly reconciliations)

- **Learn practical controls to move from unqualified to clean audit**

Monthly discipline, SOPs, internal controls, and accountability.



## THE JOURNEY FROM BUDGET TO AFS



# Legislative Framework



## **Guiding Legislation**

- Municipal Finance Management Act (MFMA)
- Municipal Systems Act
- GRAP Standards
- Treasury Regulations, Circulars and Gazettes

## **MFMA – BUDGET PROCESS:**

### **Key MFMA Sections**

#### **MFMA Chapter 4**

Section 16: Approval of Budget

Section 17: Contents of Budget

Section 18: Funding of Budget

Section 19: Capital Projects

## **MFMA – IMPLEMENTATION & CONTROL**

### **Financial Management During the Year**

#### **MFMA Chapter 8 - 11**

Section 65: Responsibilities of Accounting Officer

Section 71: Monthly Reporting

Section 72: Mid-Year Review

# Legislative Framework (*continued*)

## **MFMA – AFS & AUDIT**

### **Year-End Requirements**

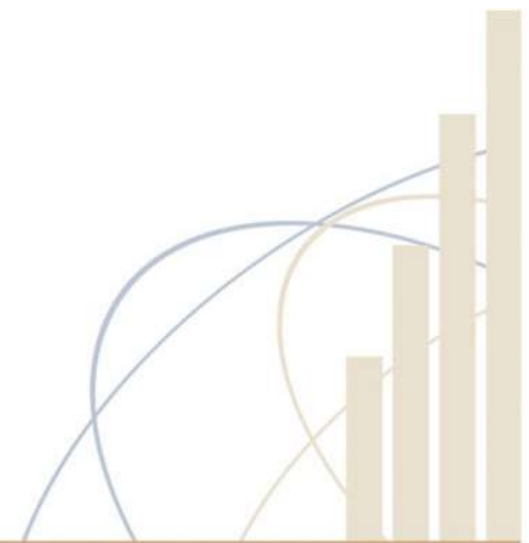
#### **Chapter 12: Financial Reporting and Auditing**

