

A CRITICAL ANALYSIS OF THE ROLE OF THE CHIEF FINANCIAL OFFICER WITHIN LOCAL MUNICIPAL COUNCIL

by

Jevio Mculu

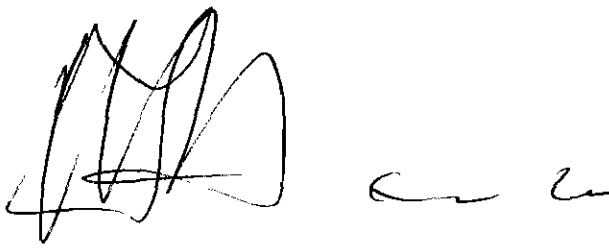
**Mini-dissertation submitted in partial fulfillment of the requirements for the
degree Masters of Business Administration at the Potchefstroom campus of the
North-West University**

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November 2008

STATEMENT

I certify that the mini-dissertation submitted by me for the degree of MASTERS of BUSINESS ADMINISTRATION (Municipal Finance) at the Potchefstroom Business School is my own independent work and has not been submitted by me for a degree at another University.

A handwritten signature in black ink, consisting of several loops and a horizontal line at the bottom, positioned above a solid horizontal line.

Jevio Mculu

November 2008

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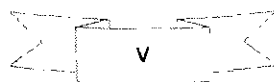
ABSTRACT

The Municipal Manager is responsible for the overall financial management of the municipality as requirement of MFMA. However, section 79(1) of the MFMA makes a provision for the municipal manager to delegate the financial management to the senior manager. The legislative requires that all municipalities should appoint a Chief Financial Officer (CFO) who must be a member of the Senior Management of the municipality. The act, furthermore, requires the municipality to establish the budget and treasury office to be headed by the CFO. In 2007, the Minister of Finance released guidelines for the minimum competency requirement regulation of CFOs implemented on the first day of July 2007.

According to the literature review, the CFO should move away from being number crunchers to become more visible in strategic and leadership management.

Generally, according to the literature review, financial management within local municipalities in Gauteng is not properly managed. This was revealed in the general report on the audit outcomes of local government for the financial year ended 30 June 2003, 2004 and 2005. The summary of these reports shows that the Auditor-General expressed disclaimer of opinion to 50% of the financial statements and 13.1% adverse opinion of the municipalities. The reports further revealed that most of the municipalities do not have effective internal risk management or internal audit departments, late submission of financial statements is rife, and failure to implement newly enacted legislation prevails. Therefore, the municipalities' overall financial management is not well managed.

The data gathered from the municipalities by administering questionnaires show that the local municipalities' finances are properly managed and they have effective systems of internal control. The municipalities have internal audit or risk



management departments, they have functional audit committees and lastly, they implement recommendations from the Auditor-General's office and internal audit diligently. Information from the Auditor-General's office contradicts the information received from municipalities. The researcher is biased towards accepting the Auditor-General's point of view since the Auditor-General has no reason to paint a good or bad picture about the municipalities. The problem presented is that the municipalities do not have well-established governance structures in place, in the first place; secondly, the contradiction highlights the perceptions of the people involved with the day-to-day financial management about its effectiveness and the Auditor-General's opinion of it.

To overcome the problems, municipalities are advised to include competency assessment in their job selection processes, develop their staff members, establish and implement succession planning, and adhere to the legislation and submission timeframes. It is further recommended that the municipalities should adhere to the policy framework and develop strategies that support enhanced service delivery, as well as to instill energy and thought to overcome loss of skill and expertise due to high staff turnover.

List of key terms: Chief Financial Officer (CFO); Code of Conduct; Risk Management, Internal Audit, Leadership.

OPSOMMING

Die Munispale Bestuurder neem verantwoordelikheid vir die totale finansiële bestuur van die munisipaliteit as 'n vereiste van die Munispale Finansiële Bestuurswet (MFBW). Afdeling 79(1) van die MFBW maak voorsien daarvoor dat die Munispale Bestuurder die finansiële bestuur van die munisipaliteit mag delegeer na die senior bestuurder. Wetgewing vereis dat alle munisipaliteite 'n Hoof Finansiële Beambte (HFB) moet aanstel wat ook 'n lid van die Senior Bestuur van die munisipaliteit moet wees. Die wet vereis voorts dat die munisipaliteit 'n begrotings- en tesouriekantoor moet vestig onder leiding van die HFB. Gedurende 2007 het die Minister van Finansies riglyne daargestel vir die minimum bevoegdheidsvereiste regulasies van HFB's wat op 1 Julie 2007 in werking getree het.

Volgens die literatuuroorsig is dit wenslik vir 'n HFB om minder syfervreter te doen, en eerder 'n meer sigbare rol moet vervul as deel van die strategiese- en leierskapsbestuursplan van die munisipaliteit.

Oor die algemeen, volgens die literatuuroorsig, word finansiële bestuur in plaaslike munisipaliteite nie behoorlik hanteer nie. Dit was die bevinding in die algemene verslag oor die oudituitkomst van die plaaslike regering vir die finansiële jaareindes 30 Junie 2003, 2004 and 2005. Die opsomming van hierdie verslae dui daarop dat die Ouditeur-Generaal oor 50% van die finansiële state en 13,1% van die munisipaliteite vraagtekens het. Die verslae het verder bevind dat die meeste munisipaliteite nie oor effektiewe risikobestuur- of interne ouditafdelings beskik nie. Laat indiening van finansiële state gebeur dikwels, en nuwe wetgewing word nie geïmplementeer nie. In die lig hiervan word die afleiding gemaak dat die oorhoofse finansiële bestuur van die munisipaliteite nie goed uitgevoer word nie.

Die data wat ingesamel is van die munisipaliteite deur middel van vraelyste wys dat die plaaslike munisipaliteite se finansies wel behoorlik bestuur word en dat daar inderdaad effektiewe kontrolestelsels bestaan. Die munisipaliteite beskik oor interne audit- of risikodepartemente en daar is ook funksionele auditkomitees. Laastens implementeer munisipaliteite die aanbevelings wat van die Ouditeur-Generaal se kantoor afkomstig is, getrou. Inligting vanaf die Ouditeur-Generaal se kantoor weerspreek die inligting wat van munisipaliteite afkomstig is. Die navorser is bevooroordeeld teenoor die lukrake aanvaarding van die Ouditeur-Generaal se siening teenoor die siening van die munisipale werknemers, aangesien eersgenoemde geen rede het om 'n goeie of 'n slegte prentjie van die munisipaliteite te skets nie. Die eerste probleem wat gestel word, is dat munisipaliteite nie goedgevestigde bestuurstrukture het nie. Tweedens is die persepsies van die mense wat betrokke is by die alledaagse finansiële bestuur van die munisipaliteite die teenoorgestelde van die mening van die Ouditeur-Generaal is.

Munisipaliteite word aangeraai om bevoegdheidsassesserings te implementeer in hul aanstellingsprosesse om die probleem te oorbrug. Voorts moet hul aandag gee aan personeelontwikkeling, doeltreffende opvolgbeplanning doen, en hou by die tydsraamwerk waarbinne wetgewing geïmplementeer moet word. Laastens is die aanbeveling dat munisipaliteite die beleidsraamwerk sal ondersteun en strategieë moet ontwikkel wat verhoogde dienslewering tot gevolg sal hê. Energie en denke moet ingespan word om die probleem van hoë personeelomset en die gepaardgaande verlies van vaardighede en kundigheid te oorkom.

Lys van sleutelbegrippe: Hoof Finansiële Beampte; Gedragskode; Risikobestuur; Interne Oudit; Leierskap.

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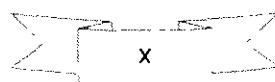
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LIST OF ACRONYMS / ABBREVIATIONS

AG - Auditor-General

AO – Accounting Officer

BP – Budget process

CA (SA) – Chartered Accountant (South Africa)

CC – Code of conduct

CFO – Chief Financial Office

DORA - Division of Revenue Act

DPLG – Department of Provincial and Local Government

DSE - Department of State Expenditure

ERP – Enterprise Resource Planning

FL – Financial legislation

FRR – Financial reporting requirement

GAAP - Generally Accepted Practice

GAMAP – Generally Accepted Municipal Accounting Practice

GRAP – Generally Recognised Accounting Practice

IC – Internal control

IMFO - Institute for Municipal Finance Officers

KPI's - key performance indicators

LR – Leadership role

MFMA – Municipal finance management Act

N – Population size

PPC - Parliamentary Portfolio Committee

RM – Risk management

SALGA - South African Local Government Authority

SCM – Supply Chain Management

SCOPA – Standing committee on public accounts

SDBIP - Service Delivery and Budget Implementation Plan

SM – Strategic management

VAT – Value Added Tax

CHAPTER 1

RESEARCH PROBLEM, OBJECTIVES AND RESEARCH METHODOLOGY

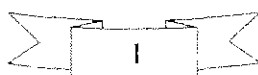
1.1. INTRODUCTION AND BACKGROUND

The first local government election was held on 05 December 2000. This succeeded the first ever democratic election on 27 April 1994. As a result, new municipal boundaries were drawn that included every part of South Africa.

In the Republic of South Africa, a three-tier system of government consisting of national, provincial and local spheres exists that are distinctive, interdependent and interrelated as stated in Article 40(1) of the Constitution (1996) (South Africa, 1996). The third sphere, which is the local government, plays a key role in the implementation of the government's economic growth and development strategies; therefore, the effective governance and efficient management of local authorities become critical in achieving the broader economic objectives of the government.

Article 152(1)(b) of the Constitution charges municipalities with the responsibility of ensuring that the provision of services to communities is conducted in a sustainable manner (South Africa, 1996). The provision of these services requires a wide spectrum of skills. Among these skills, financial management plays a leading role in enhancing service delivery to the communities and ensuring sustainability of the municipality. The overall financial management of the council is delegated to the Chief Financial Officer (CFO) as a requirement of the Municipal Finance Management Act (MFMA No. 56 of 2003) (South Africa, 2003e).

The objective evaluation of the role of the CFO in relation to the financial performance is a relatively new concept in South African Municipalities. It is, therefore, imperative to critically analyse the strengths and weaknesses of the office of the CFO in order to develop feasible, sustainable and implementable



recommendations that will improve financial management in order to enhance service delivery.

Currently, there are 284 municipalities in South Africa. In Gauteng, there are three metropolitan municipalities, four district municipalities and eight local municipalities. Municipalities are categorised according to size and services it renders, with the local municipalities being the smallest and rendering the least number of services, which affects their ability to generate income. The researcher will focus on the functioning of the offices of the CFOs' of the eight local municipalities as it is perceived that they cannot afford to pay for high-level financial personnel due to their limited financial resources; furthermore, during the financial year 2005/06 the Auditor-General expressed only three unqualified audit opinions out of the eight local municipalities in Gauteng. The latter fact made it the perfect group of local municipalities to investigate in order to obtain information from those who seem to do things right and why, as well as to get information from those for whom there are *problems and why*.

1.2. RESEARCH PROBLEM

The new municipal system introduced a practical and developmental third sphere of government by amalgamating and capacitating previously segregated communities and municipalities. Before 2000, there were 843 local municipal authorities. After the 2000 municipal elections, they were rationalised into 284 municipalities. In 2000, government adopted a particular approach to managing and supporting the local government transformation process, namely through a phased approach that focused on establishment, consolidation and sustainability.

One of the core responsibilities of a local government system ever since its inception in 2000 is to meet basic needs to communities' critical deliverables.

During the 1990s the roles of the finance function were considered as scorekeeper and commentator, with the finance function (or treasury as it was commonly known in local government) playing a subordinator role in much of the activity that took place. However, the Municipal Finance Management Act (MFMA No. 56 of 2003)

(South Africa, 2003e) (hereafter MFMA), has created the need for the finance function or the office of the CFO to focus more of its attention on the wider issues relating to strategic management and to a shift in focus of diligent caretaker and trusted adviser (MFMA No. 56 of 2003, section 81).

Presently in South Africa, there are 284 municipalities. In Gauteng, there are fifteen municipalities, which consist of three metropolitan municipalities, four district municipalities and eight local municipalities.

The Department of Provincial and Local government (DPLG) has identified 136 municipalities in South Africa which have a severe services delivery backlog, as they cannot collect sufficient revenue, perform less than 30% of their assigned powers and functions, and are in financial crisis (South Africa, 2006 – 11, 2005c:3). The Minister of the DPLG on 15 March 2004 said in his press statement on the roll out of “project consolidate” that in Gauteng province, five municipalities have been identified as dysfunctional, and of the five dysfunctional municipalities, four were local municipalities. Therefore, 50% of the eight local municipalities in Gauteng province are dysfunctional (Minister of DPLG, 2007).

During the past years, the media reported several incidences regarding the poor performance of municipalities and financial maladministration. On Sunday, 16 October 2005, former President Thabo Mbeki, at the Project Consolidate Imbizo (Zulu word for gathering), which was held in Vereeniging, announced that 41 officials including the CFO from Emfuleni local municipality were suspended for corruption. The president further mentioned that this is evidence that South Africa's municipalities are serious about rooting out corruption (Mbeki, 2005).

The Minister of the DPLG's response to a parliamentary question revealed that 67% (or 93 out of the 136) of the dysfunctional municipalities awarded their top officials performance bonuses in the past financial year (2004/5). The Minister revealed that five managers from Emfuleni local municipality received 19.5% of their annual packages as a bonus despite failing to collect R1.3 billion in rates and taxes (Mufamadi, 2006a).

According to the Auditor-General, during the financial year 2003/4 one unqualified audit opinion was expressed out of eight local municipalities in Gauteng (South Africa, 2005). One unqualified audit opinion was also expressed in 2004/5 (South Africa, 2006a), and the situation improved from one to three in 2005/6 (South Africa, 2007a).

According to the general report of the Auditor-General on the audit outcomes of local government for the financial year ended 30 June 2006, the following were reported as weaknesses in the financial statements of local municipalities in Gauteng: provision for bad debts; leave provision; VAT administration; revenue management; unrecorded liability; fixed assets management, debt management; expenditure management; insufficient supporting documents; government grant management; non compliance with laws and regulations; non existence of audit committees; ineffective internal audit committees; fruitless and wasteful expenditure; bank reconciliations and late submission of financial statements (South Africa, 2007a). *This presents undisputable evidence of bad financial management. In order to obtain evidence of the role of the CFO to be able to critically evaluate it as the basis for good financial management, or not, the following research questions are proposed:*

- Whether the legislation and literature review supply sufficient guidance for the proper functioning of the office of the CFO; and
- To determine the applicability in practice of the guidance from legislation and literature for the CFO office to exercise proper financial management and prevention of the occurrence of practical problems, in order to be accountable towards the council and stakeholders for proper service delivery.

1.2.1. Main objectives

In view of the above, the research will thus endeavour to obtain the following objectives:

The main objective of the study is to critically analyse the roles and functions of the CFO within local municipal council in order to gain in-depth understanding of these

roles and functions in order to recommend improvement in financial management and service delivery for the local municipalities in Gauteng province.

1.2.2. Ancillary objectives

To analyse the main objective of the study, the following ancillary objectives will have to be achieved, which are:

- To analyse the literature on the delegation of powers and function in relation to financial matters, in order to determine the expectation from the office of the CFO; and
- To analyse the material activities of the problems faced by the office of the CFO, in order to implement the municipal financial legislation; and proper financial management.

1.3. SCOPE OF THE STUDY

The study is based mainly on municipal financial management as delegated to the CFO by the Accounting Officer (Municipal Manager) in accordance with section 79(1) (b) of the MFMA No. 56 of 2003. Furthermore, budget management and the leadership role of the CFO in the financial management as stated in section 81(1) of the MFMA No. 56 of 2003, will be perused.

In Gauteng, there are eight local municipalities. Therefore, the study will critically analyse the role of the CFOs of the eight local municipalities with a view to analyse the leadership role of the CFOs, the financial management systems and internal control systems, in order to make recommendations that will enhance financial management of local municipalities.

1.4. RESEARCH METHODOLOGY

The research will be divided into two sections, which are the literature review and the empirical study.

1.4.1. Literature review

The literature on municipal finance will be reviewed to get a wider picture and broader understanding of the operational activities within the office of the CFO in local municipalities. The delegated financial powers and functions within the office of the CFO will also be reviewed. The information utilised on the literature review will be obtained from library books, government gazettes, municipal journals, newspapers and the Internet.

1.4.2. Empirical study

The analysis of qualitative and quantitative data will form the base of the empirical research. According to Saunders et al. (2000:381), quantitative data is based on meanings derived from numbers, whereas qualitative data is based on meanings expressed through words.

The data will be collected using both primary and secondary data collection methods. The primary data will be collected by structured questionnaires, interviews with the management echelon of the office of the CFO and other stakeholders, and lastly, observation by the researcher. The secondary data will include municipal source documents, raw and published information.

The questionnaires and the interviews will be based on the mandate of the municipalities and the activities taking place in the office of the CFO, which includes the organisational structure, systems of internal control, financial management, financial reporting and leadership as indicated in the literature review. These aspects have a direct influence on the approach to developing feasible financial management. The contents of the questionnaire will be specifically evaluated in terms of the non-ambiguity, relevance, reliability, validity and interpretation. An attempt will be made to ensure that these questions are understood and that good quality answers are obtained.

The questionnaire will be administered to the available management echelon of the finance section or department of the eight local municipalities in Gauteng province, in order to establish the role played by the office of the CFO in financial management and leadership. Interviews will be conducted with the office of the Auditor-General and the DPLG, with a view to verify the validity of the information gathered from the municipalities.

1.4.3. Qualitative research method

Interviews will be employed to obtain data from the office of the Auditor-General, DPLG and the management echelon in the office of the CFOs of the eight local municipalities in Gauteng.

1.4.4. Quantitative research method

During quantitative research, both the primary and secondary data collection methods will be used; the primary data collection method will be used in the form of a structured questionnaire with both open and closed questions.

The literature study, structured questionnaire, and interviews with the office of the CFO will help to generate data which will be used to develop feasible and sustainable financial management within the local municipalities.

1.5. STRUCTURE OF THE CHAPTERS

Chapter 1: Introduction and research problem

This chapter outlines the background to the topic, the significance of the research and the reasons for undertaking it, as well as the purpose of the study.

Chapter 2: Literature review

Chapter two reviews literature relevant to the research. It highlights the South African municipal financial standards. Furthermore, the delegated financial powers and function of the office of the CFO within the local municipality will be analysed.

Chapter 3: Empirical research

This chapter describes the research process. It begins with a discussion of the research methods, research design, research instruments, pilot study, ethical considerations, data collection method, data analysis method, and limitations.

Chapter 4: Data analysis, findings and interpretations

Chapter four is mainly concerned with research findings and the testing of the research data, codifying, representation and illustration of answers to the questions in order to identify the strengths and weaknesses of the functionality of the office of the CFO, with a view of recommending feasible and sustainable systems of financial control for local municipalities in Gauteng province.

Chapter 5: Conclusions and recommendations

Chapter five will consist of the summary of the findings, conclusions and recommendations of the research data as well as the literature review, whereby feasible and sustainable municipal financial management will be recommended.

CHAPTER 2

LITERATURE REVIEW

2.1. INTRODUCTION

There are three categories of municipalities in accordance with Section 155 (1) of the Constitution of the Republic of South Africa (South Africa, 1996). According to Section 7 of the Municipal Structures Act No. 117 of 1998 (South Africa, 1998b), different types of municipalities may be established within each category of municipality as they are defined in accordance with the following systems of municipal government.

The categories can be summarized as follows –

Category A is the **metropolitan** municipality, which has exclusive authority to administer and make rules in its area. A metropolitan municipality can have up to a maximum of 270 councillors (South Africa, 2006d:21).

Category B refers to a **local** municipality, which shares the authority in its areas with the category C municipality in which it falls. Local councils with more than seven councillors are divided into wards. A ward is defined as a geographic area within a municipality. A district or local municipality may have no less than three but no more than 90 councillors (South Africa, 2006d:21).

Category C refers to a **district** municipality, which has authority to administer and make rules in an area that includes more than one local municipality. Within each category C municipality, there are number of smaller category B municipalities. As categories B and C share the responsibility for service delivery, local municipalities, through their designated councillors, have representation on district councils, and the primary task of these councillors is to represent the interest of their local councils. District municipalities play a supportive role to local municipalities (South Africa, 2006d:21).

The study will be based on local municipalities within the borders of Gauteng. There are eight local municipalities in Gauteng, and their names are Emfuleni, Lesidi, Nkungwini, Nokeng Tsa Taimani, Midvaal, Mogale City, Randfontein and Westonaria.

2.1.1. Structures

According to the Guide to Municipal Finance Management for councillors (South Africa, 2006d:22) all municipalities consist of a municipal council and a municipal administration for running the affairs of the municipality. A municipal council is composed of the councillors (either representing a party or independent), who are democratically elected by registered voters within the municipal jurisdiction. The council is the political structure within a local municipality. This will be the base for the full term of elected municipal councillors. The council is responsible for all the decisions of a municipality unless it has delegated a specific power. A councillor may be assigned to serve on any of the council committees. (South Africa, 2006d:22).

According to Ngosi (2006:15), a municipality is the organisation that delivers municipal services to local residents and consists of officials who are employed by the municipal council. Ngosi further states that the head of the administration is the Municipal Manager, who is hired by the council and who in turn hires the administrative staff needed to implement the functions of the municipality. Municipalities have the option of establishing or acquiring an interest in a separate municipal entity. The new entity can perform a specific function on the municipality's behalf. Chapter ten of the MFMA No. 56 of 2003 outlines the conditions under which a municipality can set up a municipal entity. Entities have mainly been used by metropolitan municipalities to offer services such as garbage collection or maintenance of roads (Marshall, 1976:27).

2.1.2. Mandate

Municipalities have a constitutional mandate to strive, within its financial and administrative capacity, towards the objectives as set out in section 152(1) of the Constitution of the Republic of South Africa, which are –

- (a) To provide democratic and accountable government of local communities;
- (b) To ensure the provision of services to communities in a sustainable manner;
- (c) To promote social and economic development;
- (d) To promote a safe and a healthy environment; and
- (e) To encourage the involvement of communities and community organisations in the matters of local government.

It is imperative that the municipalities should engage the services of persons with the necessary financial expertise in order to achieve the abovementioned mandate efficiently and effectively within the available limited financial resources. The Municipal Manager delegates various operational responsibilities to the experts appointed by the council, as stipulated in section 79 of MFMA No 56 of 2003 (South Africa, 2003f).

2.1.3. Powers and functions

The **local** municipality as a requirement of Section 84 of the Municipal Structures Act No. 117 of 1998 (South Africa, 1998b), is expected to receive, allocate and if applicable, distribute grants to the **district** municipality, the imposition and collection of taxes, levies and duties as they become due. The section further empowers municipalities to use the collected money to render the essential services to their communities.

2.2. The executive committee

According to Craythorne (2006:134), the Executive Committee must be composed in such a way that parties and interests are represented in the Executive Committee in the same proportion as in the council. The Municipal Structures Act No. 117 of 1998

(South Africa, 1998b), and the Municipal Systems Act No. 32 of 2000 (South Africa, 2000a) make provision for the council to determine any alternative mechanism for the election of an Executive Committee, if it complies with Article 160(8) of the Constitution (South Africa, 1996) of South Africa. The committee members should be constituted in such a manner that it allows parties and interest reflected within the committee to be represented, consistent with democracy, and may be regulated by the National legislation.

2.2.1. Powers and functions

Section 44 of the Municipal Structures Act No. 117 of 1998 mandates the executive committees to –

- a) Identify the needs of the municipality;
- b) Review and evaluate those needs in order of priority;
- c) Recommend to the municipal council strategies, programmes and services to address priority needs through the Integrated Development Plan (IDP), estimate revenue and expenditure, taking into account any applicable national and provincial developmental plans; and
- d) Recommend or determine the best methods, including partnership and other approaches, to deliver those strategies, programmes and services to the maximum benefit of the community.

The executive committee, in performing its duties must review the performance of the municipality to improve the economy, efficiency, and effectiveness of the municipality; the efficiency of credit control, revenue, debt collection services; and the implementation of the municipality's by-laws; as a requirement of the Municipal Structures Act No. 117 of 1998 (South Africa, 1998b).

2.3. The Municipal Manager / Accounting Officer

The Municipal Manager is the Accounting Officer of the municipality in terms of section 60 of the MFMA No. 56 of 2003 (South Africa, 2003d). The two terms will be used interchangeably.

The municipal council is required to appoint a Municipal Manager who is the head of administration and the Accounting Officer for the municipality as a requirement of Section 82 of Municipal Systems Act, number 32 of 2000 (South Africa, 2000a). The overall administrative management is the responsibility of the Municipal Manager; this also includes the financial management as stated in section 62 of MFMA number 56 of 2003 (South Africa, 2003d).

The Accounting Officer must administer the municipality effectively and efficiently. Efficiency requires the assistance of the top management team. The team should have diverse skills aligned to the strategy of the organisation (Craythorne, 2006: 145).

2.3.1. Fiduciary responsibility

Section 61(2) of MFMA, No. 56 of 2003 restricts the Accounting Officer to act in a way that is inconsistent with the duties assigned to Accounting Officers of municipalities in terms of this Act; or use the position or privileges of, or confidential information obtained as, Accounting Officer for personal gain or to benefit another person improperly (South Africa, 2003d).

According to Craythorne (2003:185), the municipal manager is responsible and accountable for all the income and expenditure of the municipality, all assets and the discharge of liabilities and the proper and diligent compliance with applicable municipal finance management and legislation.

Section 81(1)(b) charges the CFO with the responsibility of advising the Accounting Officer on the abovementioned responsibilities. The intention of this section is to make the CFO responsible to give advice to the municipal manager in relation to the financial matters. The advice will assist the municipal manager to make a well-informed decision on financial aspects.

2.3.2. Delegation of powers

Craythorne (2003:131) defines delegation as both a management tool to prevent decision-making bottlenecks, and a legal concept with legal consequences.

In accordance to section 79(1) of MFMA, No. 56 of 2003 the Accounting Officer may delegate powers and functions in writing. The section further requires the Accounting Officer of the municipality to develop an appropriate system of delegation that will both maximize administrative and operational efficiency and provide adequate checks and balances in the municipality's finance. The Municipal Manager may also delegate duties where necessary to assist the Accounting Officer in complying with a duty which requires staff members to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of MFMA, No. 56 of 2003 (South Africa, 2003d).

The overall financial management is the responsibility of the Municipal Manager; however, section 77(2) of the MFMA, No. 56 of 2003 (South Africa, 2003d) requires the top management to assist. Therefore, the municipal manager may delegate, and often responsibilities are delegated to members of top management according to their competencies in light of the above.

2.4. TOP MANAGEMENT TEAM

In accordance with section 77 of the MFMA, No. 56 of 2003 (South Africa, 2003d), the municipal council must appoint the Top Management Team of the municipality. Its main function is to assist the Accounting Officer in managing and co-ordinating the financial administration of the municipality among others. The Top Management Team should consist of the Accounting Officer / Municipal Manager; and the Chief Financial Officer; all Senior Managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 77(2) of MFMA No. 56 of 2003 (South Africa, 2003d).

2.5. SENIOR MANAGERS AND OFFICIALS

The core responsibility of the Top Management is to assist the Accounting Officer in making strategic decisions. The Senior Managers are responsible for translating and implementing strategy in their respective functional areas. Senior Managers must be supported by the other officials of the municipality in the execution of their financial management mandate (Fourie et al., 2007:187).

As a requirement of Section 78(1) of the MFMA No. 56 of 2003 (South Africa, 2003d), the senior managers must take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently; the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently; any unauthorized, irregular, fruitless, wasteful expenditure and any other losses are prevented; the assets and liabilities of the municipality are managed effectively, assets are safe-guarded and maintained to the extent necessary; and all revenue due to the municipality is collected.

2.6. THE CHIEF FINANCIAL OFFICER (CFO)

2.6.1. Definition

The MFMA No. 56 of 2003 (South Africa, 2003d) defines the CFO as a person designated by section 80(2) (a) of this Act. It states that a CFO is designated by the Accounting Officer. The CFO is delegated by the MFMA No. 56 of 2003 to perform the financial administration and other duties as it may be delegated by the Accounting Officer from time to time.

Hope (2006:15) defines the CFO as the corporate officer primarily responsible for managing the financial risks of a business. He further describes the responsibilities of this officer as financial planning and record keeping. However, in recent years, the role of the CFO has expanded to encompass communicating financial performance and forecasts to the analyst community.

The availability of finance and sound financial administration are the essence of the functional activities of any local government and determine to a great extent the success of the municipality (Gildenhuis, 1997:166). Gildenhuis further argues that the various aspects of the financial administrative process have become so complicated and comprehensive that they need the help of specialists such as financial consultants, cost accountants, programmers, economists, and other financial experts to support the CFO in performing the delegated responsibilities.

2.6.2. Budget and treasury office

Section 80 (1) of the MFMA No. 56 of 2003 (South Africa, 2003d) requires every municipality to have a budget and a treasury officer; however, in practice it is commonly called the office of the CFO. As a requirement of Section 80(2) of the MFMA No. 56 of 2003, the budget and treasury office should consist of the following staff members:

- a) CFO designated by the Accounting Officer of the municipality;
- b) Officials of the municipality allocated by the Accounting Officer to the CFO; and
- c) Any other persons contracted by the municipality for the work of the office.

Fourie et al (2007: 367) argue that the intention of the legislature was to create a framework of creating the staff establishment in the office of the CFO. Therefore, the approved staff establishment will be based on the size of the municipality and the strategy of the municipality.

2.6.3. Delegation of authority by the CFO

In terms of the MFMA No. 56 of 2003 (South Africa, 2003d), the CFO may sub-delegate any of the duties that were delegated to him or her in terms of the MFMA No. 56 of 2003 (enacted in 2004), subject to limitations on the administration of the bank account, to the following officials: an official in the budget and treasury office (CFO's office), the holder of a specific post in the office or to any other official in the municipality, or any person contracted by the municipality working in the budget and treasury office, with the concurrence of the accounting officer or municipal manager.

The delegation of financial management activities to subordinates should be carefully supervised, managed and reviewed regularly as it is required by MFMA No. 56 of 2003 (South Africa, 2003d).

2.6.4. Roles

The municipal finance is governed by the MFMA No. 56 of 2003 which was enacted in 2004. One of the purposes of the act is to align the municipal financial management with that of the private sector. Therefore, the role of the CFO in the private sector will be reviewed and compared with the role of the CFO in the municipality. The role of the CFO in the United Kingdom will also be looked at to broaden the understanding.

2.6.4.1. The role of the CFO in the private sector

The role of the CFO in South Africa has changed substantially in recent years. CFOs are expected to perform at a global level. Views of the business leaders with regard to the role of the CFO in the corporate world in South Africa have been analysed and summarised. The summary follows below and details of the roles are plotted in Table 2.1.

Many organisations have re-evaluated the role of the CFOs and now they are expected to become actively involved in formulating the organisation's policy across a wide range of activities, including procurement, strategic positioning and the provision of leadership in general management, according to Gerry Pieterse's (2003:55) view. Pieterse also argues that the CFOs are no longer expected to oversee finances and the setting of financial policy, which made them number crunchers.

Pieterse (2003:55-61), in his presentation on CFOs, redefined and commented on the views of the following highly regarded CFOs and business managers in South Africa. The following references do not reflect the complete opinions of the experts,

but only highlights from it. The complete opinions are summarised in Table 2.1 below.

- **Auguste Coetze**, Senior partner with South Africa's largest executive search firm called Leaders Unlimited Korul Ferry International, agrees that the CFO is required to be more of a global citizen understanding cultural diversity and investment issues.
- **Chris Liebenberg**, the chairperson of Nedcor, indicated that a challenge facing CFOs in South Africa was that the change in financial reporting had moved rapidly into the area of global standards.
- **Suleman Badat**, Chief Risk Officer at Sasol, reported that given the complexity of business, CFOs should have "excellent business acumen".
- **Sizwe Nxasana**, CA (SA), CEO of telecommunications giant Telkom, mentioned that the CFOs needs a very good and broad understanding of their industry, as well as its local and international role players.
- **Peter Nelson**, CFO of Pretoria Portland Cement Company Limited, said, "The deployment of the Enterprise Resource Planning (ERP) system, which crosses over the boundaries of traditional disciplines within companies, means that CFOs are increasingly reliant on non-financial functionaries and IT specialists. Many of their scorekeeping functions have been automated or delegated".

Veronique Porkin (2005:35), CA (SA), a partner at Hedrick and Struggles, lamented that the job of a CFO has become a lot tougher in the wake of widely published business failures and instances of fraudulent financial reporting. Porkin further stated that, in the coming few years there is a great likelihood that the CFOs will be actively involved as organisations react to a tide of a new legislation and regulation, written as a result of recent government scandals.

Table 2.1: The role of the CFO in the private sector

The Role of the CFO	Coetze	Liebenberg	Badat	Nxasane	Nelson	Porkin	%
1. Financial management	✓	✓	✓	✓	✓	✓	100
2. Strategic management	✓		✓	✓	✓	✓	83,3
3. Forecasting	✓	✓		✓	✓	✓	83,3
4. Global player	✓	✓		✓	✓		66,7
5. Stakeholders management	✓	✓		✓		✓	66,7
6. Honesty, integrity and ethical values		✓		✓	✓	✓	66,7
7. Proactive approach			✓	✓	✓		50,0
8. Risk management	✓	✓			✓		50,0
9. CEO's right hand				✓		✓	33,3
10. Render advice to management			✓			✓	33,3
11. Leadership and motivation						✓	33,3
12. Change management						✓	16,7
13. Performance management					✓		16,7
14. Knowledgeable about organisation	✓						16,7

The contents of Table 2.1 was summarised with the intention of expressing the opinions of the experts in percentages in order to make ease for the researcher to rank the functions of the CFO from the top to bottom and to identify the most important functions.

According to the information in Table 2.1 above, business leaders in the corporate environment rate the following as the most important functions of the CFO:

- Financial management;
- Strategic management;
- Forecasting;
- Honesty, integrity and ethical values;
- Global player; and

➤ Stakeholders management

It is surprising that only 50% of the business leaders emphasized the significance of risk management and a proactive approach as the role of the CFO.

2.6.4.2. The role of the CFO in the municipal council

The President of the Institute for Municipal Finance Officers (IMFO) **Krish Kumor**, in his address to the delegates who attended the IMFO Annual conference in 2006, said, "working towards excellence in local government from compliance to quality". He spoke about the changing roles of the CFOs in terms of moving away from being just scorekeepers (Kumor, 2006:23).

The roles of the CFO of the municipality as discussed by the following authors have been analysed and summarized in Table 2.2 below. The individual opinions below are only highlights from the more detailed opinions.

Fourie et al. (2007:126) in their book titled *Municipal Finance and Accounting*, cover the local government statutes and their published regulations, aspects of municipal finance and the roles of stakeholders in the field of municipal financial management.

Visser and Erasmus (2007) in their book titled *The Management of Public Finance*, cover the roles of the CFO based on the Public Finance Management Act and Municipal Finance Management Act.

Chuene (2006:61) from the IMFO Presidential desk when addressing the IMFO Annual conference in 2006, mentioned the roles of the CFO in the local municipality.

Marshall (1976:278), in a book titled *Financial Management in Local government*, discussed the roles of the CFO.

Kotzé (1979:86), in his research found a divergence of opinions on the status and the role of the CFO. In some local governments, the CFO is regarded as an indispensable link in the administration processes whilst, in other local governments,

the CFO is regarded as nothing more than a bookkeeper charged with additional obligations as far as financial management is concerned.

Table 2.2: The role of the CFO within the municipal council

The Role of the CFO	Fourie	Visser	Kumor	Chuene	Marshall	Kotzé	Scott	%
1. Financial management	✓	✓	✓	✓	✓	✓	✓	100
2. Budget and expenditure control	✓	✓	✓	✓	✓	✓	✓	100
3. Rendering of advice to management	✓	✓	✓		✓	✓	✓	85.7
4. Risk management			✓	✓		✓	✓	57.1
5. Asset management	✓	✓			✓	✓		57.1
6. Information systems management	✓	✓	✓				✓	57.1
7. Leadership and motivation	✓		✓				✓	42.9
8. Financial management system	✓				✓			28.6
9. Policy formulation and implementation	✓	✓					✓	42.9
10. Internal control	✓	✓		✓				42.9
11. Performance management			✓				✓	28.6
12. Supply Chain management	✓							14.3
13. Global player						✓		14.3
14. Change management			✓					14.3
15. Knowledge management			✓					14.3
16. Stakeholder management				✓				14.3
17. Strategic management							✓	14.3

For the purpose of this research the criteria to determine the most important roles will be based on roles which were scored above 50% by the authors. As a result, in accordance with Table 2.2, the most importance functions of the CFO within the municipal council are the following:

- Financial management;
- Budget and expenditure control;
- Rendering of advice to management;
- Risk management;

- Asset management; and
- Information systems management.

2.6.4.3. CFO: corporate vs local municipality

Table 2.3 is based on the information from Tables 2.1 and 2.2 above. Only the roles of the CFO which scored by more than 50% of the authors were taken into consideration.

Table 2.3: The role of the CFO in the corporate world compared to that of a local municipality

Corporate world	Local municipality
1. Financial management	1. Financial management
2. Strategic management	2. Budget and expenditure control
3. Forecasting	3. Rendering of advice to management
4. Global player	4. Risk management
5. Stakeholders management	5. Asset management
6. Honesty, integrity and ethical values	6. Information systems management

According to the authors consulted, financial management is the most important role of the CFO to both the corporate world and local government. All the authors for the corporate world indicated that strategic management is an important role of the CFO whilst for the local government only one author mentioned strategic management. It is advisable for the local municipality to mirror-image operations of the corporate world. The MFMA No. 56 of 2003 (South Africa, 2003d) requires the establishment of the treasury and budget office; this office is expected to support the CFO with the operational matters in order to give the CFO enough time to concentrate on financial strategic matters.

2.7. STATUTORY REQUIREMENTS

Section 81 of MFMA No. 56 of 2003 (South Africa, 2003d) states that the CFO of a municipality is accountable to the Accounting Officer for the performance of the following duties as delegated by the Act –

- a) Must be administratively in charge of the budget and the treasury office;
- b) Must advise the Accounting Officer on the exercise of powers and duties assigned to the Accounting Officer in terms of this Act;
- c) Must assist the Accounting Officer in the administration of the municipality's bank accounts and in the preparation, as well as implementation, of the municipality's budget;
- d) Must advise Senior Managers and other senior officials in the exercise of powers and duties assigned to them in terms of Section 78 or delegated to them in terms of Section 79; and
- e) Must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may in terms of Section 79 be delegated by the Accounting Officer to the CFO.

The comparison between Table 2.3 and the requirement of MFMA No. 56 of 2003 shows that the following roles are common:

- financial management;
- budget and expenditure control; and
- rendering advice to management.

2.8. MINIMUM COMPETENCY REQUIREMENTS OF CFO

Section 83, 107 and 119 of the MFMA No. 56 of 2003 (South Africa, 2003d) specifically contains enabling provisions requiring all officials who manage, supervise and operate within the financial management and supply chain management disciplines, to meet minimum competency requirement levels. The abovementioned sections further make this requirement compulsory and require regulations that describe these competency levels for the various officials. As a result, the MFMA No. 56 of 2003 complements other efforts of government in improving competency levels of officials.

The Minister of Finance, Trevor Manuel, on 23 February 2007, published draft municipal regulations on minimum competency levels, as a requirement of sections

83, 107 and 119 of the MFMA No. 56 of 2003. In an attachment to the draft guidelines, the Minister called for comments before the end of April 2007. As a result, Guideline Regulations for minimum competency levels, 2007, took effect on 01 July 2007 (South Africa, 2007b).

Transitional provisions contained in the guideline regulations requires that existing officials have until 01 January 2013 to meet the minimum competency level, and new employees will also benefit from this transitional period. Municipalities will be required to develop appropriate strategies to assess staff competencies, provide suitable resources and opportunities for staff training and development. Furthermore, they must ensure that the attainment of competencies is included as a performance target in the official's performance agreement (South Africa, 2007b).

According to the municipal regulations on minimum competency levels of 2007, the following are minimum requirement levels for the CFO:

2.8.1. Higher educational qualifications

CFOs of low capacity municipalities and medium municipalities with an annual budget of a value below R500 million for the current financial year must have at least National Qualifications Framework level 6, translated as a three year bachelor's degree and higher diplomas or a certificate in municipal financial management qualification, approved by the South African Qualifications Authority (South Africa, 2007b).

CFOs of higher capacity municipalities and medium capacity municipalities with an annual budget of equal to or more than R500 million must have at least National Qualification Framework 7; this is translated as a higher degree i.e., Honours, postgraduate certificate and diplomas or Chartered Accountant (SA) qualification (South Africa, 2007b).

2.8.2. Work-related experience

A minimum of five years at middle management level, and for higher capacity municipalities, a minimum of 7 years at senior and middle management levels of which at least two years must be at senior management level, are required by the Draft Guideline on Regulations for minimum competency level, 2007 (South Africa, 2007b).

2.8.3. Competency areas

The Guideline on Regulations for minimum competency level (South Africa, 2007b) requires that the CFO should be competent either through academic qualification or work-related experience in:

- Strategic leadership and management;
- Strategic financial management;
- Operational financial management;
- Governance ethics and values in financial management;
- Financial and performance reporting;
- Risk and change management;
- Project management;
- Legislation, policy and implementation;
- Stakeholder relations;
- Supply chain management; and
- Audit and assurance.

According to the municipal regulations on minimum competency levels of 2007, all municipalities should implement these guidelines as from July 2007. The staff members who are in the employment of the council are given a grace period of five years to comply with the requirements of these guidelines.

Table 2.4: The role of the CFO in the corporate world vs guidelines on minimum competency

Corporate world	Guideline requirements
1. Financial management	1. Strategic financial management
2. Strategic management	2. Strategic leadership and management
3. Forecasting	3. Operational financial management and financial and performance reporting
4. Stakeholders management	4. Strategic leadership and management;
5. Honesty, integrity and ethical values	5. Governance ethics and values in financial management.

As can be gleaned from Table 2.4 above, the implementation of the guidelines by the municipalities will have the effect of closing the gap between the roles of the CFO of corporate business and municipalities. For the purpose of this study, the five roles of the CFO as stated in Table 2.4 will also be looked at.

Section 83 of the MFMA No. 56 of 2003 states that Accounting Officers (AOs), CFOs, Senior Managers and other financial officials must meet the prescribed minimum competency requirement levels. According to Trevor Manual, the Minister of Finance, in the draft regulation for municipal minimum competency level, he said that the implementation of the regulation was delayed and it would only take effect on 1 July 2007 for all municipalities as stated in the minimum competency regulation guideline (South Africa, 2007b:3).

According to the minimum competency regulation guideline, in terms of Section 88 of the MFMA No. 56 of 2003, the municipalities may only recruit new CFOs that meet the prescribed competencies. During the implementation period (01 July 2007 to 01 January 2013), however, new officials that do not meet the minimum prescribed requirements may be recruited provided that, the official's continued employment is subject to a condition that the official should attain the requirement not later than 01 January 2013.

A well-managed municipality must balance its internal skill levels to ensure that it can deliver efficient and sustainable services (Gildenhuys, 1997:23). It is necessary for the municipality to engage the services of consultants where this expertise is not available internally. The National Treasury recommends that, in the contract there should be a clause stating that these scarce skills must be transferred to permanent municipal staff members and that these will be measured as the contract progresses (South Africa, 2000b:5).

2.9. FUNCTIONS OF THE OFFICE OF THE CFO

The researcher will base the functions of the office of the CFO within the municipal council on the comparison between the competency areas as prescribed by the Municipal Regulations on minimum competency levels and the corporate world requirement as per Table 2.4 (South Africa, 2007b).

2.9.1. Strategic management

Strategic management is characterised by two dominant principal functions i.e., strategic formulation and implementation (Joyce, 2001:56). The approach to strategy formation dictates the ultimate management style; in contrast, the managerial style will determine the degree of effectiveness of the senior managers involved and who can influence the nature of effectiveness in the organisation (Analoui, 1997:56).