Section 122: Preparation of AFS

Section 126: Submission for Audit

Section 121: Annual Report

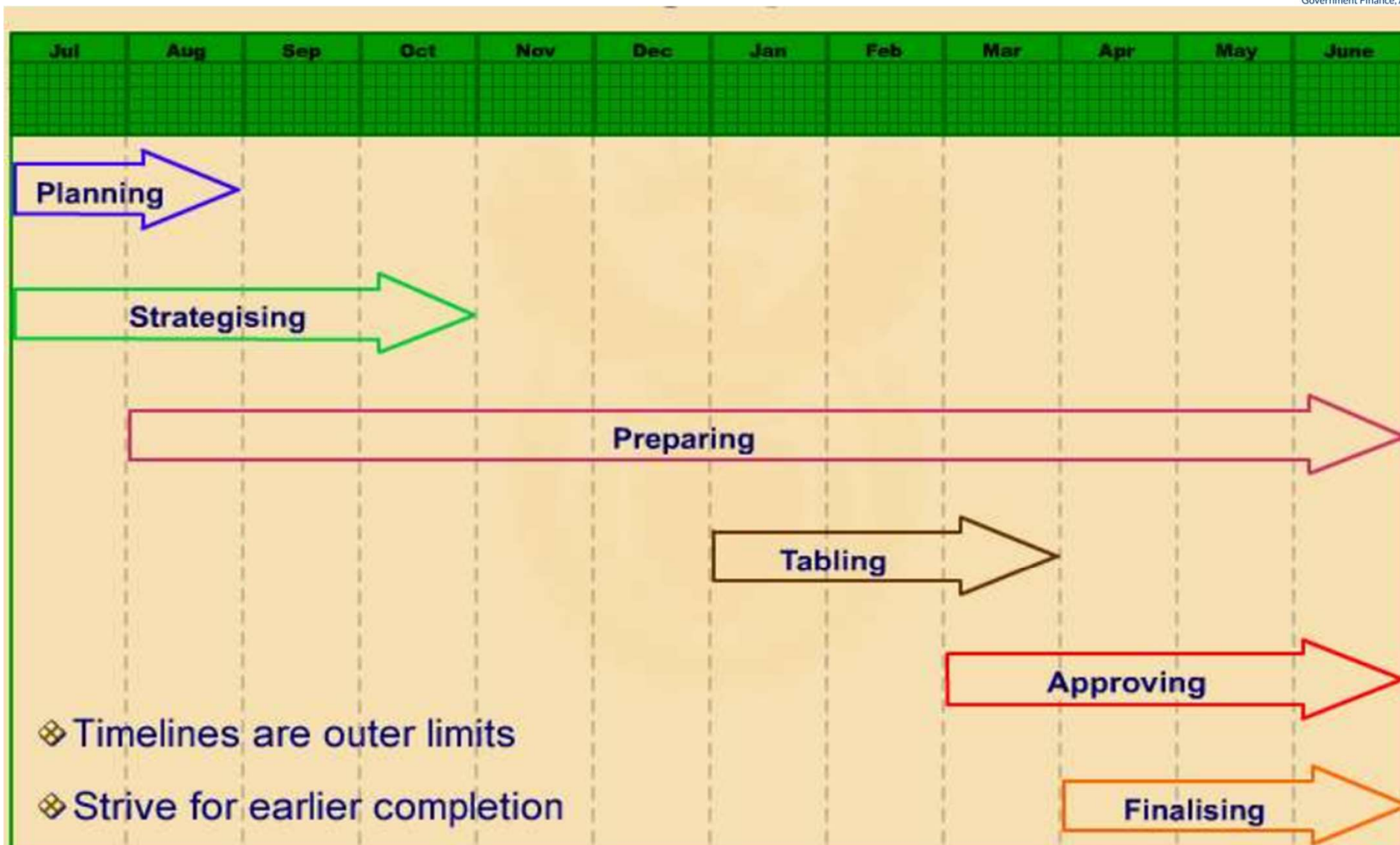
*Not limited to the above*



# Schedule of Key Dates in the municipal FY

<b>Budget Process</b> (incl. planning, preparation, consultation and adoption of annual budget)		
<i>Activity</i>	<i>Deadline</i>	<i>Reference*</i>
Table Budget Process timetable in Council	<b>31 August</b> (10 months prior to start of fin.yr)	S 21(b)
Table draft budget in Council	<b>31 March</b> (90 days prior to start of fin. yr)	S 16(2), 17 & 87 (3)
Council to consider annual budget for approval	<b>31 May</b> (30 days prior to start of fin.yr)	S 24(1)
Approve annual budget by Council resolution	<b>30 June</b>	16(1), 24(2), & 53 (1)
<b>In-year Monitoring and Reporting Processes</b>		
Submit monthly S71 report to Mayor, PT and NT	Within 10 working days of the start of the month	S71 (1), (2), (3), (4)
Mayor to table Quarterly S71 report in Council	Quarterly	
NT to publish S71 information on a quarterly basis	Quarterly (within 45 days of end of quarter)	
Mid-year Budget and Performance Assessment	25 January	S72 (1)
Table Adjustments Budget in Council	28 February	S72(3)