According to Thompson et al. (2005:15), the management process of formulating and implementing an organisation's strategy consists of five interrelated and integrated tasks, which are as follows:

- Developing a strategic **vision and objectives** – the mission statement of the municipality should describe the municipal's vision, including the unchanging values and purpose. Guided by the vision of the Municipality, the CFO should define measurable financial and strategic objectives of the Municipality;

- **Environmental scanning** – the environmental scanning includes internal analysis and external macro-environment analysis. Internal analysis is the identification of the strengths and weaknesses, whilst the external analysis reveals opportunities and threats. The CFO, as a head of the Treasury and Budget office, should conduct the environmental scanning within his or her office to be in a position to counteract the adverse impact of the weaknesses and threats, whilst capitalising on the advantages of the opportunities and strengths of the office.

- **Grafting strategy** – to achieve the objectives and vision, with the given information from the environmental scanning, the CFO should be in a position to match the strengths to opportunities that were identified, while minimizing the impact of the weaknesses and the external threats within his or her office;

- **Implementing and executing** the strategy – the selected strategy is implemented by means of programmes, budgets and set procedures. Implementation involves organisation of the municipality's resources and the motivation of the staff to achieve objectives; and

- **Monitoring** developments, evaluating performance, and making corrective adjustments when necessary. The process of monitoring and evaluation consists of the following steps:
 - define parameters to be measured;
 - define target values for those parameters;
 - perform measurements;
 - compare measured results to the pre-determined standard; and
 - make necessary changes.

2.9.2. Code of Professional Conduct

The individual in the municipality can be held responsible and accountable for his or her unacceptable actions, such as when interaction with customers or the public takes place. In order to address their possible non-compliance, a Code of Conduct is utilized to rectify the problem. A Code of Conduct is merely a set of ethical rules. The

value of the Code of Conduct, according to Craythorne (1993:94), lies in the fact that the Code of Conduct draws attention to pitfalls that can be avoided and suggests how all employees should conduct themselves in the interest of good governance.

Rossouw and Van Vuuren (2004:182) further support the notion that a Code of Conduct should specify the standard of behaviour that all members of the organisation should adhere to. They state that it is important for management to develop the code in such a manner that it enjoys credibility and acceptance in the organisation.

Craythorne (2003:94) states that a Code of Conduct is a document of an advisory nature of service. The employees subsequently have to sign acknowledgement and receipt of a copy of the Code of Conduct in order to prevent future allegations that it was not received. Any Code of Conduct should be properly drafted and should include any possible discrepancies or so-called "grey areas" where employees can escape persecution from misconduct. The main objectives of any Code of Conduct should be to prevent any dishonesty, corruption, unethical behaviour, and abuse on information, conflict of interest being biased, and so on, and to hold people accountable in terms of the Code of Conduct for these actions.

Apart from the organisational Code of Conduct, which an individual should comply with, almost every professional career has its own Code of Conduct, which its professionals have to comply with. These professional codes of conduct are developed, implemented, and monitored by the organisation.

Craythorne (2003:209) states that schedule 2 of the Municipal Systems Act (South Africa, 2000a) contains a Code of Conduct for municipal staff members. Section 69 of the Municipal Systems Act states that the Code of Conduct applies to every staff member of a municipality (South Africa, 2000a). The researcher will elaborate in general on the Code of Conduct. Refer to the attached Annexure A.

In accordance with the general conduct as stated in paragraph 2 of the 'Code of Conduct for municipal staff members', a staff member of a municipality must at all times:

- Loyally execute the lawful policies of the municipal council;
- Perform the function of office in good faith, diligently, honestly and in a transparent manner;
- Act in such a way that the spirit, purpose and objects of section 50 of the Municipal Systems Act (South Africa, 2000a) are promoted; and
- Act in the best interest of the municipality and in such a way that the credibility and integrity of the municipality is not compromised; and act impartially and treat all people, including other staff members, equally without favour or prejudice.

Craythorne (2006:212) acknowledges that in terms of section 119(2) of the MFMA No. 56 of 2003 (South Africa, 2003e) the Municipal Manager or staff member who accedes (agree) to an attempt by a councillor to influence them, or to an agent not to enforce an obligation in terms of the MFMA No. 56 of 2003 , other applicable legislation, any by-law or a decision of the council, is guilty of an offence and, on conviction, liable to a fine or imprisonment for a period not exceeding two years. The purpose of the section is to serve as a deterrent to those who have the intention to default the legislation for what ever benefit.

Sison (2000:290) argues that good business ethics bring business benefits; that behaving ethically is not only socially beneficial but also economically profitable.

Section 70 of the Municipal Systems Act number 32 of 2000 (South Africa, 2000a) places a duty on the Municipal Manager to provide a copy of the conduct for municipal staff members to all the staff members; ensure that every member has the amendments of the code; ensure that the purpose, contents and consequences of the code are explained to staff members who cannot read; and to communicate the section of the code that affects the public, to the local community.

The MFMA No. 56 of 2003 (South Africa, 2003e) makes a provision that the Municipal Manager may delegate duties to the Senior Managers (refer to section 2.3.2 above). Therefore, it could be the responsibility of the CFO to cascade these duties to the treasury and budget office.

2.9.3. Leadership

A municipal regulation on minimum competency level requires that the candidate for the CFO position should have leadership skills as competency (refer to section 2.8.3 above). According to the MFMA No. 56 of 2003 (South Africa, 2003e), the CFO is the head of budget and treasury office (refer to section 2.6.2 above). Therefore, the legislation requires the CFO to head the office and to have leadership skills. As a result, leadership skills will be looked at as a role of the CFO.

Organisations no longer have a choice, they are confronted with pressures to change; otherwise, this may lead to their downfall (Pollit & Bouckaert, 2004:105). Municipalities are no exception; therefore, transformational leadership has been identified to assist the office of the CFO to cope with such a dynamic environment.

A number of definitions will be looked at to broaden the understanding of the word leadership.

According to Swanepoel et al. (2003:352), leadership is an influential relationship among leaders and followers who intend real changes that reflect the purpose mutually held by both leaders and followers. Avolio (1999:404) defines leadership as a process which involves others to strive to achieve one or more goals. Leadership is a social influence process in which the leader refers to the voluntary participation of subordinates in an effort to reach organisational goals, as defined by Nel et al. (2004:332). The three definitions refer to the interaction between a leader and followers, whereby the leader attempts to involve the exercise of influence, but not coercion. The leader tries to change the attitude of people and actions which are related to achieving specific goals. In this study, the goal will be the goals of the office of the CFO within the local municipality.

Northouse (2001:134) states that there are new approaches to leadership that seek to address the inherent limitations in the previous leadership theories by proving a holistic view of leadership. The author further argues that the most well-known of the new approaches to leadership is called transformational leadership. In light of the present circumstances, the researcher has identified the transformational leadership

approach to assist in analysing the leadership role of the CFO within the municipality.

Swanepoel et al. (2003:353) define transformational leadership as the set of abilities that allows the leader to recognise the need for change, to create a vision to guide that change, and to execute the change effectively. The authors also argue that a transformational leader can influence in every direction i.e., downward with subordinates, laterally with colleagues, and upward with superiors and outside stakeholders. Therefore, a transformational leader can change the culture of the organisation.

Nel et al. (2004:349) state that the “transformational leader acts as a coach, role model and inspirational figure to create condition under which employees and all other stakeholders enthusiastically contribute towards achieving the stated organisation goals”.

The CFO with the assistance of the treasury and budget office within the municipality is responsible to interact with all the sections and also the community in matters relating to finance. For the CFO to be able to perform the relevant duties he/she should be able to inspire and influence the staff member of their office to perform their duties to the best of their abilities; interact with other line managers to assist and advise them with regard to setting priorities and the allocation of limited financial resources. Advise the Municipal Manager and the councillors with regard to prioritising of the Integrated Development Plan (IDP) and aligning the budget of the municipality with the current economic trends.

Robbins et al. (2006:253) define the characteristics of a transformational leader as follows:

- **Charisma:** provides vision and sense of mission, instils pride, gains respect and trust;
- **Inspiration:** communicates high expectations, uses symbols to focus efforts, expresses important purpose in simple ways;

- **Intellectual stimulation:** promotes intelligence, rationality and careful problem solving; and
- **Individualised consideration:** give personal attention, treats each employee individually, coaches and advises.

A vision describes, in an exciting and passionate way, the direction the company wants to take (Thompson & Martin, 2005:251). The provision of vision and mission of the municipality is the responsibility of the Municipal Manager, whilst the provision of the vision and mission for the budget and treasury office is the responsibility of the CFO.

The first democratic election held in South Africa in 1994 brought along many changes in the local government sector. The changes include the re-demarcation of municipal boundaries, which led to the reduction of the number of the municipalities in South Africa. The other changes were the implementation of the MFMA No. 56 of 2003 (South Africa, 2003e). Section 80 of the aforementioned Act requires the establishment of the treasury and budget office, and this led to the transformation of municipalities. The transformation of the municipalities has a direct and indirect impact on the functioning of the office of the CFO, who is the head of the budget and treasury office. Therefore, it is advisable for the CFO to adopt the transformational style of leadership.

2.9.4. Risk management

Vaughan (1997:90) defines risk management as the “minimizing of the adverse effects of risks at a minimum cost through identification, measurements and control”. A critical examination of this definition suggests that there are two objectives, minimizing the adverse effects of risk and minimizing the cost of doing so. Minimising the cost of the operations is one of the generic competitive strategies, as stated in Thompson et al. (2005:117). The CFO within the municipality, as having been delegated to have an overall control over expenses, income, assets and liabilities of the municipality, should also take responsibility for the risk management in their department and so curb the risks of losses and the cost thereof.

Risk management is a scientific approach to dealing with rare risks by anticipating possible accidental losses, designing, and implementing procedures that minimize the occurrence of loss or financial impact of the losses that do occur, as defined by Vaughan (1997:30).

According to Fourie et al. (2007:324), they define risk management as the process whereby the municipality's Accounting Officer (Municipal Manager), the CFO and other members of the senior management of the municipality, purposefully and regularly identify and define current as well as emerging businesses, financial and operational risks, and either simultaneously or with due expedition, identify appropriate and cost-effective methods of obviating or managing these risks within the municipality.

The two definitions are closely related to each other, since the core of both definitions is the intentional identification of risk in order to minimise its negative impact on the organisation (municipality).

According to the National Treasury (South Africa 2002:3), there are unique risks for public sector organisations relating to their unique financial reporting and internal control processes and to matters of conflict of interest and special investigations. It was also mentioned that public sector entities operate within a unique regulatory framework with many and diverse pieces of legislation. The unique risk environment could include a lack of compliance with legislative and regulatory requirements such as the MFMA No. 56 of 2003 (South Africa, 2003e), the MFMA Supply Chain Management Act (South Africa, 2006e) and the related regulations.

The financial director is responsible for risk management activities in the company traditionally falling within his/her functional area, such as treasury and insurance (King, 2002). However, Fourie et al. (2007:325) comment that the effective implementation of the policy (risk management) is the responsibility of the Municipal Manager. It must be noted that MFMA No. 56 of 2003 (South Africa, 2003e) makes provision for the Municipal Manager to delegate the CFO or any senior manager to be responsible for risk management within their functional operational areas. Refer to section 2.3.2 above.

2.9.4.1. Types of risks

It is imperative to identify types of risk inherent to the office of the CFO as this will shed light and broaden the understanding of risks. Vaughan (1997:16) identified the following types of risks:

Personnel risks: These consist of the possibility of loss of income or assets as a result of the inability to earn income. In general, earning power is subject to the following: premature death; dependant old age; sickness or disability, and incapacity of staff members.

Property risks: This includes real properties such as buildings and grounds, while it also refers to properties such as vehicles, tools, office equipment, furniture, public records and cash. Property risks embrace two distinct types of losses, which are direct and indirect loss. Property risks can involve two types of losses:

- Loss of property which is a direct loss; and
- Loss of use of property resulting in lost income or additional expenses called indirect loss.

Risk arising from failure of others: When another person agrees to perform a service on behalf of the municipality, he or she undertakes an obligation that the municipality hopes will be met. When the person fails to meet those obligations, it would result in financial loss; therefore, risks exist. Examples of risks in this category would include a contractor's failure to complete a construction project as scheduled, or a debtor's failure to make payments as expected.

Human resources: Job related illness and injuries could cause losses from medical and hospital expenses, the cost of replacing workers temporarily and from decreased productivity while the worker is gone or until a replacement is recruited, offered a job, inducted and trained.

Legal liability: Every service a public entity provides and every action it takes exposes it to losses from potential lawsuits, not only judgements and negotiated

settlements, but also from defence costs. The scope of liability, especially for law enforcement and public officials, has expanded greatly in recent years as courts increasingly hold local government responsible for negligent and wrongful acts, personal injuries, property damage and civil rights violations.

Contingent expenses: Some losses force local governments to incur additional expenses to function normally or to maintain services. For example, if a bridge was destroyed during a storm, the local government would have to pay the cost for replacing the bridge, assume the cost for cleaning up any debris and for re-routing traffic.

2.9.4.2. Benefits of risk management

According to Cole (2007:12), the municipal council that practices risk management stands to enjoy the following benefits:

- More effective use of public funds – instead of paying for medical claims, liability suits, property damage, money is put towards public programmes and services;
- Decreased costs and increased productivity – preventing worksite accidents and injuries reduce medical expenses, as well as costs related to lost work days, replacement workers, and so forth;
- Reduced losses from natural disasters, lawsuits, and other unexpected occurrences;
- Identification of expenses you may prefer to cover through means other than insurance or avoid completely;
- Greater insurance available and lower premiums, freeing up funds for other services;
- Reduction of uncertainties associated with future projects – the governing board may not consider proposed services or activities feasible unless they refer to better ways to prevent and pay for accidental losses; and
- Increased potential for economic development and rural revitalization resulting from improved efficiency and effectiveness.

According to the municipal regulations on the minimum competency level, risk management is one of the competencies required in a CFO (refer to section 2.8.3 above). As a result, the abovementioned benefits, types of risks and risk management steps have a direct or indirect influence on the daily operations of the office of the CFO.

2.9.5. Budget

According to Visser and Erasmus (2007:9), a budget is an essential framework linking specific spending objectives with their associated costs, and is therefore, applicable to any situation where spending objectives have to be determined from household to multinational companies, including in this context, and the government's financial activities. It is further argued that budget forms an integral part of public financial management in the public sector, but do not equate to financial management; therefore, it cannot be used as a substitute for financial management.

Craythorne (2003:224) states that a municipality has two types of budgets, viz. the *operating budget* to meet operating costs, including staff remuneration and loan repayments, and the *capital budget*, which reflects the development priorities for the next financial year.

According to Fourie et al. (2007:96), a capital budget is an estimate of the capital expenses which will be incurred over the relevant financial year, and the sources of finance from which these expenses will be funded. An operating budget will consist of an estimate of operating revenues which will accrue to the municipality operating expenses which will be incurred by the municipality over the financial year to which the budget relates.

The municipal budget is therefore prepared on an accrual accounting basis. This postulates that transactions are brought to account in the financial year in which they occur, irrespective of whether cash is paid or received in respect of such transactions during the financial year concerned (Fourie et al., 2007:96).

2.9.5.1. Budget forum

Section 215 of the Constitution mandates the National Treasury to prescribe the format of municipal budgets as well as the budgeting processes. The National Treasury commissioned a forum, in order to meet its constitutional obligations relating municipal budgets. The forum recommended the following framework (South Africa, 1999: 1-2):

- Encouraging the developmental role and responsibilities of municipalities;
- Formalizing the role of the Department of Finance (now National Treasury) in the budgetary and monitoring process;
- Facilitating financial management, informed decision making through budget preparation and monitoring processes;
- Specifying the minimum content that constitutes a municipal budget;
- Instituting appropriate monitoring processes to identify deviations from the budget and financial impact of such deviation on physical performance;
- Reflecting economic realities of each municipality;
- Complying with certain information requirements to meet certain international reporting protocols; and
- Considering performance management as a part of the budgeting process (South Africa, 1999: 1-2)

2.9.5.2. Budget process

The Minister of Finance (National Treasury), as a requirement of Section 215 of the Constitution, is mandated to set uniform financial standards for all three spheres of government in relation to the preparation of the budget (South Africa, 2002). It therefore requires the National Treasury to prescribe the form of National, Provincial and Municipal budget, information to be disclosed, documents to accompany the budget and the submission schedule. This is supported by Fourie et al. (2007:126) as it is argued that the details of the various budget documents and its format are provided in MFMA No. 56 of 2003 (South Africa, 2003e). The National Treasury, as a requirement of the MFMA No. 56 of 2003, drafts circulars to implement requirements of section 215 of the Constitution.

MFMA No. 56 of 2003 Circular No.10 introduced six steps in preparing a municipal budget. Circular No.19 was released on 15 August 2005, giving guidance to the preparation of the 2005/6 budgets and it also emphasized the six budget processes:

Step 1: Planning - schedule key dates, establish consultation forums and review previous processes. The budget process makes provision for various engagements and for appropriate reviews to assess progress in implementation. Lessons learnt should be factored into the next planning and budgeting cycle. The schedule of key deadlines for the previous year must be tabled before the council and submitted to National Treasury and the relevant Provincial Treasury.

Step 2: Strategic - review Integrated Development Plan (IDP), set service delivery objectives for the next three years, consult on tariffs, indigent, credit control, free basic services. Consider local, provincial and national issues, previous year's performance, current economic and democratic trends, and more. This phase of consultation ends when the Mayor tables the budget and the revised IDP before the end of March annually.

Step 3: Preparing - prepare revenue and expenditure projections, draft budget policies, consult and consider local, provincial and national priorities. Municipalities are required to make serious efforts to increase their own investment contributions towards infrastructure, in order to be able to achieve broader government targets in eradicating backlogs and collectively supporting economic growth.

Step 4: Tabling - table the complete proposed budget, IDP revisions, budget related policies before the council, consult with and consider formal local, provincial and national inputs or responses. In order to comply with the MFMA No. 56 of 2003, the proposed budget and revised IDP must be tabled together before the council not later than 31 March annually (90 days before the start of budget year), together with the proposed resolutions and changes to budget related policies.

Step 5: Approving - the council is expected to approve the budget annually and all related policies before July.

Step 6: Tabling - publish and approve Service Delivery and Budget Implementation Plan (SDBIP) and annual performance agreement and indicators. The recommended approach to prepare SDBIP is to develop draft departmental SDBIPs at the very beginning of the budget process and roll these up into the proposed SDBIP of the municipality to be tabled with the budget.

A delegation policy of spending authority on budget quotes is critical for successful budget implementation and subsequent monitoring and evaluation. It is imperative that delegations should give effect to sections 69, 70, 71, 72, 79, 82 and 106 and other related provisions of the MFMA No. 56 of 2003 (South Africa, 2003e). These sections make provision for the Municipal Manager to delegate the CFO to be the main process driver for the budgeting process. As a result of the delegation, the budget and treasury office under the supervision and guidance of the CFO should adhere to circular 10 relating to the budget process as released by the National Treasury.

2.9.5.3. Golden rules of budgeting

It is imperative to look at the golden rules of budgeting, align them with theory, and practice as discussed by Pauw et al. (2002:104).

Budget continuously – budgeting and planning are not simply once-off events. Budgeting is more than a once-off annual activity. The future is uncertain and it requires the CFO to revise the budget regularly to reflect changes in the political, social and economical environments.

Take your time – budgets are key parts of planning and require careful thinking. The CFO should not underestimate the time needed to gather relevant information, formulate plans, and make a budget a realistic planning proposal.

Involve everyone – include all those that should be involved in the budgeting process. It is important for the CFO to involve relevant people with appropriate knowledge, skills and motivate them to commit to the process.

Be realistic – the CFO should pay attention to what the municipality actually needs to achieve in a particular budget. It should be noted that financial resources are scarce; therefore, there will be competing priorities for money.

Look ahead – pay attention to the future, not the past, when deciding on amounts. Stay focused on the future event. Do not rely solemnly on historical figures alone to guide next year's budget since these figures might be completely incorrect. The CFO should align the budget with the vision of the budget and treasury office and with the vision of the municipality.

Be aware of internal departmental game playing – the size of a departmental budget is not proportional to the income generated by the department.

Monitor events – one might need to change priorities and amounts in line with events. The CFO should be prepared to amend the budget, critically assessing all expenditures and try to resolve unforeseen problems.

Allow flexibility – the CFO should avoid the temptation of spending the money just because the budget has been approved. The expenditure should support the main objective of the municipality.

The golden rules of budgeting are not mandatory, however, they can assist the CFO in preparing the checklist to ensure that all the stakeholders have been involved, as this will encourage buy-in, that the amounts in the budget are realistic and use the budget to review priorities or allocations.

2.9.6. Internal control

The King II report (2002) defines the internal control as a process designed to provide reasonable assurance, regarding the achievement of organisational objectives with respect to corporate governance:

- The effectiveness and efficiency of operations;
- The safeguarding of the company's assets (including information);

- Compliance with applicable laws, regulations and supervisory requirements;
- Supporting business sustainability under normal, as well as adverse operating conditions;
- The reliability of reporting; and
- Behaving responsibly towards all stakeholders.

Internal control is defined as an organisational measure implemented to prevent mismanagement and to improve the quality of management (South Africa, 1997:1). The Institute for Auditors defines internal control as a means devised to promote, govern and check upon various activities for the purpose of seeing that the institutional objectives are met (Picket & Vinten, 1997:154). Internal control not only refers to internal checks and audits but to the entire control and financials system established by management.

2.9.6.1. General principles of control

McKinney (1995:89-91) argues that for internal control to be effective it should be based on the following principles:

- Appointing competent personnel and practice job rotations;
- Assignment of responsibilities to staff members;
- Segregation of responsibilities for related jobs;
- Separation of operations and accounting duties;
- Proof of security measures; and
- Adequate safeguarding of assets.

2.9.6.2. Internal control process

McKinney (1995:85-87) recommends that the process of evaluating, improving and reporting on the internal control systems should include the following steps:

- Step 1: Organise;
- Step 2: Divide the institution into various areas for assessment;
- Step 3: Conduct vulnerability assessments;
- Step 4: Develop plans for subsequent action;

Step 5: Conduct internal control reviews; and

Step 6: Prepare reports on internal controls.

A guide for Accounting Officers in respect of the PFMA issued by the National Treasury (South Africa, 2000b:31) makes it clear that all managers in government have the responsibility for operation and ownership of the system of internal control for departments at their appropriate levels. In short, internal control is deemed fundamental to achieving successful financial management in the South African government sector. The concept includes all areas of government, involving officials and other formal structures at all levels of government.

Arens and Loebbecke (2000:198) argue that there are six types of internal control measures which should be present for any system to be effective: directive; preventative, detective; corrective; compensating and constructive. These internal control measures are designed to carry out various functions such as preventing and *identifying undesirable contingencies as well as ensuring that corrective actions are taken to undo the effect of undesirable contingencies* (McKinney, 1995:89).

Visser and Erasmus (2007:287) mentioned that from a financial point of view preventative controls include the following:

- Trustworthy, competent staff. This is also in line with the Code of Conduct (refer to section 2.11.2 above);
- Segregation of duties to prevent intentional wrongdoing;
- Proper transaction authorization preventing improper use of institutional resources;
- Adequate documentation and record-keeping procedures determining flow of documentation and proper recording of transactions; and
- Physical control over assets to prevent their improper use or embezzlement (theft).

Visser and Erasmus (2007:288) also mentioned that from a financial point of view, detective controls include the following examples:

- Reviews and comparisons, such as records of performance checks;
- Bank balances and the confirmation of bank balances and cash accounts;
- Reconciliation of accounts receivable detail to accounts receivable control accounts;
- Stock taking and the analysis of variances derived; confirmation from suppliers on accounts payable;
- Computerised techniques such as transaction limits, password and edits; and
- Systems of review such as internal auditing.

When fraudulent activities, business failures and corruption involve monetary flow, it becomes sensitive and draws the immediate attention of the stakeholders. As a result, internal control should be one of the competency areas of the CFO within the council.

2.9.7. Financial management

Reddy (1996:12) maintains that the viability of the local government, the level at which services are rendered, and the quality of those services, are inextricably linked to financial resources available for it. Reddy further argues that it is apparent that the municipality, which commands large amounts of financial resources, needs the services of the CFO who can facilitate the process of generating, allocation and overall control of these resources. It is therefore imperative that the financial management within the local municipality should be looked at.

According to Fourie et al. (2007:57), the financial management within the municipality is described in terms of the following topics.

2.9.7.1. Administration of debtors and revenue management

Fourie et al. (2007:158) argue that the system of finance within municipalities must be based on the following basic policy principles, in order to meet their objectives as stated in section 152 of the Constitution:

- Revenue adequacy and certainty;

- Sustainability, transparency and good governance;
- Equity and redistribution;
- Development and investment; and
- Micro economic management.

Craythorne (2003:220) mentioned that the revenue of the municipality is generated from different sources such as fees, charged tariffs and the local government share of local revenue. Section 11(3)(i) of the Municipal Systems Act (South Africa, 2000a) empowers municipalities to exercise their legislative or executive authority by imposing and recovering rates, taxes, levies, duties, service fees, including setting and implementing tariff, rates and debt collection policies.

According to Gildenhuis (1997:73), the main sources of municipality revenue are property tax, payroll tax, turnover tax, consumer tariffs, user charges, nominal levies and other miscellaneous revenues such as public library membership, rent for sporting facilities and rent from properties.

The financial statements of a municipality are prepared on the accrual basis of accounting as a requirement of the generally accepted accounting practice for local government (GAMAP). This requires the municipality to recognize income for the services rendered during the period which the service was rendered and if the cash is not received it must be recorded as a debtor in the balance sheet.

The elements of the debtor management cycle, as applied to a municipality, are as follows:

- Input documents – meter readings;
- Showing consumption, valuation;
- Roll payments, tariffs;
- Service charges and adjustments of journals; and
- Debtor's control – validation of transactions, cash allocation to debtors account as payment is received, updating of master files and report generation (Fourie et al., 2007:73).

2.9.7.2. Raising and administration of loans

Section 47 of the MFMA No. 56 of 2003 (South Africa, 2003e) states that the municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by fluctuations in the value of the rand against any foreign currency. Long-term debts and short-term debts can only be approved by a resolution of the municipal council as a requirement of section 46(2)(a) and 45(2)(a) respectively.

The assets of the municipality may be used as security for a loan, provided it is approved by the resolution of the council in terms of section 48(3) of the MFMA No. 56 of 2003 (South Africa, 2003e).

Reddy (1996:203) states that loans could be raised externally from the capital market and the central government, or internally from trust funds or from capital development or revolving funds. Reddy (1996:192) further mentioned that one of the functions of the CFO is to administer all funds of the council subject to the chief executive officer finance committee and council by advising the finance committee and council on raising capital funds.

2.9.7.3. Financial reporting

The need for financial reporting can be best explained by the requirement of section 195(1)(f) and (g) of the Constitution. These sections require that public administration be accountable and transparency fostered by providing the public with timely, accessible and accurate information (Visser & Erasmus, 2007:341). The MFMA No. 56 of 2003 empowers the Municipal Manager to delegate these responsibilities to the CFO (refer to paragraph 2.3.2).

Fourie et al. (2007:438) argue that the key to successful financial reporting lies in identifying users and the information they require. They further mentioned that the users of municipal financial information include the following:

- The public – consisting of voters, taxpayers and residents;

- Elected councillors – councillors represent the public and are authorized to administer public financial matters and resources;
- Municipal officials – they are interested in information about the stability and sustainability of the employer;
- Regulatory authorities – other spheres of government have legislative or regulatory authority over municipal activities;
- External auditors - are appointed by the auditor general to audit the financial statement;
- Resource providers consist of investors, lenders, trade editors, users of services and developers of industrial and residential properties. Investors need to evaluate the ability of a municipality to finance its activities and meet its liabilities and commitments; and
- Research analysts and credit rating agencies – analyse financial statements and provide information to public and special interest groups.

The diverse nature of the users of financial information makes the reporting function of the office of the CFO challenging.

2.9.7.3.1. Types of reports

Visser and Erasmus (2007:342) have identified the following reports which are normally used in the public sector:

Internal reports – these reports are only required for internal use in the public institutions. These reports are completed daily, weekly or quarterly depending on management’s need for financial information or statutory requirements.

External reports – these reports are intended for the use by external parties such as the Auditor-General, Parliament or taxpayers. Such reports must enable managers and councillors to discharge their accounting responsibilities to both external and internal stakeholders (Fourie et al., 2007:213).

2.9.7.4. Standard annual reporting cycle

The standard annual reporting cycle consists of eight elements (Fourie et al., 2007:13), which are as follows:

- The draft annual budget for the ensuing year, together with all its prescribed supporting documents, must be presented to council by 31 March. It must subsequently be made public and submissions invited from the community, the Provincial Treasury and other stakeholders. The mayor must respond to submissions received before the final draft budget is submitted to council;
- The annual budget, together with the finalized supporting documentation, must be approved by the council by 31 May and made public in accordance with requirements of the MFMA No. 56 of 2003 (South Africa, 2003e);
- The service delivery and budget implementation plan (SDBIP) and performance agreements for the municipal manager and other senior managers must be finalized within 28 days after date on which the budget was approved. The SDBIP must be made public within 14 days after approval;
- The annual compulsory assessment of the municipality's budgetary and financial performance for the first six months of the financial year, together with recommendations on whether adjustments budget, must be completed by 25 January and reported to the council by 31 January;
- The SDBIP must be revised following the approval of an adjustments budget and made public;
- Annual financial statements and consolidated financial statements must be finalized before 31 August and 30 September respectively, and submitted to the office of the Auditor-General for audit; and
- The annual report of the municipality consisting of the following components, must be tabled in council by the mayor within seven months after the end of the financial year and it should includes the following:
 - Annual financial statements and consolidated annual financial statements, where applicable;
 - The Auditor-General's audit report on the annual financial statements;

- The annual performance report of the municipality;
- The Auditor-General's audit report on the performance report;
- An assessment of the municipality's performance with regard to revenue source and for each vote in the budget;
- Particulars of any corrective action taken or to be taken in response to issues raised in audit reports; and
- Further explanations in connection with the financial statements, recommendations of the audit committee and other information as may be prescribed.

2.9.7.5. Reporting requirements

According to Pauw et al. (2002:196), the following are the reporting requirements for the municipalities:

2.9.7.5.1. *Monthly reports*

Within 15 days of the month end, the Accounting Officer, with the assistance of the CFO, must submit to the relevant treasury and executive authority information on:

- Actual revenue, expenditure and national transfers received by the municipality;
- Actual revenue, expenditure and any conditional grants under divisions of the Revenue Act;
- Projections of anticipated expenditure and revenue for the financial year; and
- Any material variances and summary of actions to ensure that the projected expenditure and revenue remains within the budget (Pauw et al., 2002: 196).

2.9.7.5.2. *Quarterly reports*

The municipality must prepare a statement detailing the revenue and expenditure of all revenue funds, with actual performance against the budget.

2.9.7.5.3. Annual reports

In terms of section 126 (1) of the MFMA No. 56 of 2003, (Act No. 56 of 2003) (South Africa, 2003e), the Accounting Officer must prepare the annual financial statements of the municipality within two months after the end of the financial year to which those statements relate, and submit the statements to the Auditor-General for audit. The Accounting Officer delegates the CFO to prepare the financial statements.

Pauw et al. (2002: 197) also argue that the municipality should prepare financial statements within two months after the end of the financial year. The financial statements of the municipality consist of a(n):

- balance sheet;
- income statement;
- cash flow statement;
- any other statement that may be prescribed; and
- any notes to these statements.

It is imperative at this stage to analyse and compare the general report of the Auditor-General on the audit outcomes of local government for three consecutive years; this information will give the reader a better understanding of the nature and quality of the financial statements prepared by municipalities.

2.9.7.5.4. Analysis of municipalities' financial statement submitted to the Auditor-General

The Auditor-General is expected to audit the municipal financial statements to determine if the statements fairly present the state of its financial results and position of the municipality in order to express a well-informed opinion. It is decisive for the research to define the different types of opinions expressed by the Auditor-General in order to enhance understanding of the information given in the table below.

Unqualified opinion – Marx et al. (2001:19-6) maintain that an unqualified opinion is expressed when the auditor concludes that the financial statements are fairly presented, in all material respects, in accordance with the Statement of Generally Accepted Practice (GAAP) and, where appropriate, in compliance with the applicable statutory requirements. The definition refers to GAAP, which is applicable to companies. This study refers to municipalities and the GRAP/GAMAP serve a similar purpose to municipalities as GAAP to companies. Therefore, in the interpretation of the definition, GAAP could be replaced by GRAP/GAMAP.

Qualified opinion - The Auditor-General (South Africa, 2006a:63) argues that the qualified opinion is expressed when significant matters are highlighted, but overall financial statements still present a fair view. The qualified opinion is expressed as being "except for" the effects of the specific matter to which the qualification relates (Marx et al., 2001:16-8).

Disclaimer of opinion - Marx et al. (2001:16-8) argue that disclaimer of opinion is when the auditor is unable to express an opinion on the financial statements. Marx et al. further argue that the disclaimer is, as a result, of a limitation of scope being so material, pervasive and fundamental that the auditor was unable to obtain sufficient audit evidence. According to the Auditor-General (South Africa, 2006a:63), disclaimer of opinion is when there is a fundamental lack of documentation to the extent that audit opinion cannot be expressed.

Adverse opinion - The effect of a disagreement with management is so material, pervasive and fundamental to the financial statements that a qualified audit opinion is inadequate to disclose the misleading or incomplete nature of the financial statements (Marx et al., 2001:16-7). The Auditor-General (South Africa, 2006a:63) argues that an adverse opinion is when significant matters are highlighted, and financial statements do not present a fair value.

Table: 2.5: Analysis of the Auditor-General's opinion per municipality

Local municipality	Audit opinion for the financial year		
	2003/4	2004/5	2005/6
Emfuleni	Adverse	Disclaimer	Disclaimer
Lesidi	Unqualified	Unqualified	Unqualified
Nkungwini	Adverse	Disclaimer	Adverse
Nokeng Tsa Taimani	Disclaimer	Disclaimer	Disclaimer
Midvaal	Qualified	Qualified	Unqualified
Mogale City	Disclaimer	Audit not yet completed	
Randfontein	Disclaimer	Disclaimer	Disclaimer
Westonaria	Disclaimer	Qualified	Unqualified

(Source: The general report of the Auditor-General on the audit outcomes of local government for the financial years ended 30 June 2003, 2004 and 2005)

Table: 2.6. Analysis of the Auditor-General's opinion per opinion

Opinion	Audit opinion for the financial year		
	2003/4	2004/5	2005/6
Unqualified	1	1	3
Qualified	1	2	0
Disclaimer	4	4	3
Adverse	2	0	1
Audit not yet completed	0	1	1
Total	8	8	8

(Source: The general report of the Auditor-General on the audit outcomes of local government for the financial years ended 30 June 2003, 2004 and 2005)

The above information was extracted from the general report of the Auditor-General on the audit outcomes of local government for the financial years ended 30 June 2003, 2004 and 2005. The researcher will compare this information with the information gathered from the municipalities with the assistance of a research tool in the next chapters.

It is now crucial for the researcher to summarise the qualifications criteria which lead the Office of the Auditor-General to express the above opinions.

2.9.7.5.5. *Qualifications and emphasis of matters for the above expressed opinions*

The qualification criteria will be recorded below if the Auditor-General mentions it at least in four municipalities.

Table 2.7: Financial year ending 30 June 2004 (2003/4)

Qualifications	Emphasis of matter
<ul style="list-style-type: none"> ➤ Provision for bad debt ➤ Leave provision ➤ VAT administration ➤ Revenue management ➤ Unrecorded liability ➤ Internal loan register ➤ GAMAP Compliance ➤ Fixed assets – property, plant and equipment ➤ Debtors' management ➤ Expenditure management ➤ Appropriation account 	<ul style="list-style-type: none"> ➤ Insufficient supporting documents ➤ Debt collection ➤ Government grants ➤ Control weaknesses ➤ Non compliance with laws and regulations ➤ Audit committee ➤ Internal audit ➤ Fruitless and wasteful expenditure ➤ Bank reconciliation ➤ Late submission of financial statements ➤ Asset management ➤ Governance matters ➤ Going concern ➤ Debtors and creditors

(Source: The general report of the Auditor-General on the audit outcomes of local government for the financial year ended 30 June 2004)

Table 2.8: Financial year ending 30 June 2005 (2004/5)

Qualifications	Emphasis of matter
<ul style="list-style-type: none"> ➤ GAMAP compliance ➤ Fixed assets – property, plant and equipment ➤ VAT administration ➤ Actuarial valuation of post employment benefit ➤ Comparative figures ➤ Debtors' management 	<ul style="list-style-type: none"> ➤ Control weaknesses ➤ Non compliance with laws and regulations ➤ Audit committee ➤ Internal audit ➤ Fruitless and wasteful expenditure ➤ Bank reconciliation ➤ Late submission of financial

<ul style="list-style-type: none"> ➤ Revenue and expenditure management ➤ Appropriation account 	<p>statements</p> <ul style="list-style-type: none"> ➤ Asset management ➤ Governance matters ➤ Debtors and creditors ➤ Fraud prevention plan ➤ Risk management plan
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(Source: The general report of the Auditor-General on the audit outcomes of local government for the financial years ended 30 June 2003, 2004 and 2005)

Table 2.9: Financial year ending 30 June 2006 (2005/6)

Qualifications	Emphasis of matter
<ul style="list-style-type: none"> ➤ Leave provision ➤ Unrecorded liability ➤ Internal loan register ➤ Revenue and Expenditure management ➤ Debtors management ➤ Appropriation account ➤ GAMAP Compliance ➤ Fixed Assets – Property, plant and equipment ➤ Property, Plant and Equipment ➤ Cash flow statement ➤ Comparative figures ➤ Government grant administration ➤ Contingent liability 	<ul style="list-style-type: none"> ➤ Control weaknesses ➤ Non-compliance with laws and regulations ➤ Audit committee ➤ Internal Audit ➤ Fruitless and wasteful expenditure ➤ Bank reconciliation ➤ Late submission of financial statements ➤ Asset management ➤ Governance matters ➤ Debtors and creditors ➤ Fraud prevention Plan ➤ Risk management plan

(Source: The general report of the Auditor-General on the audit outcomes of local government for the financial year ended 30 June 2006)

2.9.8. Cash management and investment

According to Fourie et al. (2007:237), the MFMA No. 56 of 2003 (South Africa, 2003e) contains various provisions relating to the management of a municipality's cash resources. The provisions cover the management of a bank account(s), the banking of revenue collections, investments, the raising of both short and long-term debt, monthly bank reconciliation, the preparation and regular revision of annual costs management, as well as structured reporting requirements.

The cash management system involves evaluation of long-term needs, policies, municipal objectives, constraints, investment strategy and bank and institutional relations (Visser & Erasmus, 2007:121). Visser and Erasmus (2007:131) also argue that the Accounting Officer and the CFO have the important responsibility for establishing systems, procedures, processes and training to ensure sound cash management and banking.

Cash management frequently creates a dilemma for the CFO. Cash is needed to bridge the gap between daily disbursement outflows and inflows; these two are seldom matched. According to Gildenhuis (1997:160), any cash held above the amount needed for daily disbursement means an opportunity cost lost in terms of interest. Therefore, any surplus money should be invested, where it will earn more interest than in a bank account. A municipality must establish an appropriate and effective cash management and investment policy in accordance with section 13(2) of the MFMA No. 56 of 2003 (South Africa, 2003e) and the Municipal Investment regulations of 2005 (South Africa, 2005b).

2.9.9. Performance management

According to Grobler et al. (2006:260), performance management is a process which stretches right through the organisation, from its mission statement, value statement and objectives within a system of continuous performance management, leading to performance review.

2.9.9.1. Core components of the municipal performance management system

Kelman (2005:186) identified the following as the core components and community involvement in the municipal performance management system:

- Setting appropriate key performance indicators (KPIs) as a yardstick for measuring performance;
- Setting measurable performance targets for each development priority and objectives;
- Monitoring performance, and measuring and reviewing performance at least once a year against the development priorities and KPIs;
- Taking steps to improve performance where targets have not been met; and
- Establish a process of reporting to stakeholders.

According to Craythorne (2006:126), with regard to KPIs and targets, the performance management system must be devised to serve as an early warning indicator of underperformance.

2.9.9.2. Types of KPIs

An input indicator, as defined in the local government municipal planning and performance management regulations, is an indicator that measures the costs, resources and time used to produce an output. This is a measure for economy and efficiency. It therefore measures what it costs the municipality in time, money or staff to deliver this service.

An output indicator measures the results of activities, processes and strategies of a programme implemented by the municipality (Craythorne, 2003:127). An outcome indicator measures the quality and or impact of an output on achieving a particular objective (Craythorne, 2003:127).

2.9.9.3. Compulsory KPIs

Section 43 of the Municipal Systems Act (South Africa, 2000a) authorises the Minister of Provincial and Local government to prescribe general key performance indicators that every municipality must report on. The following is the set of general key performance indicators set out in Regulation 10:

- Percentage of households with access to basic services (water, sanitation, electricity and solid waste removal);
- Percentage of households earnings less than R1100 per month with access to free basic services;
- Percentage of capital budget actually spent on capital projects identified in terms of the IDP;
- Number of jobs created through local economic development initiatives supported by the municipality;
- Percentage achievement of an approved employment equity plan within the first three layers of management;
- Percentage of the budget actually spent on implementing the workplace skills plan;
- Financial viability ratios in relation to debt coverage ; and
- Outstanding service debtors to revenue and cost coverage.

Fourie et al. (2007:259) argue that the abovementioned three financial performance indicators may be insufficient to assess the financial performance of the municipality and therefore suggested that a comprehensive analysis of financial results will provide a complete picture. As a result, the following financial performance indicators should be looked at:

- Expenditure per service to total revenue;
- Expenditure per category to total revenue;
- All services to revenue;
- Percentage total debt fixed assets;
- Percentage growth in the total investing activities;

- Current ratio;
- Add test ratio;
- Consumer deposit cover;
- Turnover rate accounts receivable;
- Cash to interest coverage;
- Debt to cash;
- Cash to income;
- Financing to expenditure;
- Units lost in distribution;
- Percentage lost in distribution;
- Cost per unit sold;
- Generating and or purchase cost per unit sold; and
- Cost of distribution losses.

The accurate calculations and interpretation of these performance indicators requires one to have a good understanding of financial management. Therefore, the Municipal Manager should delegate this function to a person (CFO) who has a strong financial background and who satisfies the minimum competency requirement.

2.9.10. Management of fixed assets

In accordance with section 63 and 78 of the MFMA No. 56 of 2003 (South Africa, 2003e), the responsibility for managing the assets of a municipality, including the safeguarding and the maintenance of such assets, is vested in the Accounting Office (Municipal Manager) as well as the Senior Manager's; however, in terms of MPFA the Accounting Officer delegates this to the CFO.

According to Fourie et al. (2007:303), presently the accounting treatment of fixed assets is prescribed in a statement of generally accepted municipal accounting practice (South Africa, 1998a:17).

The statement GAMAP 17 (South Africa, 1998a) prescribes and gives guidance in terms of the following:

- Format of fixed assets register;
- Classification of fixed assets;
- Measurement of fixed assets;
- Determination of depreciation;
- Disclosure of fixed assets in the financial statement;
- Annual stocktaking of fixed assets;
- Retirement and disposal; and
- Improvement of fixed assets.