# Schedule of Key Dates in the municipal FY

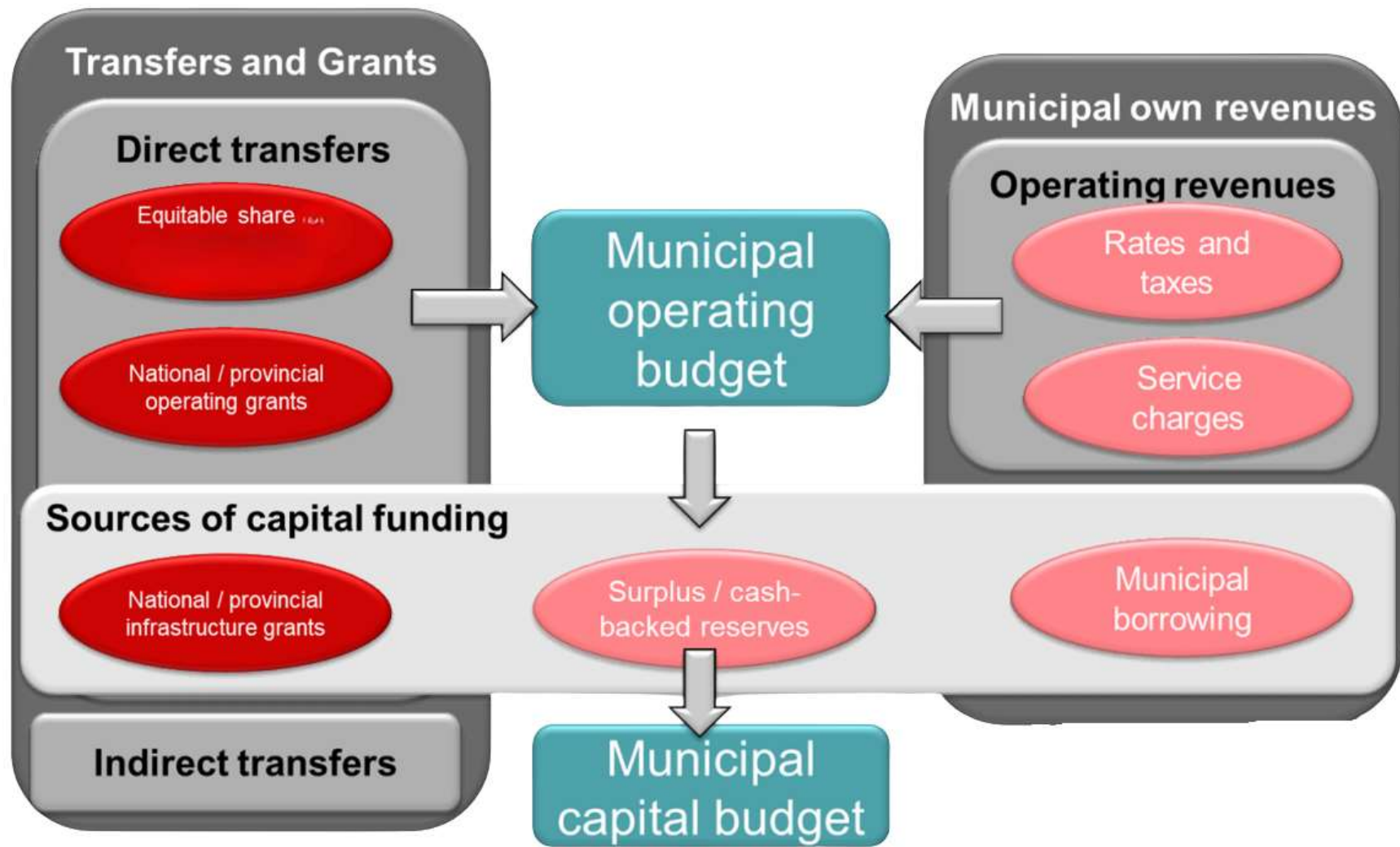


# Schedule of Key Dates in the municipal FY

## Annual Financial Statements and Annual Reports

<i>Activity</i>	<i>Deadline</i>	<i>Reference*</i>
Submit AFS and Annual PR to Auditor General (no entities)	31 August	S126 (1) (a)
Submit consolidated AFS to AG (entities)	30 September	S126 (1) (b)
Audited Financial Statements received from AG	30 November	S126 (3)
Table Annual Report in Council	31 January	S127 (2)

# Understanding Municipal Budget Funding:



# Municipal Revenue Sources:



# The Funding Test:

## 2026 2027 - Draft Budget Funding Test

Row Labels	Current Year Budget - 2025	2027 Draft Budget	Sum of 2027 2028	Sum of 2028 2029	Collecti on Rate
Expenditure/Bulk purchases - electricity	763 382 880	842 890 312	870 705 692	898 568 274	
Expenditure/Contracted services	117 973 376	140 610 476	145 250 621	149 898 641	
Expenditure/Debt impairment	95 277 001	95 277 001	98 421 142	101 570 619	
Expenditure/Depreciation and amortisation	125 251 665	125 251 665	129 384 970	133 525 289	
Expenditure/Employee related costs	493 531 498	550 136 178	568 290 672	586 475 973	
Expenditure/Interest	12 355 019	8 834 348	9 125 881	9 417 909	
Expenditure/Inventory consumed	107 010 352	134 279 985	138 711 225	143 149 984	
Expenditure/Operational costs	206 059 721	226 077 222	233 537 770	241 010 979	
Expenditure/Remuneration of councillors	31 414 296	33 613 297	34 722 536	35 833 657	
Expenditure/Transfers and subsidies	39 274 048	44 337 000	24 785 205	25 603 908	
Revenue/Exchange Revenue/Agency services -	16 664 291	16 664 291	17 214 213	17 765 067	
Revenue/Exchange Revenue/Interest earned fro	31 906 502	37 006 502	38 227 717	39 451 003	
Revenue/Exchange Revenue/Interest earned fro	57 113 637	67 113 637	69 328 387	71 546 895	
Revenue/Exchange Revenue/Licence and perm -	505 845	600 845	620 673	640 534	
Revenue/Exchange Revenue/Operational Rever	21 533 254	41 523 254	42 893 521	44 266 114	
Revenue/Exchange Revenue/Rental from Fixed -	1 859 000	2 267 100	2 341 914	2 416 856	
Revenue/Exchange Revenue/Sale of Goods anc -	1 314 231	1 314 231	1 357 601	1 401 044	
Revenue/Exchange Revenue/Service charges - -	1 080 673 716	1 307 615 196	1 386 072 108	1 413 793 550	90%
Revenue/Exchange Revenue/Service charges - -	46 980 000	48 980 000	50 596 340	52 215 423	
Revenue/Non-Exchange Revenue/Fines, penalti	1 490 000	1 490 000	1 539 170	1 588 423	
Revenue/Non-Exchange Revenue/Interest	35 890 000	41 890 000	43 272 370	44 657 086	
Revenue/Non-Exchange Revenue/Property rates -	202 824 080	223 106 488	230 469 002	237 844 010	
Revenue/Non-Exchange Revenue/Transfer and	579 413 400	591 654 850	572 692 700	607 993 692	
Revenue/Non-Exchange Revenue/Transfers anc -	116 192 600	112 876 150	125 684 050	129 753 850	
<b>Grand Total</b>	<b>- 202 830 700</b>	<b>- 292 795 061</b>	<b>- 329 374 051</b>	<b>- 340 278 316</b>	
<b>Total Expenditure</b>		2 201 307 483	2 252 935 714	2 325 055 233	
<b>Total Revenue</b>		- 2 494 102 544	- 2 582 309 765	- 2 665 333 548	
					<b>% of Total Revenue</b>
<b>Surplus before Capex and Repayments of Borrowings</b>		- 292 795 061	- 329 374 051	- 340 278 316	<b>Total Operational Revenue(Excluding Grants)</b> - 1 789 571 544 72%
MIG Capital Expenditure		112 876 150	125 684 050	129 753 850	<b>Grants and Subsidies</b> - 704 531 000 28%
Capital Repayment of Loans		8 834 348	7 784 574	6 589 874	<b>Total Revenue</b> - 2 494 102 544
CAPEX Own Funding Requests		146 620 000	170 000 000	180 000 000	
INEP - Capital		-	-	-	
MDRG - Capital		-	-	-	
<b>Budgeted Surplus</b>		<b>- 24 464 563</b>	<b>- 25 905 427</b>	<b>- 23 934 592</b>	
Cash Backed Reserves/Cash at Bank		271 692 976	280 387 151	289 639 927	

# IMPACT OF UNFUNDED BUDGET

- An unfunded budget means planned expenditure exceeds realistically collectible revenue.
- This creates structural deficits that carry into implementation.
- Leads to overspending, which is classified as unauthorised expenditure in terms of legislation.
- Weak cash backing results in late payments, interest penalties, and strained supplier relationships.
- Poor financial credibility impacts stakeholder confidence, including National Treasury and Auditor-General.
- If the budget is not credible, Council may refuse to approve it before the start of the financial year.
- Failure to approve a budget triggers serious governance implications, including intervention in terms of Section 139 of the Constitution.

# BUDGET APPROVAL PROCESS

## 1. Budget Preparation Phase

- Mid-year (Section 72): CFO extracts 6 months actual revenue & expenditure
- Circular issued to Directorates for budget inputs
- Directorates submit inputs within prescribed timelines
- Budget & Reporting unit consolidates and prepares draft budget
- Draft submitted to CFO for review and refinement

## 2. Internal Governance Process (Tabling)

- Draft Budget serves at Municipal Management Meeting (MMT)
- Submission to Budget Steering Committee for technical review
- Presentation to Executive Committee (EXCO)
- Tabling to Council (by 31 March)
- Submission to Provincial Treasury and National Treasury

## 3. Public Participation & Finalisation

- Public consultation and stakeholder engagement
- Consideration of community and stakeholder inputs
- Budget revisions and alignment

## 4. Final Approval Phase

- Final approval by Council (by 31 May)
- Submission of approved budget to Provincial Treasury and National Treasury



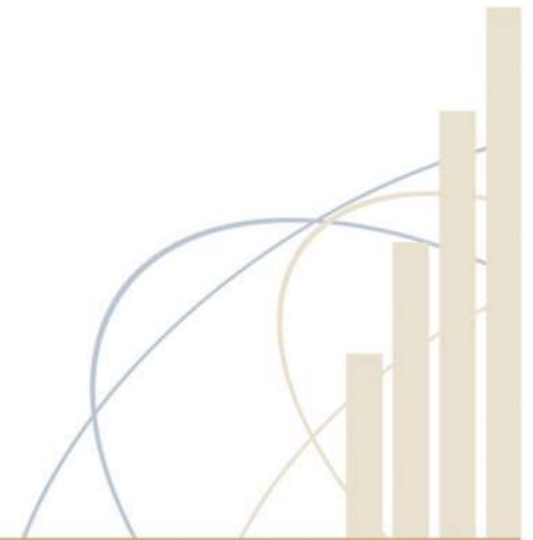
# BUDGET APPROVAL PROCESS (continued)

## Key Controls & Good Practices

- Use of credible and verified actual data (6-month performance)
- Timely submission of inputs by departments
- Ensure budget is funded and cash-backed before tabling
- Alignment between IDP, SDBIP, and Budget
- Clear documentation and working papers supporting assumptions
- Transparent consultation process (community + stakeholders)
- Avoid last-minute changes without proper assessment

## Risks to Avoid

- Political interference impacting credibility of the budget
- Overstated revenue projections
- Inadequate internal review before tabling
- Incomplete or unsupported assumptions
- Failure to approve budget within legislative timelines



# PROCESSING TRANSACTIONS & MONTHLY RECONCILIATIONS



## Daily Discipline and Monthly Control Environment

- Accurate transaction processing within approved budgets
- Correct mSCOA classification (function, item, funding, region)
- Real-time capturing to avoid backlogs
- Monthly bank reconciliations (primary control)
- Debtors and creditors reconciliations
- Suspense and clearing account reconciliations
- Grant and conditional funding reconciliations
- Payroll reconciliations (including statutory deductions)
- Asset register to GL reconciliations
- Inventory and stores reconciliations

## Other Important Aspects:

- Segregation of Duties (capturer, reviewer & approver)
- Verification before approval (completeness, VAT treatment, budget utilization, SCM Compliance and Internal Policies)
- Introduction of Standard Operating Procedures (SOPs)

# Understanding the Audit Process

## WHAT IS A CLEAN AUDIT?

A clean audit relates to three aspects:

- The financial statements are free from material misstatements
- There are no material findings on the annual performance report
- There are no material findings on non-compliance with key legislation

### **CLEAN AUDIT OUTCOME:**

The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.