2.9.11. Expenditure control

Fourie et al. (2007:31) argue that the Municipal Manager, with the assistance of the CFO, must assume responsibility and must take all reasonable steps to ensure that:

- The municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;
- The municipality has and maintains a management, accounting and information system which recognizes expenses when they are incurred, accounts for creditors, and accounts for payments made by the municipality;
- The municipality has and maintains a system of internal control in respect of creditors and payments;
- Payments made by the municipality are made directly to the person to whom the payment is due, unless agreed otherwise for reasons as may be prescribed and are made either electronically or by way of non transferable cheques, provided that cash payments and payments by way of cash cheques be made for exceptional reasons only and only up to a prescribed limit;
- All monies owing by the municipality are paid within 30 days of receiving the relevant invoice or statement unless otherwise prescribed for certain categories of expenses;
- The municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;

- Any dispute concerning payments due by the municipality to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
- The municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
- The municipality's supply chain management policy is implemented in a way that is fair, equitably transparent, competitive and cost effective; and
- All financial accounts of the municipality are closed at the end of each month and are reconciled with its records (Section 65 (1) and (2) of MFMA No. 56 of 2003) (South Africa, 2003e).

2.10. POWERS TO INVESTIGATE LOCAL GOVERNMENT FINANCE

The Auditor-General (AG) as a requirement of section 188 of the Constitution of South Africa is responsible to audit the accounts, financial statements, financial management of both the national and provincial state departments and administration, including all municipalities.

The public protector, mandated by section 182 of the Constitution is to investigate any conduct in the sphere of government affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice.

2.11. THE ROLE OF STAKEHOLDERS IN FINANCIAL MANAGEMENT

The local government is the organ of the state, which renders service to the communities, and it is the main driver of economic development. Therefore, the financial management of the municipalities is a critical area that is monitored by a number of stakeholders. The financial role of the following stakeholders will be looked at.

2.11.1. National and provincial support

According to the Guide to Municipal Finance Management for Councillors (South Africa, 2006d:9), there are numerous types of support which the national and provincial departments can provide to municipalities. The following list is certainly not complete, but serves as a basic guideline:

- Provide policy guidance to councillors in drafting of municipal policy and developmental plans;
- Assist councils to identify suitable projects;
- Tailor their own budgets to support councils in the implementation of projects;
- Assist municipalities to secure donor funding for projects and programmes;
- Provide ongoing mentoring, guidance and training to municipal staff members;
- Make extension officers available to assist municipalities in the implementation of projects; and
- Assist municipalities with the monitoring and evaluation of projects and programmes.

2.11.2. Internal audit

Arens and Loebbecke (2000:793) argue that the role of the internal auditors is as follows:

- Planning the audit – internal auditors should plan each audit before the start of the audit process;
- Examinations and evaluating information – internal auditors should collect, analyse, interpret, and document information to support the audit results;
- Communicating – internal auditors should report the results of their audit to their employer; and
- Follow up audit – they should make a follow up to establish whether appropriate action is taken on reported findings.

The chairperson of IPFA council, Ms. Shirley Machaba (2006:32-35) indicated that the internal audit functions must prepare risk-based audit plans and report to the audit committee on the following matters:

- Implementation of the audit plan;
- Internal controls;
- Risk management;
- Compliance management;
- Performance management; and
- Loss control.

The president of the Institute for Internal Auditors, Greg Hollymay, in his presentation at the IMFO Annual conference in 2006, maintained that, to ensure that professional audit services are provided to municipalities on assessment of internal audit, functions need to be revised at least every three years to ensure compliance with the internal audit standards (Hollymay, 2006:40-41).

According to the above literature, the main role of the internal auditors is to scrutinise the operational process of organisations in order to establish compliance in terms of following procedures, general performance and identify the inherent risk.

2.11.3. Audit committee

Improved financial management forms the cornerstone of improved service delivery and outputs from the public sector (South Africa, 1995:2). There is also increasing pressure for public officials to demonstrate a high level of accountability over the use of public funds (South Africa, 2001:1).

The King Report on Corporate Government of 2002 also recommended that all companies establish audit committees, and went on to focus on the independence of the audit committees, as well as the value of a strong internal audit function. The audit committee is a key accountability instrument, playing a crucial role in the financial management and control environments of public corporations (Henley et al., 1992:153). It should be noted that one cannot talk about an audit committee as an instrument without referring to internal control and risk management, as these form part of the core competencies of the CFO.

The King Report further mentioned that the audit committee is regarded as the committee of the board, with a strong responsibility to review control systems, including financial controls and risk systems (King II, 2002:129).

It is argued that audit committees should be responsible for overseeing management's assessment of risk (refer to risk management); furthermore, the audit committee can strengthen management's ability to identify and assess both internal and external risk (Turley & Mahbub, 2001:12), as well as their implementation of appropriate controls to mitigate these risks. It is recognized that the audit committee can strengthen internal audit in the municipality, as a monitoring mechanism to assess the effectiveness of the controls (South Africa, 2002: 4).

2.12. CHALLENGES EXPERIENCED BY MUNICIPALITIES

Municipalities are facing many challenges in the new dispensation and the following will be discussed:

2.12.1. Financial mismanagement as a challenge

The inability of many municipalities to comply with financial regulations set by the Auditor-General is a disturbing indicator of the lack of capacity in many municipalities. In the Auditor-General's report on the submission of financial statements by municipalities for the financial year that ended 30 June 2005, it was revealed that 132 out of 284 municipalities submitted financial statements late or did not submit financial statements at all (South Africa, 2006a:2).

The out-going Auditor-General, in his presentation to the SCOPA in Cape Town in October 2007, indicated that one of the reasons for the increase in qualified reports was that the Auditor-General had lifted the bar and was less lenient. This is a great improvement taking into consideration that the Auditor-General has lifted the standard SCOPA, 2007).

2.12.2. Staffing as a challenge

The Parliamentary Portfolio Committee (PPC) (Minutes of PPC, 2003) on provincial and local government has undertaken a major study tour of 61 municipalities from 20 to 30 January 2003. The report, dated 15 April 2003, stated that, in respect of the remuneration of the Municipal Managers and senior managers, several municipalities reported that they had to compete with private sector salary scales with other benefits, in order to draw highly skilled and competent people as managers. "Every time we find somebody good, the private sector grabs them up," said one of the Executive Mayors, who was interviewed, in frustration.

Wendy Fanoë, in her address to the Institute of Municipal Financial Officers' annual conference held in 2006 said, "Many municipalities struggle to attract staff with the right skills, particularly in the more rural areas of the country." She further indicated that there is a need to harmonize conditions of service and remuneration practices between local government and the public services (Fanoë, 2006:37).

Tony Osei-Tutu, in his address to the Institute of Municipal Financial Officers' annual conference held in 2006 said that the challenge is that many of the employees of municipalities have not been equipped through training and prior experience to play the roles placed on them by the fast changing municipal landscape. This situation is made more challenging by the organisational climate in many municipalities that do not encourage learning and the development of competence.

According to the Department of Provincial and Local Government's report on skills levels in municipalities, the skills shortage is largely a result of 'transformation' and 'employment equity' considerations. The DPLG in September 2005 noted that, as many as thirty-six percent of managers have only a Grade 12 qualification with a diploma or less, with one Municipal Manager who does not even have a Grade 12 qualification. Thirty-seven percent of Municipal Managers have less than five years experience in local government, while 74% have eleven or less years experience in local government.

Under-performance by municipal officials is largely due to the depletion of the skills base of municipalities. The clause in the Municipal Structures Act No. 117 of 1998 (South Africa, 1998b), that requires the municipal management to have the '*relevant qualifications*' and '*expertise to perform the duties associated with the post*' is seemingly ignored in many cases.

Another factor contributing to the skills shortage is the tendency to appoint politically connected individuals as Municipal Managers and Senior Managers. In the Steve Biko memorial lecture in September 2005, Mamphela Ramphele was commenting on the fact that, too many skilled professionals were being denied job opportunities in municipalities because "they were outside the party political networks that have captured civil service jobs for patronage" (Ramphele, 2005).

2.12.3. Corruption and fraud as a challenge

2.12.3.1. Corruption as a challenge

The fight against corruption is a key element of the African initiatives to eradicate poverty and to put African countries on a path of sustainable growth and development (Moleketi-Fraser, 2007:02).

In order to promote good governance, the DPLG will launch an anti-corruption strategy at the local government level as stated in the Strategic Plan: 2004-2007 (South Africa, 2003b). The strategy will focus on mobilizing communities to expose corrupt practices and on using the current regulatory framework to process cases of corruption.

The Minister of DPLG, Sydney Mufamadi, supported the above statement when addressing delegates at the launch of the Anti-Corruption Project on 23 October 2006 (Mufamadi, 2006b), when he said that, "whistle blowing is one of the government strategies to fight corruption, in some cases our patriotic citizens rise above those who bribe and report corruption, but in most cases it proves to be ineffective because those who are being spotted committing corruption, bribe those who spotted them to shut up and the vicious circle goes on."

The Minister of DPLG, in a press statement on 23 October 2006 (Mufamadi, 2006b), stated that the launch of the anti-corruption strategy marks the beginning of an anti corruption campaign in local government. Provinces will launch the strategy for their respective municipalities. He further indicated that the Imbizo week starting on 26 October 2006, was also used as a platform to popularize and socialize the strategy in their communities.

2.12.3.2. Fraud as a challenge

The chairperson of SCOPA, in his opening remarks at a meeting held in Cape Town on 17 January 2007, urged members to keep their eyes focused on the road ahead. He said that the committee would continue its "unwavering commitment towards fighting the ills and the wrongs that occur in the administration and management of public funds". He reminded members that some commentators had agreed that SCOPA had turned a corner and was now on the road to success (SCOPA, 2007:3).

The Minister of Finance, Trevor Manuel, on 21 February 2007, in the budget speech said that, "We also need to insist that honesty and integrity are core values of our economic and financial institutions. We continue to see instances of flagrant abuse of this principle, often involving hundreds of millions of rands" (South Africa, 2002). The Minister continued, "I have instructed the Financial Intelligence Centre, the Financial Services Board and the South African Revenue Service to work collaboratively with the South African Police and prosecutors in dealing with financial crime and its proceeds. I have also asked that fiduciary and trusteeship responsibilities need to receive the highest priority in the oversight activities of our regulators. We must ensure that neither organised crime nor abuse of stewardship obligations should be allowed to violate our hard-earned democracy and the integrity of our country."

The effort and the resources, which the government utilise to combat fraud and corruption, is an indication that fraud and corruption pose serious challenges within municipalities in South Africa. Gauteng is within the borders of South Africa and it is not immune to these challenges. Now that fraud and corruption has been discussed,

the researcher will look at whistle blowing as one of the options to fight fraud and corruption.

2.12.4. Whistle blowing

According to Near and Miceli (1985:4), whistle blowing is the disclosure by an organisation member (former and current) of illegal, immoral or illegitimate practices under the control of their employers, to persons or organisations that may be able to effect action. Zvekic (2001:136) provides slightly different wording stating that whistle blowing is the disclosure by an employee of confidential information which relates to some danger, fraud or other illegal or unethical conduct connected with the workplace, be it of the employer or of his fellow employees.

In Southern Africa, the Protected Disclosure Act 2006 (Act 26 of 2006) (South Africa, 2006b) has gone a long way in alleviating the worst fears of those who blow the whistle in good faith on wrongdoing and malpractice, even if they turn out to be mistaken. This Act provides protection against reprisals for whistle blowing on wrongdoing done on good faith.

2.13. POLICY AND LEGISLATION FRAMEWORK

There is a long list of policy regulation documents which are applicable to the municipalities; however, only policy documents which are mainly applicable to the office of the CFO will be looked at.

2.13.1. Municipal Finance Management Act (MFMA No. 56 of 2003)

The main objectives of the MFMA No. 56 of 2003 (South Africa, 2003e) is to secure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility; management of revenues, expenditures, assets and liabilities and the handling of financial affairs; budgetary and financial planning processes and the co-ordination of those processes with organs of state in other spheres of government; borrowing; the

handling of financial problems in municipalities; supply chain management and other financial matters.

2.13.2. Municipal Systems Act (No. 32 of 2000)

The local government Municipal Systems Act 2000 (South Africa, 2000a) requires municipalities to develop a culture of municipal governance that complements formal representative government with a system of participation in municipalities that encourages and creates conditions for the local community to participate in the affairs of the municipality.

The governance model aims to deepen and extend participation by local communities in matters that affect service delivery and the building of communities, towns and villages. The concept of a people's contract confirms this approach and will be implemented in partnership with all the social partners as stated in the DPLG: Strategic Plan 2004-2007 (South Africa DPLG, 2005:6).

According to the Strategic Plan 2004 – 2007, the government has planned a number of programmes to put the requirements of the Municipal Systems Act into practice. For instance, the government has initiated the formation of ward committees and the community development workers' programme (South Africa: 2007:9).

2.13.3. Division of Revenue Bill (2007)

The Finances Select Committee (FSC) is constituted by members from various government departments and other stakeholders. The FSC's main objective is to research and debate on finance-related issues and to advise the Parliament Monitoring Group (PMG). The PMG advises and makes recommendations to the Parliament for approval. The Division of Revenue Act (DORA) is released annually.

The FSC held a briefing on 6 March 2007 to discuss the Division of Revenue Bill. Ms Lorraine Madununga representing the South African Local government Association (SALGA) reported that, due to capacity constraints, some municipalities are unable to fully spend the Division of Revenue Act allocations and, as a result, these needed

funds are then reduced or withdrawn from non-spending municipalities (Madununga, 2007:3).

Ms Madununga, who is attached to the South African Local government Authority (SALGA), in her deliberation in Parliament on 06 March 2007 recommended that the following should be incorporated into the DORA-2007 (Madudunga, 2007:3):

- The DORA must make provision for the transferring department to assist municipalities in improving their capacity to spend such DORA allocations; and
- Before allocations are reduced or withdrawn, consultation must occur with the provincial DPLG and district municipality in the area which the municipality falls under, with a view to assisting such a municipality in fully spending such allocation.

2.13.4. Disaster Management Act (No. 57 of 2002)

The Disaster Management Act, (Act No.57 of 2002) (South Africa, 2006c) places emphasis on building the country's capacity to deal with disasters. Disasters are unpredictable events which even the world's best managers cannot predict and estimate accurately the recovery cost before it actually happens. The implementation of the Disaster Management Act has a direct influence on the functioning of the office of the CFO in terms of making provision for funds to be available in the event that a disaster occurs. It is therefore imperative for the treasury (CFO) to strike a balance between income collected, funds reserved for provisions and the effective utilisation of funds (Gildenhuys, 1997:23).

The DPLG has three priority tasks in relation to disaster management as per the Strategic Plan 2004-2007 that are as follows: firstly to implement the Disaster Management Act; secondly, to establish a committee of Ministers to ensure co-ordination of the management of disasters within and across the three spheres of government; and thirdly, to monitor and co-ordinate the management of disasters and to build the capacity of the local sphere of government to mitigate against and manage disasters.

2.13.5. Supply Chain Management (SCM)

The Constitution (1996) provides that when organs of state procure goods and services, they must comply with five principles: fairness, equity, transparency, competitiveness and cost effectiveness, as stated in section 217(1) of the Constitution (South Africa, 1996). This means that the municipality should make use of competition when procuring goods or services. It should 'shop around', in order to attract the maximum number of contractors or suppliers who will participate in such competition.

The preamble of the MFMA No. 56 of 2003 aims inter alia, "to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government". Section 111 of the MFMA No. 56 of 2003 provides that each municipality and municipal entity must have and implement a SCM policy which give effect of section 217 (1) of the Constitution (South Africa, 2003e).

Depending on the nature and value of a particular contract, the use of public call for tenders is generally regarded as the best way to ensure compliance with the principles of section 217(1) of the Constitution. By nature, a public call for tenders is open, and it assists in the prevention of fraud, thus affording an equal opportunity to all prospective contractors.

SCM makes provision for a range of procurement processes which includes the following: petty cash purchases are prescribed for purchases of up to R2 000; written or verbal quotations are prescribed for purchases over R2 000 but below R10 000; formal written price quotations should be obtained for purchases over R10 000 but below R200 000; and competitive bidding should be used for purchases or contracts with a duration period exceeding one year.

2.14. REFORMS OF LOCAL GOVERNMENT

The National Treasury plays a pivotal role in the introduction of financial management reform in local government as a requirement of the Constitution. The cornerstone of the reform initiative was the implementation of the MFMA No. 56 of 2003 No.56 of 2003, which became effective in July 2004 and the Annual Division of Revenue Act supports it. These pieces of legislation have been aligned with other local government legislation, such as the Municipal Structures Act, Municipal Systems Act, Property Rate Act and their regulations, to form a coherent package.

2.15. CONCLUSION

In terms section 79 of the MFMA No. 56 of 2003 (South Africa, 2003e), the Municipal Manager of the municipality, may delegate the financial duties of the municipality to *competent staff members of the senior management team or any official of the council*. The guideline on municipal regulations for minimum competency level requires the CFO to have certain expertise; as a result, the CFO is the most eligible staff member of the senior management who could be entrusted with the financial management of the council.

The Guideline on Municipal Regulations for minimum competency level was implemented on 01 July 2007, and these guidelines are expected to change the recruiting requirement for the CFO positions within the municipalities. Furthermore, the expectation is that CFOs will change from number crunchers to becoming a strategic and management role-player (South Africa, 2007b).

Now that the literature has been reviewed with regard to the roles of the CFO, the researcher will focus on the research design and methodology of the study.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1. INTRODUCTION

The two main paradigms that have dominated the academic research scene for the past century are the quantitative and the qualitative research methodologies. For the purpose of this study, the researcher will embark on an integrated research methodology by using both quantitative and qualitative research methods. According to Saunders et al. (2000:381), qualitative data is based on meanings expressed through words. Quantitative research is defined by Struwig and Stead (2004:4) as a form of conclusive research involving large representative samples and a structured data collection procedure.

The use of more than one research method seems to have substantial advantages. One vital advantage of the use of multiple methods lies in the reduction of inappropriate certainty. Using a single method and finding a clear-cut result may delude investigators into believing that they have found the correct answer. Using additional methods may point to differing answers, which removes specious certainty. Mouton and Marais (1990:72) argued that the term triangulation refers mainly to the use of multiple methods of data collection with a view of increasing the reliability of data. The triangulation method could include methods such as interviews, Likert type questions and focus groups (Struwig & Stead, 2004:19).

According to Erlandson et al. (1993:115), the triangulation method is when the researcher seeks out several, different types of sources that can provide insight about the same events or relationships. Whilst Neuman (2000:124-125) argues that the triangulation method can be explained by the analogy of surveyors and sailors who measure distances between objects by making observation from multiple positions to get a fix on its true location.

The use of multiple methods called triangulation enhances the interpretability of research findings. Therefore, for the purpose of this research project the researcher will also interview the skills development facilitators, consultants attached to municipalities and government employees who work directly with municipalities to validate the information gathered from local municipal staff members.

3.2. RESEARCH DESIGN

A number of the definitions of the term research design will be looked at in order to broaden the understanding of the term.

Mouton (2001:55) maintains that research design is a plan or blueprint of how one intends conducting the research. Mouton further states that the aim of a research design is to plan and structure a given research project such that the validity of the research findings is maximized. According to De Vos and Strydom (2002:77), *research design is a blueprint or a detailed plan of how a research study is to be conducted*. Huysamen (1994:10) offers a closely related definition of a research design as the plan or blueprint according to which data are collected to investigate the research hypothesis or question in the most economical manner. This includes a description of the procedure for identifying the population, selecting a sample, collecting and analyzing data.

TerreBlanche and Durrenheim (2002:29) indicated that research design is a strategic framework for action that links research questions to the execution or implementation of research. According to this definition, research design is a plan that guides arrangements for collection and analysis of data, because it specifies how the research is going to be carried out in such a manner that it answers research questions.

TerreBlanche and Durrenheim (2002:29–30) maintain that the aim of research design is to provide a framework for action that will enable the researcher to draw coherent and acceptable conclusions or inferences from his or her observations. Schumacher and McMillan (1993:31) state that research design ensures that the study fulfils a particular response, as it provides answers to research questions that

will stand against criticism and ensure that the design has an impact on the validity and correctness of the research findings.

Research design is a complete strategy of attack upon the central research problem (Leedy, 1993:208). Based upon the above definitions, a research design may be explained as a detailed plan outlining how the population and the sample of the study are identified. A research instrument is designed, and data is collected and analysed.

In this particular study, the research design will include the following: defining the population of the study, ethical aspects of the study, design of the research instruments, data collection methodology and limitations of the research instrument.

3.2.1. The population of the study

Leedy (1993:208) states that a population is a homogeneous mass of individual units. Leedy (1993:208) further explains that the population consists of distinctly different strata, but the units within each stratum are as homogeneous as possible. This description portrays a population as a group of organisations which shows common characteristics or behaviour. These characteristics are of prime interest to the researcher.

Barun and Graff (1992:240) define a population as the total set from which the individual or units of the study are chosen. Babbie (2000:85) also defines a population as the set of elements that the researcher focuses on and to which the obtained results should be generalized.

As it was mentioned earlier, it is perceived that the smaller (local) municipalities do not have the means to afford highly qualified financial personnel, and that is the reason for their poor financial performance. This may also be a perception. The researcher, however, based the choice of eight local municipalities for the research, on the statistics shown in Table 2.5 and 2.6 above, for two reasons: firstly, these eight local municipalities include municipalities with unqualified audit opinion and ones with qualified opinion – adverse or disclaimer audit opinion; as a result, it is

believed that the researcher will receive input from both personnel from the poorly and healthily financial performing municipalities. Secondly, the two tables show an improvement over the three years, from one unqualified audit opinion to three unqualified audit opinion. This gave the researcher the opportunity to gain insight from both functional and dysfunctional financial environments.

In the Gauteng province, there are eight local municipalities. However, this study focuses on the roles of the CFOs within local municipalities; as a result, the researcher has targeted the CFO and his or her immediate subordinates i.e., the decision makers, to obtain knowledge of the role of the CFO in order to critically analyze it. Therefore, the CFOs, deputy CFOs and their managers being the executive financial personnel in the eight local municipalities within the borders of Gauteng, constitute the entire population of the study (refer to Figure 3.1 below). Now that the population has been defined, it is imperative to look at the typical organogram of the office of the CFO within local municipalities in Gauteng.