### **UNQUALIFIED AUDIT OPINION:**

The financial statements contain no material misstatements but findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.

### **QUALIFIED AUDIT OPINION:**

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

### **ADVERSE AUDIT OPINION:**

The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

### **DISCLAIMER OF AUDIT OPINION:**

The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion.

# GTM AUDIT OPINIONS:



2024/2025	2023/2024	2022/2023	2021/2022	2020/2021
Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

# SCM COMMON FINDINGS

## **The following are common findings in SCM affecting Audit Opinion:**

- Irregular expenditure due to non-compliance with SCM processes
- Procurement without following competitive bidding processes
- Incorrect or manipulated advertisement periods
- Missing or incomplete bid documentation
- Improperly constituted bid committees
- Awards made to suppliers without proper evaluation
- Failure to declare conflicts of interest
- Awards to employees, councillors, or related parties

# SCM CONTROLS

## **Core Compliance Controls**

- All procurement aligned to approved SCM Policy and MFMA
- Regular review and update of SCM Policy to align with latest regulations
- Ensure transactions are processed strictly in line with policy provisions
- Proper demand management and procurement planning
- Accurate and compliant bid specifications

## **Bid Process Controls**

- Correct advertisement periods and platforms
- Clear evaluation criteria aligned to specifications
- Proper constitution of Bid Committees (BSC, BEC, BAC)
- Documented evaluation and adjudication processes
- Complete and auditable documentation for every bid

## **Use of Technology & CAATs**

- Implementation of Computer Assisted Audit Techniques (CAATs)
- Vetting of suppliers against databases (CIPC, SARS, employee records)
- Identification of conflicts of interest and related parties

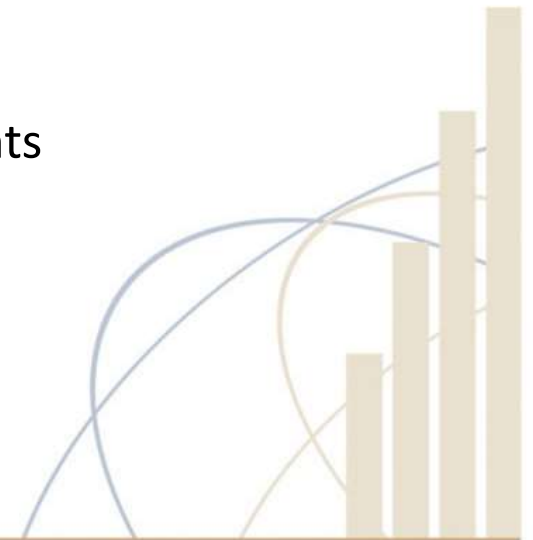
# ASSET MANAGEMENT COMMON FINDINGS:

## Common Findings:

- Capitalisation of projects without completion certificates
- Incorrect classification of assets (e.g., infrastructure vs PPE)
- Assets recorded at incorrect values or incomplete costs
- Failure to update asset register for additions and disposals
- Write-offs processed without Council approval
- Transfer of land or assets without Council resolution
- Incomplete or missing supporting documentation
- Lack of regular asset verification

## Root Causes

- Poor coordination between Technical and Finance departments
- Delays in submission of completion certificates
- Weak review processes before capitalisation
- Inadequate understanding of GRAP requirements
- Lack of governance oversight on disposals and transfers



# ASSET MANAGEMENT CONTROLS

## **Lifecycle Approach to Asset Management**

- Planning and budgeting for assets (aligned to IDP and capital budget)
- Procurement and project implementation (linked to SCM processes)
- Work-in-Progress (WIP) monitoring for capital projects
- Capitalisation only when asset is complete and ready for use
- Ongoing maintenance, verification, and safeguarding
- Disposal and write-offs in line with legislation and Council approval

## **Key Controls and Good Practices**

- Maintain a complete, accurate and GRAP-compliant asset register
- Monthly reconciliation between Asset Register and General Ledger
- Proper classification of assets (Infrastructure, PPE, Intangible Assets, etc.)
- Timely receipt and verification of completion certificates
- Clear distinction between WIP and completed assets

## **Coordination Between Departments**

- Finance and Technical Departments must work closely
- Timely submission of project completion documents
- Clear communication on project status (WIP vs completed)