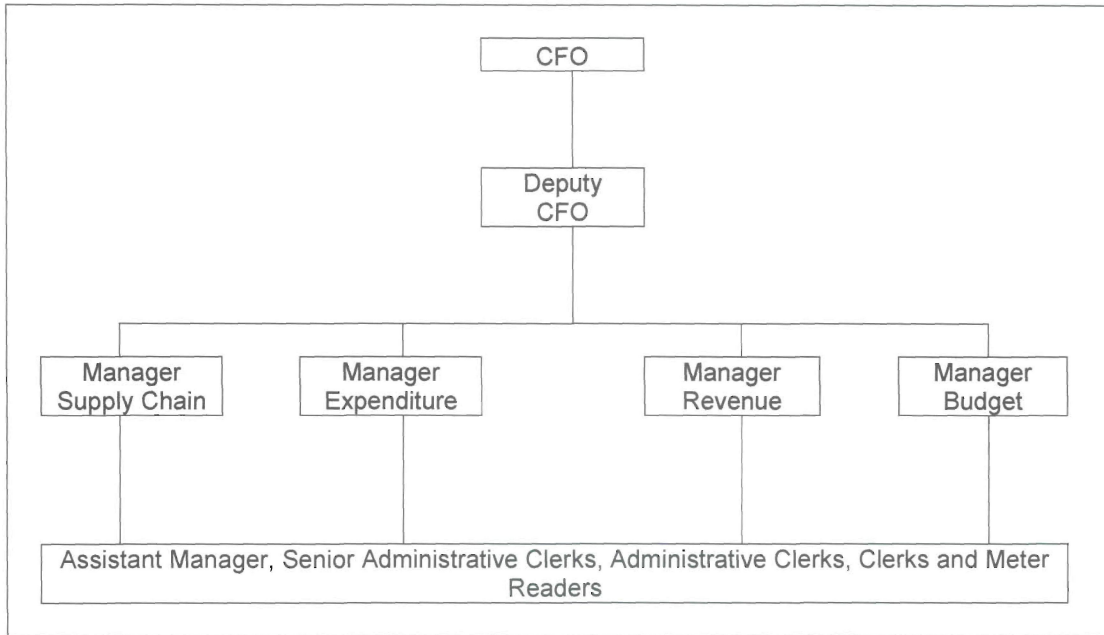
3.2.2. Typical organogram of the office of the CFO

Thompson and Martin (2005:687) argue that the structure of an organisation is designed to break down the work to be carried out or tasks into discrete components, which might comprise individual business, division and functional departments. Generally, the structures of the municipalities are divided into functional operational areas such as finance (Office of the CFO), human resources, housing, Integrated Development Planning and so on. In this study, the typical structure of the office of the CFO will be looked at.

The structure below is based upon the comparison and consolidation of approved structures of eight local municipalities in Gauteng. It must be emphasized that the structure of the office of the CFO is determined by the size and the operational activities of the municipality. For instance, there are local municipalities with one CFO and four managers; or, one municipality may have a CFO, deputy CFO and two managers.

The population of the study as discussed in section 3.2.1 above is represented by the highlighted designations (positions) in a typical organogram of the office of the CFO below (see figure 3.1 below).

Figure 3.1: Typical organogram – CFO’s office



The population of the study has been defined and the typical organogram of the office of the CFO has been developed; therefore, it is now necessary to determine the total population of the study.

3.2.3. Total population of the study

The information in Table 3.1 below is based on information gathered from municipalities during the period of November 2007 to March 2008.

Table 3.1: Schedule of approved and filled CFOs', Deputy CFOs' and managers' positions

Name of municipality	CFO	Deputy CFO	Manages	Total Approved	Total Filled
Emfuleni Local Municipality	1		4	5	5
Lesedi Local Municipality	1	1	2	4	3
Kungwini Local Municipality	1		4	5	5
Nokeng Tsa Taemane Local Municipality	1		3	4	3
Midvaal Local Municipality	1		3	4	3
Mogale City Local Municipality	1		4	5	5
Randfontein Local Municipality	1		4	5	4
Westonaria Local Municipality	1		3	4	4
Total	8	1	28	36	32

In sections 3.2.1 and 3.2.2 above, it was mentioned that the total population of the study is constituted by the approved structure of the CFO officers of the eight local municipalities in Gauteng, but only targeting the CFOs, deputy CFOs and managers within these municipalities. It should be noted that in practice it is not always the case that all approved positions of an organisation are filled, and hence the total population needs to be revisited. Therefore, the total population of the study will be the total number of approved and filled positions of the eight local municipalities in Gauteng, since this is the total number of respondents available to be interviewed. Therefore, the total population is **32 participants**. The research instrument was administered in March 2008, and the information in Table 3.1 was confirmed to be correct at that date.

The entire population has been defined. Therefore, the next step will be to define the sample. Gay (1996:125) suggests the following guidelines for the selection of the sample:

- For a small population size of less than 100 ($N < 100$), there is little point in not sampling the entire population;
- If the population size is around 500, 50% of the population should be sampled;
- If the population size is around 1 500, 20% should be sampled; and
- Beyond a certain point (at approximately $N = 5\ 000$), the population size is almost irrelevant.

In this study, the researcher has decided to adopt Gay's guidelines for selecting the sample. The entire population has been identified as 32 participants (refer to Table 3.1 above). The population is less than 100 ($N < 100$); as a result, the entire population will be targeted to be interviewed.

3.3. RESEARCH INSTRUMENTS

Struwig and Stead (2004:41) state that data can be collected from questionnaires, observations, experiments, interviews, documents, photographs and films. Quantitative data collection methods often employ measuring instruments, such as questionnaires, checklists, indexes and scales (De Vos & Strydom, 2004:165). In this study, the researcher has identified a questionnaire as a research tool.

3.3.1. The questionnaire as a research tool

More than one definition has been quoted in the light of sharing this concept and in trying to understand the various authors' perceptions in respect of a questionnaire.

According to De Vos and Strydom (2003:152), a questionnaire is defined as a set of questions on a form, which is completed by respondents in respect of a research project. It is further stated that a questionnaire can have either open or close-ended questions, or both. It can also be classified as a mailed, telephone or group questionnaire (ibid).

Schumacher and McMillan (1993:152) define a questionnaire as a data collection strategy, which is the most generally used instrument of all. Other authors who are in

agreement with this view are TerreBlanche and Durrenheim (2002:293), who say that a questionnaire is regarded as one of the commonest tools of gathering data.

Wolf (1998:478-479) indicates that a survey questionnaire is a self-report instrument used for gathering information about variables of interest to the researcher, and consists of a number of questions or items that a respondent reads and answers, and also satisfies the assumptions on which questionnaires are based:

- That the respondents can read and understand the questions;
- That the respondents are in a position to supply the information to answer the questions;
- That the possibility of willingness to answer the questions exists; and
- That the respondents will be interested in the outcome of the research and its implications for the betterment of their situations.

Kitavi (1995:197), on the other hand, describes a questionnaire as an appropriate tool for collecting information directly from people about their feelings, opinions, motivations, plans, beliefs and personal educational and financial backgrounds.

According to Legotlo (1994:162), a questionnaire helps in gathering information for the study and the gathering which will be guided by the purpose of the study. Another reason for making use of a questionnaire is supported by Sax (1979:244); that it would be easy to distribute, and cost effective with regard to financial resources and time.

Questionnaires which are open-ended, allow respondents to answer in an unrestricted manner, whereas closed-ended ones are those which respondents choose what they deem as appropriate answers from a given selection (Oppenheim, 1998:25). An advantage of open-ended questions is the freedom it gives to the respondents. Once they have understood the intent of the question, they can let their thoughts roam freely, unencumbered by a prepared set of replies. Their ideas are obtained in their own language, and expressed spontaneously. Closed questions can be attitudinal as well as factual. They are normally easier to answer and need no writing and the quantification is rather straightforward. They require little time, imply

low costs, and are easy to process, make group comparisons easy and need less interviewer training. Disadvantages relate to the fact that there might be bias in the answer categories, and this may irritate respondents (Oppenheim, 1998:25).

3.3.2. The questionnaire for the study

The roles and functions of the CFO as discussed in the literature review in chapter two above formed the basis and the structure of questionnaire.

McMurtry (1993:168) argues that most questionnaires contain both open and closed questions. McMurtry further suggests that the researchers must aim at using as many closed questions as possible, although there will always be information that is difficult to generate by closed questions, and open questions are unavoidable. Therefore, in this study both close-ended and open-ended questions will be used.

According to Kitavi (1995:197), the formulation of questions is of crucial importance since it will determine the success of the entire research. Kitavi (1995:197) cites the following guidelines for question formulation:

- Questions should be clearly stated in simplest forms;
- Questions should not be hypothetical;
- Questions should produce responses that represent a firm position from the respondents;
- Negative items should be avoided;
- Presuming questions should be avoided;
- Loaded questions should be avoided; and
- Questions should not evoke uniform, stereotyped responses.

Miller and Cannel (1994:460) on Kitaivi's list include the following:

- Questions should communicate some rules about the process of question answering by providing respondents with the necessary ones so as to reduce complexities; and

- Questions should allow respondents to review their own relevant experience thoroughly and to arrive at an accurate and complete response.

The guidelines for the design of a questionnaire have been discussed in detail by various authors; as a result, the researcher has taken into consideration these guidelines when drafting the questionnaire. Drafting of questions will culminate in the types of questions that follow.

3.3.3. Types of questions

It is advisable for the questionnaire to have both open-ended and closed-ended questions as stated by De Vos and Strydom, and McMurtry in sections 3.3.1 and 3.3.2 respectively.

3.3.3.1. Open-ended questions

Struwig and Stead (2004:92) argue that these are questions that the respondents are free to answer in their own words and to express any ideas they think are applicable. De Vos and Strydom (2004:179) suggest that open questions have advantages when a case is relatively unexplored or unknown to the researcher, since it will enable the researcher to explore the variable better and to obtain some idea of the spectrum of possible responses.

Under this category of questions, question CC6 (refer to the questionnaire) will be used as an example: In your opinion, what measures could be taken to improve the implementation of the Code of Conduct for municipal staff members?

3.3.3.2. Closed-ended questions

De Vos and Strydom (2004:179) argue that closed questions offer the respondent the opportunity of selecting (according to instructions) one or more response choices from a number provided to him or her. The authors also state that the close-ended questions elicit a standardized set of responses from all the respondents and allows for easier comparative data analysis.

In the research instrument for this study, the following close questions were used:

➤ **Dichotomous questions**

According to Struwig and Stead (2004:94), dichotomous questions allow for responses that indicate unmistakable division, and respondents are offered a choice between two options only, such as 'yes' or 'no', 'did' or 'did not' and 'cash' or 'credit'.

For example: question CC 1 - Municipal staff members have a copy of the Code of Conduct for municipal staff members.

Yes	No	Uncertain
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➤ **Scaled-response questions**

A scaled-response question format is often used to gather data on attitudes and perception (Struwig & Stead, 2004:94). According to De Vos and Strydom (2004:182), this type of question is a type of multiple-choice question, and the response categories are designed in such a way that respondents mark a certain point on a scale.

For an example: question IC 3 - The municipality implements the recommendations from the office of the Internal Auditor diligently regarding internal control.

Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
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➤ **Multiple-choice question**

De Vos and Strydom (2004:180) mention that in multiple-choice questions three or more response options are offered, with "no" or "not applicable" option of dichotomous question as one response possibility. The authors also state that this type of question is normally utilized to obtain information that can logically be divided into hard and fast categories. Question RM 5 (c) will be used as an example:

Does your municipality have an internal audit department? (C) If yes, does it report to the: (tick the appropriate box / boxes)

CFO	Audit Committee	Municipal Manager	Other (name)
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➤ **Follow-up questions**

The follow-up questions should have a funnel-like effect, i.e., it should lead to more in-depth knowledge and to finer detail (Button, 2000:92). De Vos and Strydom (2004:182) suggest that the follow-up questions are specifically applied to obtain more information about a response in a previous question. For example, question CFO 1 (refer to the questionnaire):

Do you think the role of the CFO of the municipality has changed significantly in the new dispensation for the local municipality? Briefly motivate your answer. If yes, what factors contributed towards this changed situation? (Please tick one or more appropriate box/es.)

a. New legislation	
b. re-demarcation of municipalities	
c. new type of local government	
d. corporate government	
e. other (please name)	

Questions in the research instrument cover a wide spectrum of broad categories, which include designation of the respondent, Code of Conduct of municipal staff members, financial reporting requirements, internal control systems, financial legislation, risk management, strategic management, budgeting process, leadership role and lastly, the role of the CFO.

Having discussed the type of questions, it is now essential to describe the strategy, which was used to measure the quality of the research instrument. It is extremely important that the quality control measures should be applied to give research

credibility. Traditionally, there are two main mechanisms of quality control in quantitative research, and they are the canons of reliability and validity.

3.3.4. Validity of the research questionnaire

According to Goodwin (1995:35), validity should not be mistaken to mean a test that seems to make sense, as the test can make sense, but not be valid. De Vos and Strydom (2003:83) explain that in order for a questionnaire to be valid, it must be able to be used as a measuring instrument to measure accurately what it is supposed to measure. De Vos and Strydom further argue that the measuring instrument can measure what it is intended to measure, but without measuring it accurately and not vice versa. TerreBlanche and Durrenheim (2002:61) concur that an instrument should be usable for the particular purposes for which it will be designed. However, TerreBlanche and Durrenheim (2002:61) define validity as the degree to which the research conclusions are sound. Gay (1996:136) describes validity as a measuring instrument that measures accurately what it is intended to measure; it allows for the appropriate interpretation of results and the drawing of acceptable conclusions about that population. Gay also states that this definition suggests that if the validity of the measuring instrument is questionable, then the results of the research will be questionable too, as they cannot be used to inform decisions.

Brown and Brown (1993:499) argue that once the research instrument is judged as reliable, the investigator conducts the research project administering the instrument with confidence, assuming that the instrument has appropriate validity.

De Vos and Strydom (2004:121) argue that potential limitations are often numerous, even in the most carefully planned research study; as a result, the researcher must consider the validity and reliability of all the data collection instruments. Therefore, a pilot study has been conducted to enhance the validity of the research instrument. Three district municipalities in Gauteng were identified, the questionnaire distributed and the responses were analysed.

3.3.5. Reliability of the research questionnaire

Reliability is the extent to which test scores are accurate, consistent or stable, as defined by Struwig and Stead (2004:130). According to Welman and Kruger, (1999:142) reliability refers to the extent to which the obtained scores may be generalized to different measuring measurements or tests forms and measurement or test administration.

De Vos and Strydom (2004:168) mention that generally reliability refers to the extent to which an independent administrator of the same instrument or highly similar instrument consistently yields the same or similar results under comparable conditions. De Vos and Strydom further acknowledge that, obviously, the more reliable the instruments and observations are the more consistent and dependable results will be.

According to De Vos and Strydom (2004:200), when the researcher works with a small population it is necessary that the research instrument be tested on a similar population to ensure reliability. The entire population of this study is relatively small (refer to Table 3.1 in section 3.2.3 above). As a result, two district municipalities were identified for the pilot study, since their accounting systems and financial operational procedures are similar to local municipalities.

In this study, the piloting of the questionnaire did much to weed out any issues which could have given rise to some inconsistencies. In the interviews, respondents were given the scope to comment on financial management, operating systems and developments within the office of the CFO in their municipalities, without the researcher giving any hints or leads.

Furthermore, as a result of the piloting, great care was taken to ensure that the question items of the questionnaire were easy to understand, they had no ambiguity, and some question items were in the affirmative.

3.4. PILOT STUDY

A pilot study is a small study conducted prior to a larger piece of research to determine whether the methodology, sampling, instruments and analysis are adequate and appropriate, as defined by Button (2000:155).

According to Babbie (2000:250), no matter how carefully a data collecting instrument is designed, there is always the certainty of possible errors, and the surest protection against such errors is pre-testing the research instruments.

According to Cooper and Schindler (2001:291), researchers should never start the main inquiry unless they are confident that the chosen procedures are suitable, valid, reliable, effective and free from problems and errors, or at least they have taken all possible precautions to avoid any problems that might arise during the study. Cooper (1989:198) argues that the pilot study is a prerequisite of the successful execution and completion of research, and it forms an integral part of the main research.

Mouton (2001:103) argues that one of the most common errors in doing research is that no pilot or pre-testing is done. De Vos and Strydom (2004:13) state that the pilot study helps the researcher to fine-tune the study for the main inquiry.

Before finalizing the questionnaire, a pilot study was carried out, in order to test the questionnaire for the following:

- obvious errors;
- questions that were unclear or could be misinterpreted; and
- time to complete the questionnaire in order to plan the empirical research properly.

The pilot study was done in the form of personal interviews with two CFOs and eight managers (deputy directors) within the offices of the CFOs of two district municipalities. The number of respondents for the pilot study constitutes about 25% of the total population of the main study. Therefore, it was decided that two CFOs

and eight managers would be enough to test for the abovementioned aspects. Subsequent to the pilot study the questionnaire was revisited with the result that words which were not easily understood by respondents were replaced with more clearly understandable terms.

3.5. ETHICAL CONSIDERATION

Anyone involved in research needs to be aware of the general agreements about what is proper and improper in scientific research (Babbie, 2000:470). According to Huysamen (1994:178), social scientists “do not have a free hand in terms of the research procedure which may be performed”. A more egalitarian relationship, where respondents are seen as co-researchers, may be suggested (Tutty et al., 1996:40). A researcher should therefore remember that research participants should be treated with respect, dignity and courtesy at all times. The participants were informed about the research goals, processes and their right to privacy and anonymity.

According to Hakim (2000:143), an informed consent becomes a necessary condition rather than a luxury or an impediment. A letter was written to all the local municipalities in Gauteng requesting permission to conduct academic research. (See Annexure C.)

3.6. DATA COLLECTION METHOD

The percentage of the sample completing and handing in the questionnaire is important to the researcher, as a low return rate makes it difficult for the researcher to draw conclusions because the final sample will not be an appropriate representation of the population. Goodwin (1995:331) confirms that the distribution of questionnaires stands out as an important part of the research design.

Cooper and Schindler (2001:315) argue that, as with self-administrative surveys, telephone interviews should be structured to meet the following objectives:

- questions should be specific and easy to understand;
- clear response directions should be used; and

- interview length should be appropriate.

Self-administrative surveys, followed by telephone interviews were selected as a result of the above discussion. The respondents would be given a copy of the questionnaire beforehand in order to prepare. The researcher would secure an appointment with the respondent at their workplace, and ask them questions as per the questionnaire. The researcher would then complete the questionnaire and ask clarity seeking questions on the spot. The telephone interview may follow at a later stage for further clarity.

3.7. DATA ANALYSIS

Data analysis refers to the process of searching for patterns in data as defined by Neuman (2000:426). As stated by TerreBlanche and Durrenheim (2002:47), the aim of data analysis is to transform the data in order to answer the initial research question. Leedy and Ormrod (2001:256) state that a researcher, when analyzing data, can use electronic spreadsheets to record, sort, search, and write formulas.

For the purpose of this study, the data transcribed from the interviews will be classified to allow the researcher to consider similarities and differences between categories.

3.8. LIMITATIONS OF THE QUESTIONNAIRE

Mosoge (1989:85-86) states that there are, however, limitations to the questionnaire and they are outlined as follows:

- Checking the motivation of the respondents is difficult and this may lead to misleading responses;
- There may be negative attitudes towards the questionnaire as a result of, among others, the impersonal nature of the questionnaire as well as the fact that questionnaires are commonly used today;

- Respondents may refuse to answer questions they regard to be bordering on private matters, or they may give what they believe to be socially desirable responses;
- A high non-response rate is common;
- The structured questionnaire restricts respondents' answers to those given, and important information may be omitted; and
- The length of the questionnaire may induce respondent fatigue which could lead to careless or inaccurate responses as well as respondent co-operation which could lead to incomplete questionnaires or a low return rate.

Although there are limitations to the questionnaire as a valid instrument for data collection, it is still commonly and widely used. Wolf (1998:479) argues that if the work is carefully and sensitively developed, the questionnaire will help in identifying and making full provision for these limitations which are highlighted as the following:

- Some respondents might choose the responses they believe would please the researcher. It is believed, however, that this limitation is unlikely to occur; firstly, because the respondents are not expected to give their names on the questionnaire, and secondly, because of the researcher's instruction that respondents should be honest for the results of the research to be authentic and reliable;
- Some respondents might think that giving genuine answers to questions, where the respondent does not know the answer might cause the researcher to undermine the respondent. Reassuring the respondents that all responses are an attempt to find answers to research questions rather than assessing the intelligence of the respondents could solve these limitations;
- Some respondents might think answering the questions honestly might be assisting the researcher to be better qualified than them. The researcher should assure the respondents that answering the questionnaire honestly will benefit them; and
- In the process of explaining and clarifying what might not be clear to the respondents, the researcher could influence responses. The researcher will take care not to give examples that could give clues to questionnaire items.

3.9. CONCLUSION

This chapter discussed the research design instrument. The population was also looked at. Furthermore, the questionnaire as a research tool and its validity and reliability were discussed. Ethical consideration and data collection methods also form part of this chapter. Lastly, looking at the limitations of the questionnaire concluded the chapter.

Chapter four will give a presentation and analysis of data collected through the questionnaire.

CHAPTER 4

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1. INTRODUCTION

Chapter three of this research outlined a detailed explanation of the aims of the research, research design, research methodology, qualitative research, data collection and recording of raw data. In this chapter, the researcher will discuss findings derived from chapter two, which dealt with a literature review, as well as the information from chapter three which dealt with manipulation of raw data from the population. The data or findings will be interpreted and analysed at the same time.

The researcher will use a descriptive analytical method to describe and analyse what he observed in a natural situation, and whatever the interviewees narrated to him. This is supported by McMillan and Schumacher (2001:395), who stated that qualitative research describes and analyses people's individual and collective social actions, beliefs, thoughts and perspectives. Descriptive research is concerned with the conditions that are in existence and practices that prevail. Mouton (2001:169) refers to this approach as used in this research as "insider perspective," which means that the information will be analysed using a more holistic, synthetic and interpretative strategy.

4.2. METHODS OF DATA ANALYSIS

The process of data analysis is defined as a link of sub-processes, which are data reduction, data display and lastly verification (Miles & Huberman, 1994:428). Data discovered and collected should always be thoroughly analysed and verified.