## REVENUE MANAGEMENT COMMON FINDINGS

- Underbilling or non-billing of properties
- Incorrect tariff application
- Revenue recorded in incorrect financial periods (cut-off errors)
- Incomplete or inaccurate consumer data
- Weak or inconsistent impairment calculations
- Lack of a formal impairment methodology
- Write-offs processed without proper approval or support
- Failure to reconcile billing system to General Ledger
- **Impairment of Debtors (Critical Area)**
  - Incorrect or inconsistent impairment calculations
  - Failure to apply approved impairment methodology
  - Lack of segmentation (e.g., age analysis, customer categories)
  - Overstatement or understatement of receivables

# REVENUE MANAGEMENT CONTROLS

## Best Practice for Impairment

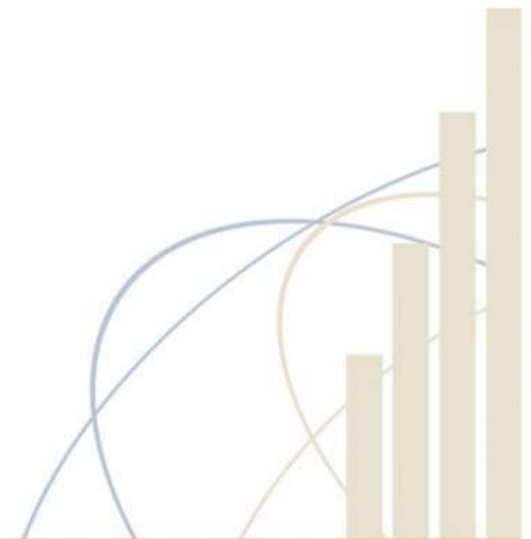
- Develop and approve a formal impairment policy and methodology
- Use ageing analysis and historical collection trends
- Segment debtors (indigents, government, businesses, households)
- Perform impairment calculations regularly (monthly/quarterly)
- Document assumptions and calculations for audit purposes
- Impairment Testing done for all receivables

## Write-Offs (Governance Requirement)

- Must be supported by detailed analysis
- Require Council approval before processing
- Must align with approved write-off policy

## General Controls:

- Complete and accurate billing of all properties
- Regular data cleansing and validation of billing database
- Monthly reconciliation of billing system to General Ledger
- Proper classification of revenue in correct accounting periods



## EXPENDITURE MANAGEMENT COMMON FINDINGS

- Misclassification of expenditure (incorrect mSCOA segments)
- Incorrect VAT calculations and postings
- Payroll costs recorded in incorrect financial periods (cut-off errors)
- Failure to process accruals for goods/services received but not invoiced
- Incomplete or inaccurate provisions (e.g., leave, bonuses)
- Creditors not properly reconciled to the General Ledger
- Long outstanding reconciling items on creditors accounts
- Late payment of suppliers leading to interest and penalties (fruitless expenditure)
- Payments made without adequate verification of goods/services received

# EXPENDITURE MANAGEMENT CONTROLS

## **Creditors & Provisions (Critical Area)**

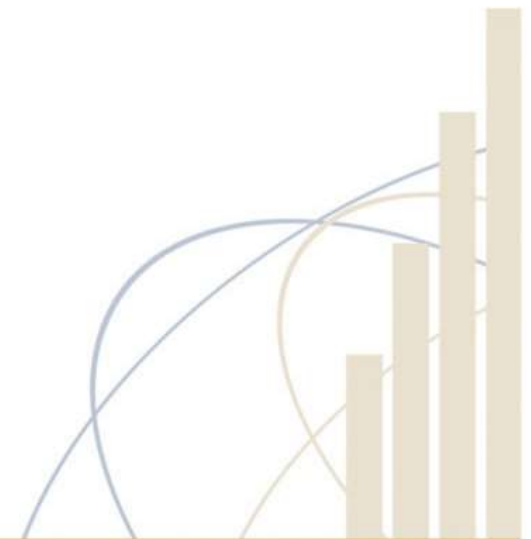
- Monthly reconciliation between sub-ledger and General Ledger
- Investigation and clearance of reconciling items
- Accurate accruals at month-end and year-end
- Review of provisions for completeness and accuracy

## **Payroll Controls**

- Payroll reconciled monthly to General Ledger
- Verification of employee master data (ghost employees risk)
- Proper cut-off to ensure payroll aligns to correct financial period
- Statutory deductions (PAYE, UIF, pension) accurately calculated and paid

## **VAT Compliance**

- Correct input/output VAT treatment
- Reconciliation of VAT control accounts
- Timely submission of VAT returns