4.2.1. Inductive analysis

An inductive process for data analysis was applied. This process is used to organise data into categories and identify relationships amongst these categories or themes (McMillan & Schumacher, 2001:519). The main purpose of the inductive analysis is to allow the research findings to develop significant themes derived from the raw data. Sometimes the main themes are concealed because of the preconceptions in the collection of raw data and data analysis. After the themes have been identified inductively the researcher then verifies the themes that have been identified (Miles & Huberman, 1994:27). Denzin and Lincoln (1994:216) state that Moustakis provided a heuristic approach for using inductive analysis, which has the following five phases:

- Immersion, which starts the inductive process;
- Incubation, which allows for thinking; becoming aware of the nuance and *meaning in the setting and capturing intuitive insight to achieve understanding*;
- Illumination, which allows expanding awareness;
- Explanation, which includes description and explanation to capture experience of individuals in the study; and
- Creative synthesis, which enables one to bring together the individuals' stories as a whole.

The main purpose is to describe, explore and analyse the experience of the individual participant's life. This is done through the condensation of extensive and varied data into a brief summary and through the establishment of clearly defined relationships between the research problem, research aim and the findings derived from raw data and literature study.

4.2.2. Analysis and design

This involves data reduction as mentioned in paragraph 4.2.1 above. This statement is supported by Denzin and Lincoln (1994:430), who state that the reduction or condensation of data focuses on ruling out certain variables, ruling out certain

relationships and paying attention to others. When the researcher reduces data he or she is also doing interim analysis.

4.2.3. Categorization

Tesch, in Denzin and Lincoln (1994:345), presented a systematic and explicit overview of qualitative analysis which focuses on computer applications. It states that there are three core steps, namely developing and organising a system, segmenting the data and making connections. These help a researcher to categorize the themes of the data for interpretation and analysis.

4.2.4. Data verification and validation

Verification involves the researcher's interpretation, drawing meanings and conclusions from the given data. It involves comparison, contrast, noting of patterns and themes, clustering of themes and the use of metaphors to confirmatory tactics, which are triangulation, looking for negative cases, following up surprises and checking results with respondents (Miles & Huberman, 1994:27)

Validation includes checking, questioning and the interpretation of research findings. It is a way of verifying the reliability and the precision of the research process (Henning, 2004:14). It entails checking for any bias that can steal into the process of drawing conclusions or for neglect of any research aspect (Miles & Huberman, 1994:438). All procedures or decisions applied in the research processes were evaluated, reviewed and referred to the aims and objectives of this research study.

4.3. PRESENTATION OF FINDINGS AND INTERPRETATION FROM CHAPTER THREE

The total population is 32 respondents, and questionnaires were distributed to the entire population through e-mail, fax and by hand. A response of 80% was targeted. However, a total of 25 completed questionnaires were received from personnel targeted in the eight municipalities; this constituted 78,1%. According to Williams et al. (1995:41), it should be ascertained that the comments of participants are

voluntary and informed, without any implied depreciation or penalty for refusal to participate, and with regard for participants' privacy and dignity. In light of the above statement, the researcher was not in a position to force the respondents to complete the questionnaire and hand them in on time.

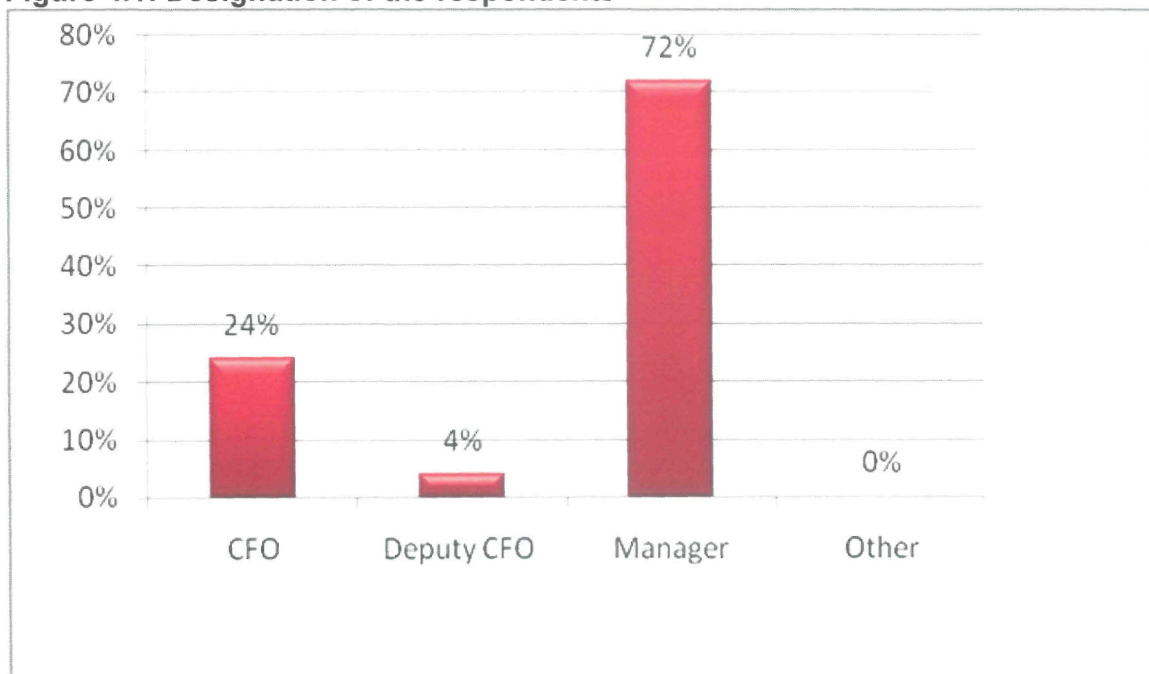
There are eight local municipalities within the borders of Gauteng, as discussed in section 1.1 (page 1) in chapter one above. It was established from the data gathering process that there is only one municipality with a vacant position of the CFO. However, it was in the process of being filled as of March 2008.

4.3.1. Designation of the respondents

Table 4.1: Designation of the respondents

Designation of the respondents							
CFO	24.0%	Deputy CFO	4.0%	Manager	72.0%	Other	0.0%
	6		1		18		0

Figure 4.1: Designation of the respondents



In Table 4.1 and Figure 4.1 above, 24% of the respondents were CFOs. The 24% is constituted by six CFOs out of 25 respondents; this means that six out of the seven filled CFOs positions, responded. Therefore, the views of the CFOs are well

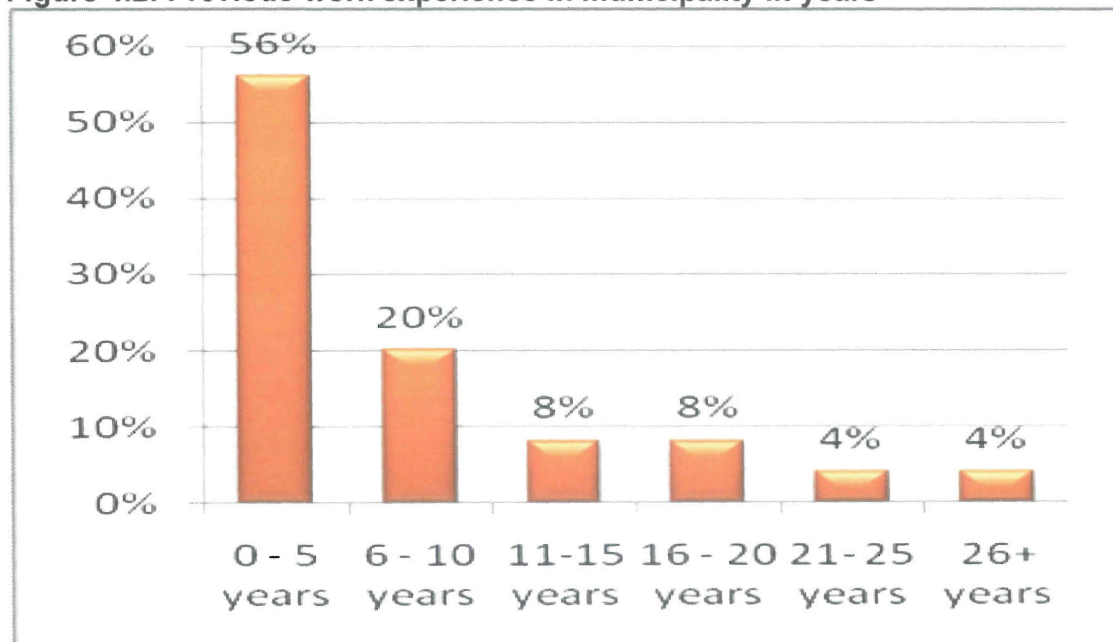
represented in the analysis, and it is a good response rate. In Gauteng, there is only one municipality with a position of Deputy CFO amongst the eight local municipalities. The incumbent of that position responded, therefore, there was 100% response for that position. Lastly, 18 managers responded and this is represented by 72%.

4.3.2. Previous work experience in municipality

Table 4.2: Previous work experience in municipality in years

Previous work experience in municipality in years					
0 - 5 years	56.0%	6 - 10 years	20.0%	11-15 years	8.0%
	14		5		2
16 - 20 years	8.0%	21- 25 years	4.0%	26+ years	4.0%
	2		1		1

Figure 4.2: Previous work experience in municipality in years



The questionnaire revealed that 56% of the respondents have five and less years working experience; 20% have 6 to 10 years working experience (refer to Table 4.2 and Figure 4.2). The two categories represent the majority of the respondents. Therefore, 76% (56% and 20%) of the top and middle management of the finance division has less than 10 years working experience; this is an indication of a potential

problem which could be as a result of unsatisfactory working conditions and culminating to a high rate of staff turnover.

Conclusion:

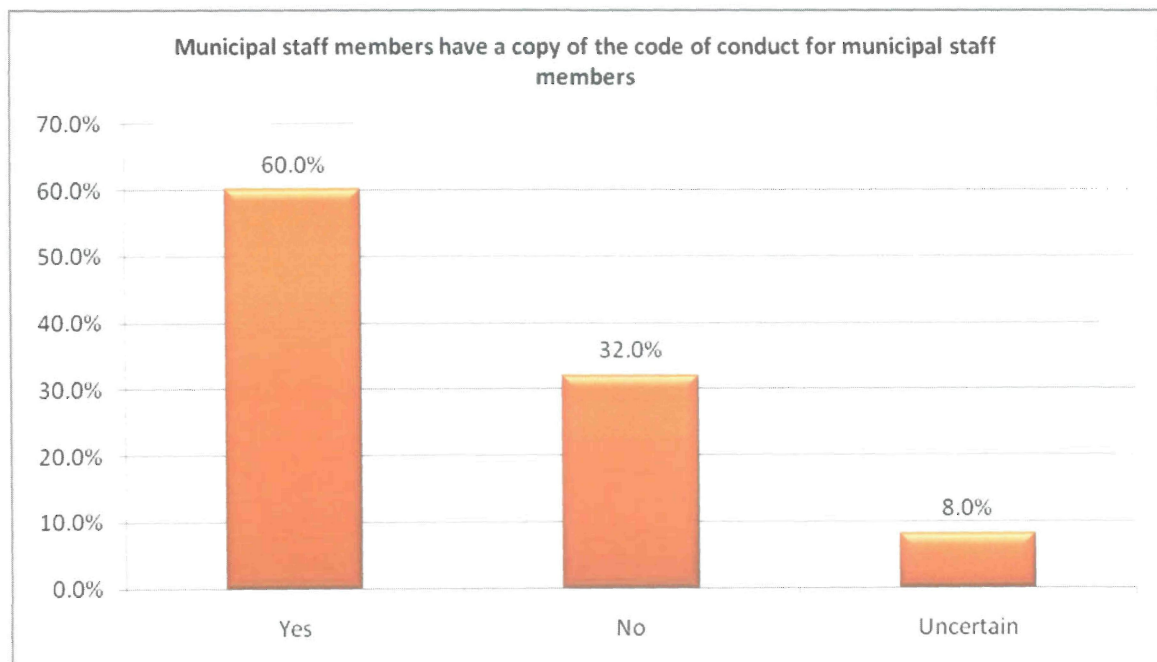
There is a high rate of staff turnover amongst the finance management echelon within municipalities; as it is revealed in Figure 4.2 and Table 4.2, 56% of the CFOs and their deputies has less than five years working experience. A high staff turnover rate has the effect of undermining all the effort of capacity building in the office of the CFO. Therefore, this trend needs to be researched further. The Municipal Manager should work hand in hand with the corporate services or the human resource division in the attempt to retain these scarce financial skills.

4.3.3. Code of Conduct

Table 4.3: Municipal staff members have a copy of the Code of Conduct

Code of Conduct				
		Yes	No	Uncertain
CC 1	Municipal staff members have a copy of the Code of Conduct for municipal staff members	60.0%	32.0%	8.0%
		15	8	2

Figure 4.3: Municipal staff members have a copy of the Code of Conduct



According to Figure 4.3 and Table 4.3 (question CC 1) above, 60% the respondents have a copy of the Code of Conduct for municipal staff members, 32% do not have a copy whilst 8% are not certain, which shows their ignorant attitude toward a Code of Conduct., The majority of the respondents have the copy in their possession, which is represented by 60%. The 32% who allege that they do not have a copy of conduct is worrying and the attitude of the 8% not having one and uncertain about its implementation, raises serious concerns to the researcher.

Table 4.4: Implementation of Code of Conduct

		Code of Conduct				
		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
CC 2	Your municipality has implemented a Code of Conduct for municipal staff members.	20.0%	40.0%	8.0%	32.0%	0.0%
		5	10	2	8	0

Figure 4.4: Implementation of Code of Conduct

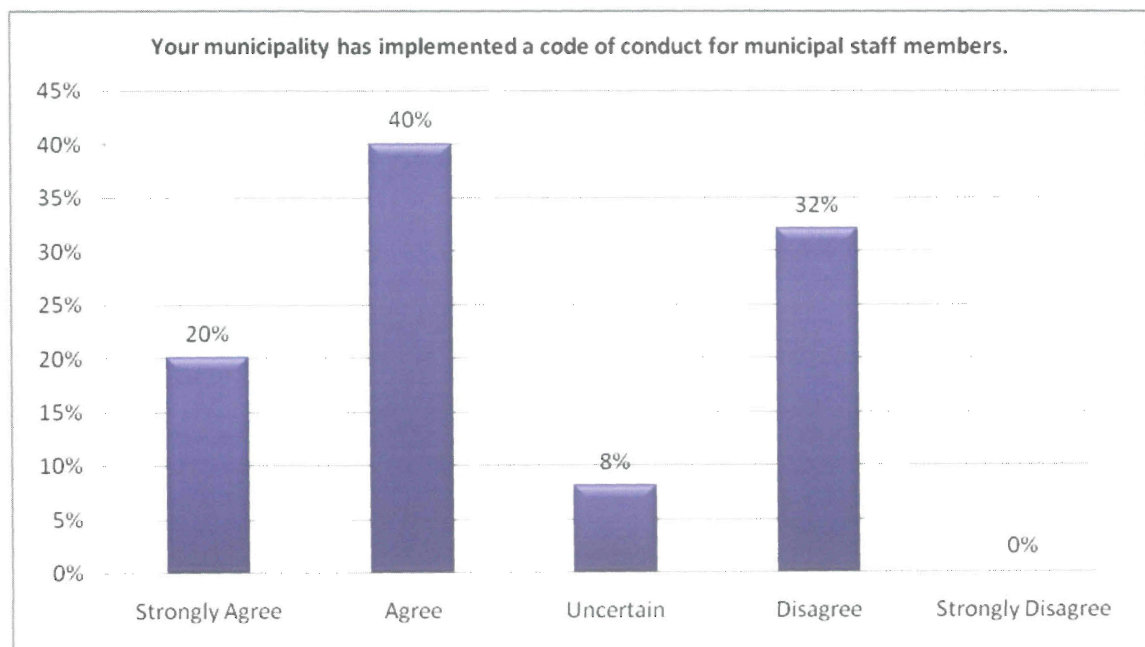


Figure 4.4 and Table 4.4 reveal that 20% of the respondents strongly agree whilst 40% of the respondents agree, 8% are not sure and 32% disagree that their municipalities have implemented the Code of Conduct. The respondents who agree and strongly agree represent the majority of 60% (20% and 40%). There is a great

correlation between the percentage of the staff members who have a copy of conduct and the implementation.

Table 4.5: Impact of Code of Conduct to reduction of corruption

		Code of Conduct				
		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
CC 3	The municipal Code of Conduct contributes towards reduction of corruption.	20.0%	72.0%	8.0%	0.0%	0.0%
		5	18	2	0	0

Figure 4.5: Impact of Code of Conduct to reduction of corruption

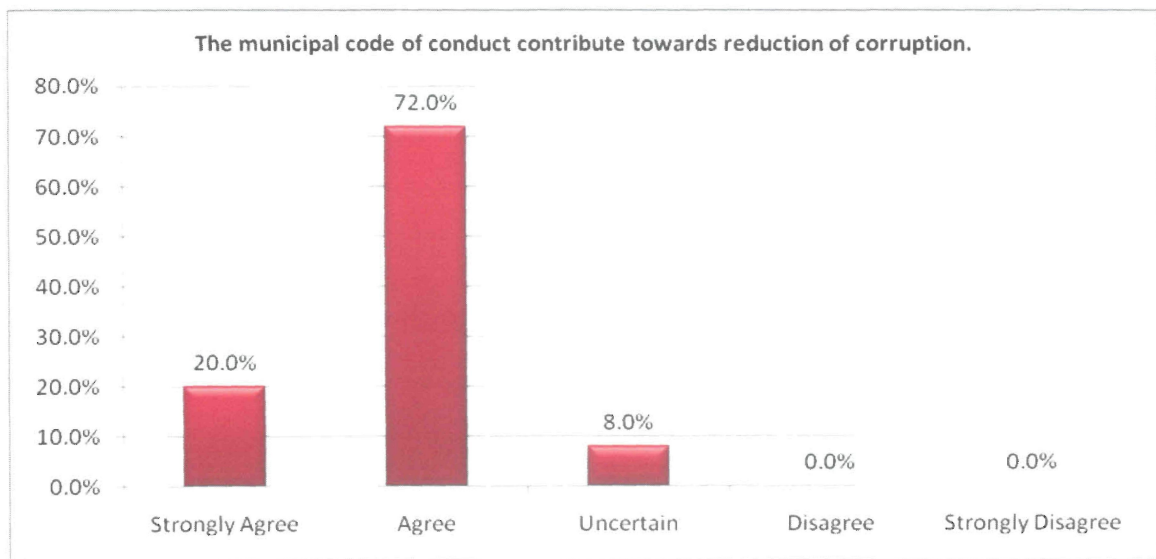
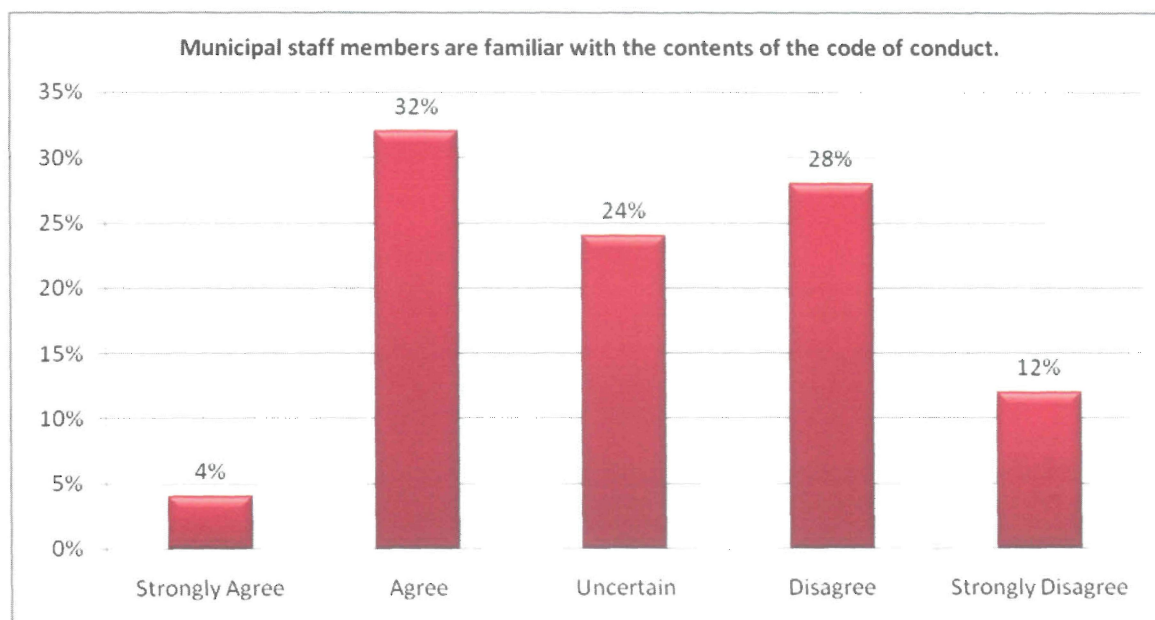


Figure 4.5 and Table 4.5 reveal that 92% (20% and 72%) of the respondents agree that the municipal Code of Conduct contribute towards the reduction of corrupt activities within the municipal council. This is in line with general conduct as stated in paragraph 2 of the Code of Conduct for municipal staff members, which state that staff members are expected to perform their functions in good faith, honesty, diligently and in a transparent manner (see section 2.9.2 in chapter two above and Annexure A).

Table 4.6: Municipal staff members are familiar with the Code of Conduct

		Code of Conduct				
		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
CC 4	Municipal staff members are familiar with the contents of the Code of Conduct.	4.0%	32.0%	24.0%	28.0%	12.0%
		1	8	6	7	3

Figure 4.6: Municipal staff members are familiar with the Code of Conduct



According to Table 4.6 (refer to question CC 4) and Figure 4.6, 36% (4% and 32%) of the respondents are familiar with the contents of the code. 36% is a relatively low percentage, when taking into consideration that 60% of the respondents have the copy of the code (see Figure 4.3 and Table 4.3 above) and 60% (20% and 40%) of the respondents have implemented it (see Figure 4.4 and table 4.4 above). This is a challenge to the office of the CFO within the council.