# CLEAN AUDIT ACTION PLAN

Item No.	Component	Activities	Timelines
1.	Audit Action Plan Management	<ul style="list-style-type: none"> <li>a) Develop a detailed audit action plan / findings register for presentation to the Audit Committee for its review and oversight.</li> <li>b) Assign responsible officials per finding with set target dates for remediation</li> <li>c) Monthly progress reporting to Audit Steering Committee</li> </ul>	<p>Quarterly</p> <p>28 February 2026</p> <p>Monthly</p>
2.	Financial Reporting	<ul style="list-style-type: none"> <li>a) Develop detailed AFS preparation plan with deadlines.</li> <li>b) Compile interim financial statements.</li> <li>c) Conduct Technical GRAP training for key finance officials.</li> <li>d) Conduct CaseWare Training for key finance officials.</li> </ul>	<p>30 June 2026</p> <p>31 March 2026</p> <p>30 June 2026</p> <p>30 June 2026</p>
3.	Supply Chain Management (SCM)	<ul style="list-style-type: none"> <li>a) Review SCM policies for compliance</li> <li>b) Sign pre-bids award compliance checklist</li> <li>c) Review of monthly irregular expenditure report</li> <li>d) Review of monthly deviation report</li> </ul>	<p>Annually</p> <p>Monthly</p> <p>Monthly</p> <p>Monthly</p>
4.	Asset Management	<ul style="list-style-type: none"> <li>a) Perform asset verification and reconciliation</li> <li>b) Update asset registers to ensure GRAP compliance</li> <li>c) Reconciliation between ledger and asset register</li> <li>d) Strengthen Internal controls over additions and disposals of assets</li> </ul>	<p>Quarterly</p> <p>Monthly</p> <p>Monthly</p> <p>Monthly</p>

# CLEAN AUDIT ACTION PLAN

5.	Performance Management & Reporting	<ul style="list-style-type: none"> <li>a) Align IDP, SDBIP and APP indicators</li> <li>b) Implement quarterly performance evidence file reviews</li> <li>c) Internal audit verification before submission to AGSA</li> </ul>	<p>30 March 2026</p> <p>Quarterly</p> <p>Quarterly</p>
6.	Internal Controls	<ul style="list-style-type: none"> <li>a) Strengthen review and approval controls</li> <li>b) Implement internal control checklist</li> <li>c) Internal audit follow-up audits</li> </ul>	<p>Annually</p> <p>Quarterly</p> <p>Quarterly</p>
7.	Information Technology Controls	<ul style="list-style-type: none"> <li>a) Review user access controls</li> <li>b) Conduct IT general controls assessment</li> </ul>	<p>Quarterly</p> <p>Quarterly</p>
8.	Consequence Management	<ul style="list-style-type: none"> <li>a) Investigate irregular, fruitless and wasteful expenditure</li> <li>b) Implement disciplinary processes where required</li> <li>c) Report progress to AC and Council</li> </ul>	<p>Quarterly</p> <p>Quarterly</p> <p>Quarterly</p>
9.	Capacity and Skills Development	<ul style="list-style-type: none"> <li>a) Skills assessment of key finance and SCM units</li> <li>b) Develop Performance agreements linked to audit outcomes</li> </ul>	<p>Annually</p> <p>Annually</p>
10.	Steering Committee Oversight	<ul style="list-style-type: none"> <li>a) Strengthen combined Audit &amp; mSCOA Steering Committee monitoring</li> <li>b) Monthly dashboard reporting</li> </ul>	<p>Monthly</p> <p>Monthly</p>
11.	Material Irregularities	<ul style="list-style-type: none"> <li>a) Develop and maintain an updated Material Irregularities (MI) Register that captures the type of irregularity, financial impact, responsible official, corrective measures, recovery actions where relevant, target dates, and ongoing progress status.</li> </ul>	<p>Quarterly</p>

# ONE HEART, ONE WAY!

## Revenue Management

- I have verified my Valuation Roll with my Financial System.
- I have reconciled my Billing to GL
- I have billed all Municipal Accounts

01

## Supply Chain Management

- I have appointed my suppliers within the prescribed period
- I have not split invoices to avoid lengthy procurement processes

05

## Asset Management

- I have performed my asset verifications
- I have calculated my impairment and depreciations accurately
- I have written off assets with council resolutions

02

**Alignment  
in mindset  
and  
execution**

## Internal Audit

- I have audited the internal controls/financial data and provided feedback and recommendations to end user departments
- I have performed an independent review on the financial statements.

06

## Expenditure Management

- I have paid all my suppliers within 30 days
- I have reconciled my creditors to the GL
- I have reconciled my VAT and Grants

03

## Financial Reporting

- I have verified all working papers and reconciliations balance to GL and AFS
- I have taken into account Internal Audit Findings
- I have compiled the AFS within prescribed timelines.

07

## Stores and Inventory

- I have performed my annual stock take and recorded damages/missing items
- I have performed my Inventory Reconciliations

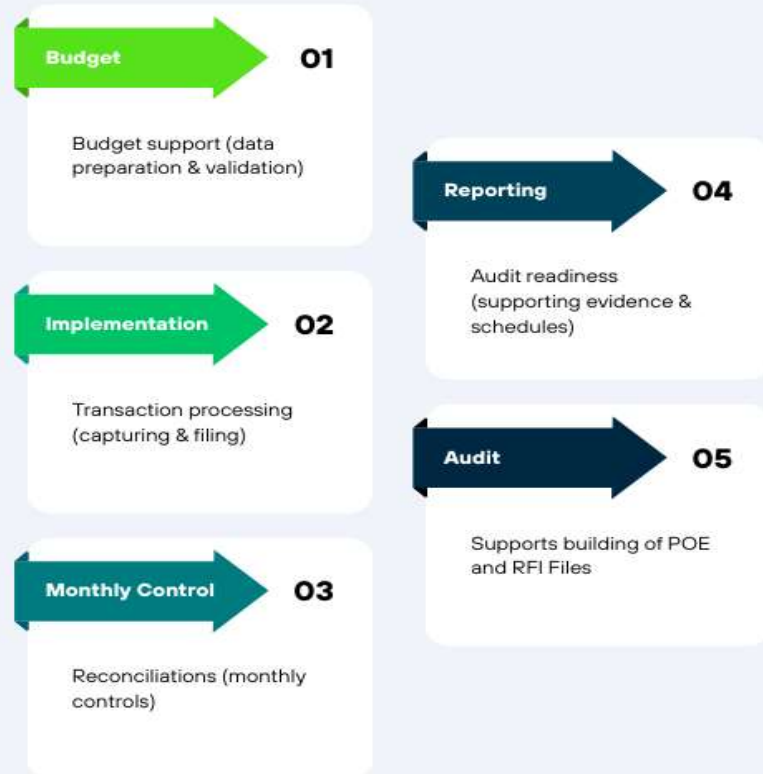
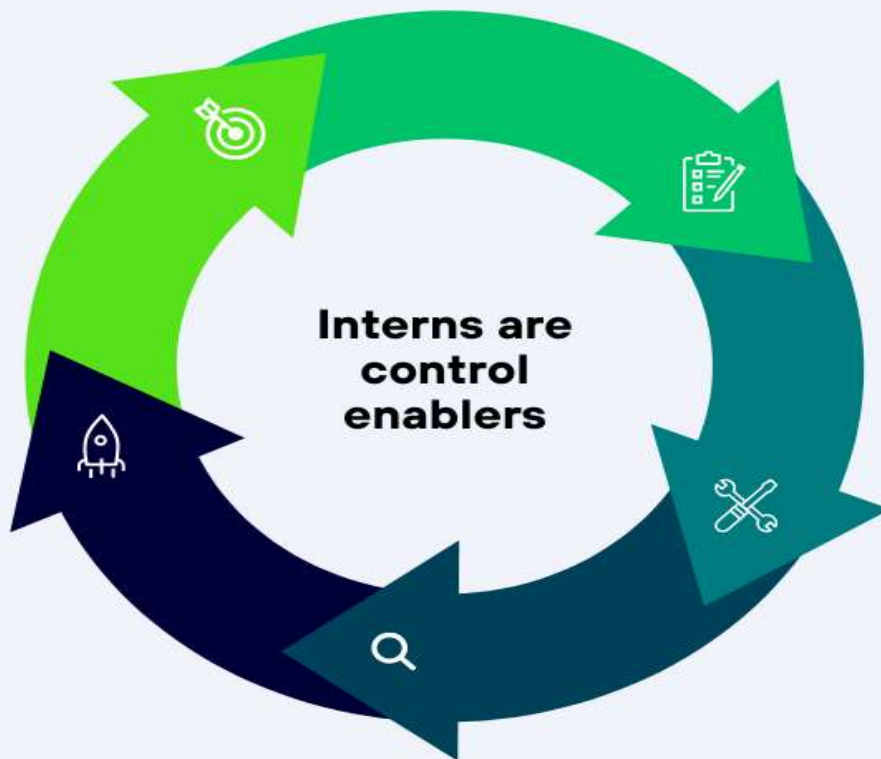
04

## CFO/Accounting Officer

- I have verified/reviewed the accuracy of all data presented, financial and non financial.
- I have performed an intensive review of the AFS and related audit file.

08

# ONE HEART, ONE WAY!



A clean audit is not achieved at year-end; it is built through disciplined daily actions across the entire financial cycle.

## Closing remarks

- **You are part of the control environment today**

The work you do now capturing, reconciling, filing is already shaping audit outcomes.

- **You are future leaders of municipal finance**

The standards you build today will define the governance culture you lead tomorrow.

- **Every role matters, no matter how small**

Clean audits are not achieved by one person they are the result of many small, correct actions done consistently.

- **Attitude drives outcomes**

Skills can be taught, but discipline, accountability, and ownership determine success.

- **One Heart, One Way**

When everyone is aligned in purpose, standards, and execution, excellence becomes the norm not the exception.

- **“If we work with one heart and move in one way, a clean audit is not a goal—it is a guarantee.”**



# Thank You!



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