Table 4.7: Influence of the Code of Conduct to better management

		Code of Conduct				
		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
CC 5	The Municipal Code of Conduct contributes towards better management / governance in the Municipality	28.0%	56.0%	8.0%	8.0%	0.0%
		7	14	2	2	0

Figure 4.7: Influence of the Code of Conduct to better management

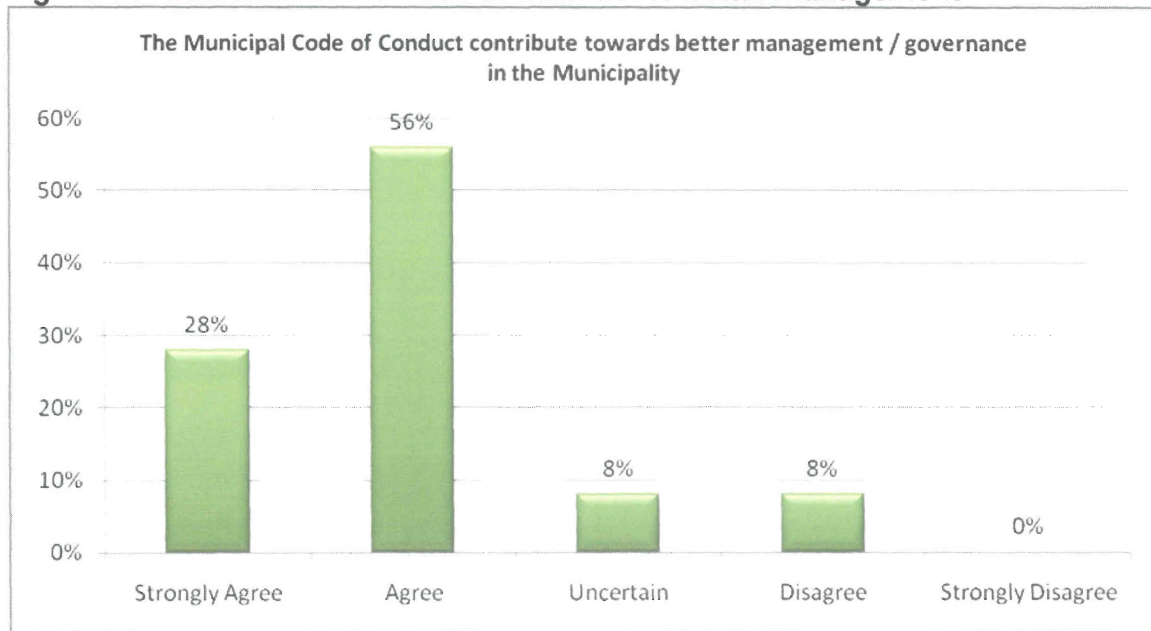


Table 4.7 and Figure 4.7 depict that 28% of the respondents strongly agree and 56% agree that the municipal Code of Conduct is one of the factors that contribute towards better financial management or governance of their municipalities. This represents the majority of 84%. It is imperative for all municipalities to develop and implement the Code to enhance better management or governance.

Question CC 6: In your opinion, what measures could be taken to improve the implementation of the Code of Conduct for municipal staff members?

Summary of comments:

- Align the Code of Conduct issued by the National Treasury in such a way that it suit the needs of individual municipality;
- Ensure that every staff member acknowledges receipt of the Code of Conduct by signing. The proof of receipt of the Code should be filed in the individual employee's human resources file;
- Ensure that every staff member understands the content of the code;
- In the event that there are staff members who do not understand the language in which the code is written, it should be translated into the languages they understand;

- Hold quarterly awareness meetings with all staff members;
- After the Code of Conduct has been implemented, hold workshops on ethics framework and anti-corruption framework policy;
- The Code of Conduct should be built into the performance contract or agreement of all staff members; and
- Include a copy of the Code of Conduct in the orientation file of newly appointed employees.

Conclusion:

Generally, the respondents agree that the staff members have a copy of the Code and that it has been implemented. Furthermore, respondents agreed that the effective implementation of the Code of Conduct for municipal staff members has the effect of reducing the occurrence of corrupt activities and contributes towards better management or governance of the municipality. However, there is no correlation between the percentage rate of implementing the code and the benefits thereof. Therefore, the implementation is a challenge, especially in light of the 92% thinking that it could help curb corruption (refer to figure and Table 4.5).

4.3.4. Financial reporting requirement

Table 4.8: Submission of financial statements to the Auditor-General

		Financial Reporting Requirement					
Has your municipality submitted financial statements to the Auditor-General as required by legislation:		Yes		No		Uncertain	
FRR 1	a. the last financial year - 2005/6	17	68.0%	7	28.0%	1	4.0%
	b. the year before the last financial year - 2004/5	15	60.0%	8	32.0%	2	8.0%
	c. three years ago - 2003/4	15	60.0%	8	32.0%	2	8.0%
	Average	15	62.7%	8	30.7%	2	6.7%

Over a period of three consecutive financial years, as indicated in Table 4.8 above, an average of 62,7% of the respondents agree that municipalities submitted financial statements to the Auditor-General's office as required by legislation. A concern is about the remaining 36.3% who did not know if the financial statements were submitted in time. According to the report from the Auditor-General's office, some of

the municipalities submit financial statements and withdraw them since they want to effect changes (South Africa, 2006a:5). This is an indication of a breach of legislative requirement by municipalities. What is more of concern is the fact that \pm 6% of the respondents who are financial executive personnel, did not know for certain the end product of their endeavours destination.

Table 4.9: Audit opinion expressed by the Auditor-General – per municipalities

		Financial reporting requirement as per municipalities				
FRR 2	Which audit opinion was expressed by the Auditor-General during the following years	Unqualified	Qualified	Disclaimer	Adverse	Not complete
		a. the last financial year - 2005/6	16%	64%	20%	0%
		4	16	5	0	0
	b. the year before the last financial year - 2004/5	12%	68%	20%	0%	0%
		3	17	5	0	0
	c. three years ago - 2003/4	8%	68%	24%	0%	0%
		2	17	6	0	0

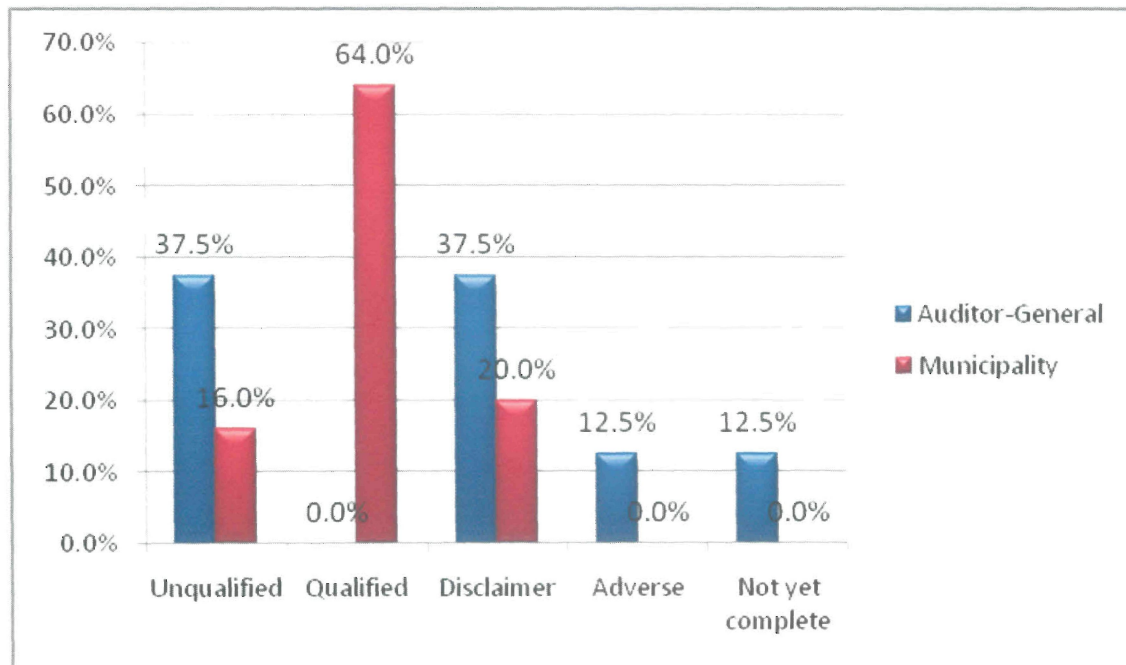
According to the respondents, the Auditor-General, in relation to the financial statements for the respondents' municipalities, expressed two unqualified audit opinions during the 2003/4 financial year, three unqualified opinions in 2004/05 and four unqualified opinions in 2005/6. This shows an improvement; however, the improvement is at a slow rate as it is shown in Table 4.9.

Table 4.10: Audit opinion expressed by the Auditor-General – per Auditor-General

		Financial reporting requirement as per Auditor-General				
	Which audit opinion was expressed by the Auditor-General during the following years	Unqualified	Qualified	Disclaimer	Adverse	Not yet complete
		a. the last financial year - 2005/6	37.5%	0%	37.5%	12.5%
		3	0	3	1	1
	b. the year before the last financial year - 2004/5	12.5%	25%	50%	0%	12.5%
		1	2	4	0	1
	c. three years ago - 2003/4	12.5%	12.5%	50%	25%	0
		1	1	4	2	0

Table 4.10 is adopted from Table 2.5 of section 2.10.3. According to the Auditor-General, one unqualified audit opinion was expressed during the financial year 2003/4 and 2004/4, whilst three unqualified audit opinions were expressed during the financial year 2005/6. There is an improvement in terms of unqualified audit opinion.

Figure 4.8: Comparison of audit opinion as per municipalities and Auditor-General in 2005/6



Based on data in table 4.8 above, during the financial year 2005/6 the Auditor-General expressed unqualified audit opinion to 37,5% of the municipalities, while according to the information gathered from the questionnaire, respondents revealed that 16% of their municipalities had an unqualified audit opinion. It is noted with concern that the difference is almost half. During the same period the Auditor-General reported that not a single municipality had a qualified audit opinion expressed on their financial statements, whilst, according to the respondents, 64% of their municipalities had a qualified audit opinion expressed. The contradiction between the information from the Auditor-General and municipalities is unbelievable, and therefore, the implementation of the triangulation method as discussed in section 3.1 creates a problem to the researcher with regard to the reliability of data.

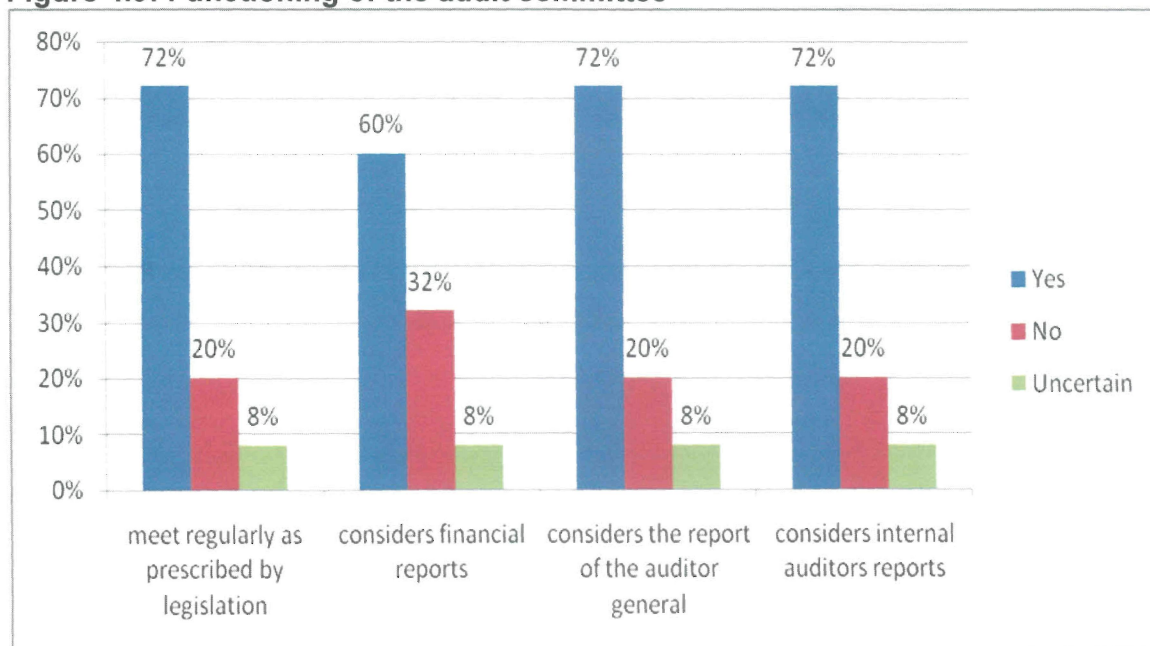
The information from the Auditor-General contradicts the data supplied by the municipalities. There is no reason for the Auditor-General to manipulate information and the information from the Auditor-General's report was confirmed from a report prepared by Ramabulana, Consultancy for the Minister of Provincial and Local government (Ramabulana Consultancy, 2007); as a result, the researcher will be

biased towards accepting the Auditor-General’s opinion and therefore, the validity of the information provided by the municipalities is questionable.

Table 4.11: Functioning of the audit committee

		Financial reporting requirement		
Your municipality has an audit committee that:		Yes	No	Uncertain
FRR 3	a. meet regularly as prescribed by legislation	72.0%	20.0%	8.0%
		18	4	2
	b. considers financial reports	60.0%	32.0%	8.0%
		15	8	2
	c. considers the report of the Auditor-General	72.0%	20.0%	8.0%
		17	5	2
	d. considers internal auditors reports	72.0%	20.0%	8.0%
		17	5	2

Figure 4.9: Functioning of the audit committee



According to 72% of the respondents, their municipalities have audit committees that meet regularly as prescribed by legislation to consider the report from both the Auditor-General and internal Auditors. This is depicted by Figure 4.9.

According to Table 4.11 and Figure 4.9 above, 60% of the respondents indicated that municipalities have an audit committee that considers financial reports.

However, in contrast, according to the Auditor-General in relation to emphasis of the matter regarding financial statements, more than 50% of the municipalities do not have audit committees and internal auditors (refer to Tables 2.5 and 2.6 above). Another contradiction between the Auditor-General and municipalities can be seen above.

Table 4.12: Implementation of the Auditor-General's recommendations

Financial reporting requirement		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FRR 5	The municipality implements the recommendations from the office of the Auditor General diligently.	30.8%	57.7%	3.8%	7.7%	0.0%
		8	15	1	2	0

Figure 4.10: Implementation of the Auditor-General's recommendations

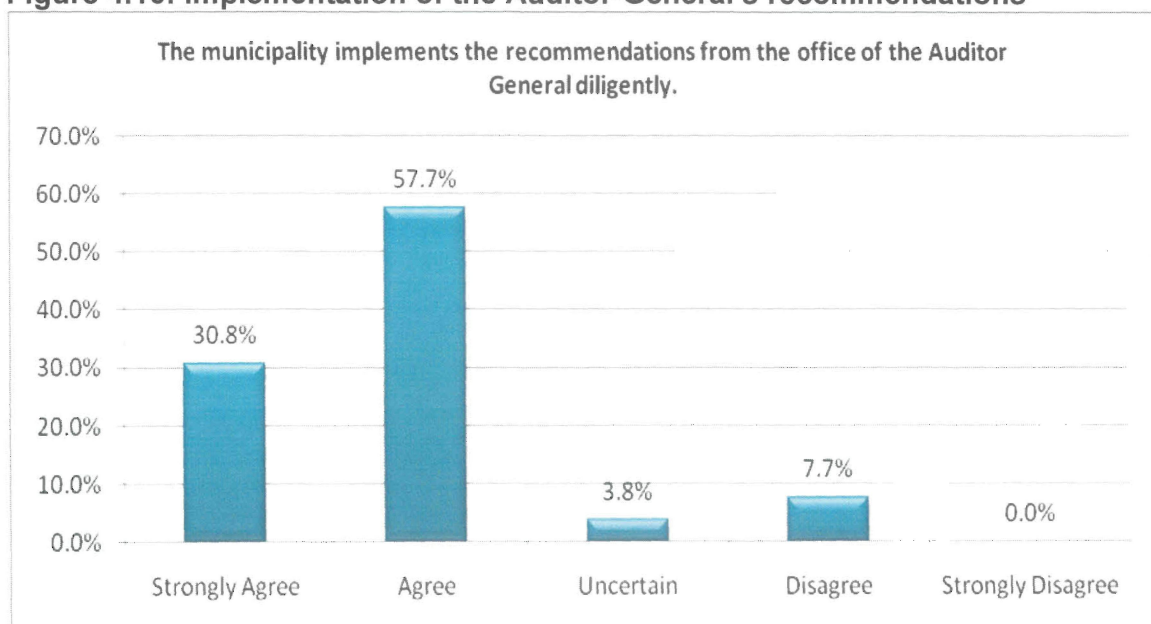


Table 4.12 and Figure 4.10 reveal that 30.8% of the respondents strongly agree and 57.7% agree that their municipalities implement the recommendations from the office of the Auditor General-diligently. These two categories represent 87.5% of the respondents and this is a majority.

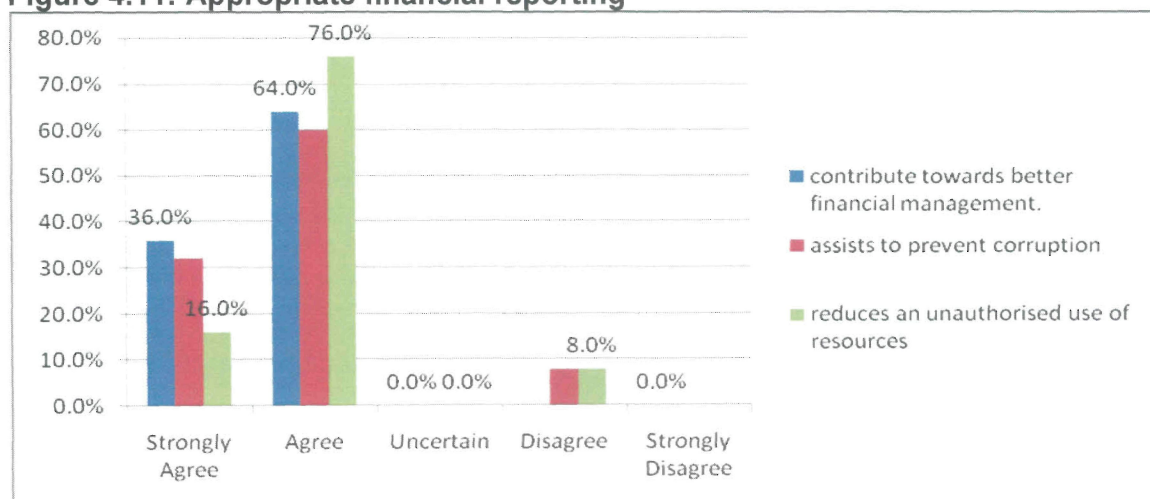
The yardstick to measure the diligent implementation of the Auditor-General's recommendations is to establish the change in the number of qualified and unqualified audit opinions. In Table 2.5 and 2.6 above, there was one unqualified audit opinion during the following financial years 2003/04 and 2004/05 and there

were three unqualified audit opinions in 2005/06. Therefore, there was a slight improvement in this category. Furthermore, Table 2.5 and Table 2.6 above show that there was one qualified audit opinion during the financial year 2003/04, two during 2004/05 and nothing during 2005/06. There was also a slight improvement in this category. The two municipalities which got a qualified opinion in the 2004/05 financial year improved and were awarded an unqualified opinion. Overall, there are only two municipalities that improved their financial management. Therefore, the two municipalities (Lesedi and Westonaria) whose audit opinion improved from qualified to unqualified, and Midvaal which got an unqualified audit opinion, implemented the recommendations from the office of the Auditor-General diligently. When expressed in percentage three out of eight is 37,5%. There is a significant difference between the analysis from the Auditor-General's office (37,5%) and the result from the research (88,5%).

Table 4.13: Appropriate financial reporting

Financial reporting requirement		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FRR 6	Appropriate financial reporting is in place that:					
	a. contributes towards better financial management.	36%	64%	0%	0%	0%
		9	16	0	0	0
	b. assists to prevent corruption	32%	60%	0%	8%	0%
		8	15	0	2	0
	c. reduces an unauthorised use of resources	16%	76%	0%	8%	0%
	4	19	0	2	0	

Figure 4.11: Appropriate financial reporting



According to Table 4.13 and Figure 4.11 (refer to question FRR 6a), the respondents unanimously (36% and 64%) agreed that their municipalities have appropriate financial reporting systems in place that contribute towards better financial management. As much as 92% (32% and 60%) of the respondents confirm that an appropriate financial reporting system helps to prevent corrupt activities from taking place (see question FRR 6b in Table 4.13 and Figure 4.11 above). According to 92% (16% and 76%) of the respondents, their municipalities have appropriate financial reporting systems that foster the reduction of unauthorised usage of the resources as it is shown in Table 4.13 and Figure 4.11, question FRR 6c. However, the Auditor-General's report as presented in Section 2.10.3, contradicts the opinion of the respondents (refer to Tables 2.7, 2.8 & 2.9 in section 2.10.3 above).

Question FRR 7: What will you advise the office of the CFO to do, in order to improve the reporting function of the municipality?

Summary of comments:

- Adherence to the financial procedures and applicable legislation at all times;
- Striving towards continuous improvement, be target driven and ensure that deadlines are met;
- Consistently ensure that the correct templates and formats are utilized;
- Ensure that all genuine transactions for a particular period are accurate and accounted for during that period;
- Address and implement the Auditor-General's recommendation regarding reporting;
- Report writing skills should be developed amongst the staff members;
- Recruitment and employment of staff members with relevant expertise;
- Develop standard format of writing reports;
- Budgeting should commence on time as guided by the MFMA No. 56 of 2003 circular;
- The Service Delivery Budget Implementation Plan process must be implemented as per MFMA No. 56 of 2003 circular; and
- DORA reports should be prepared as prescribed by the legislation.

Conclusion:

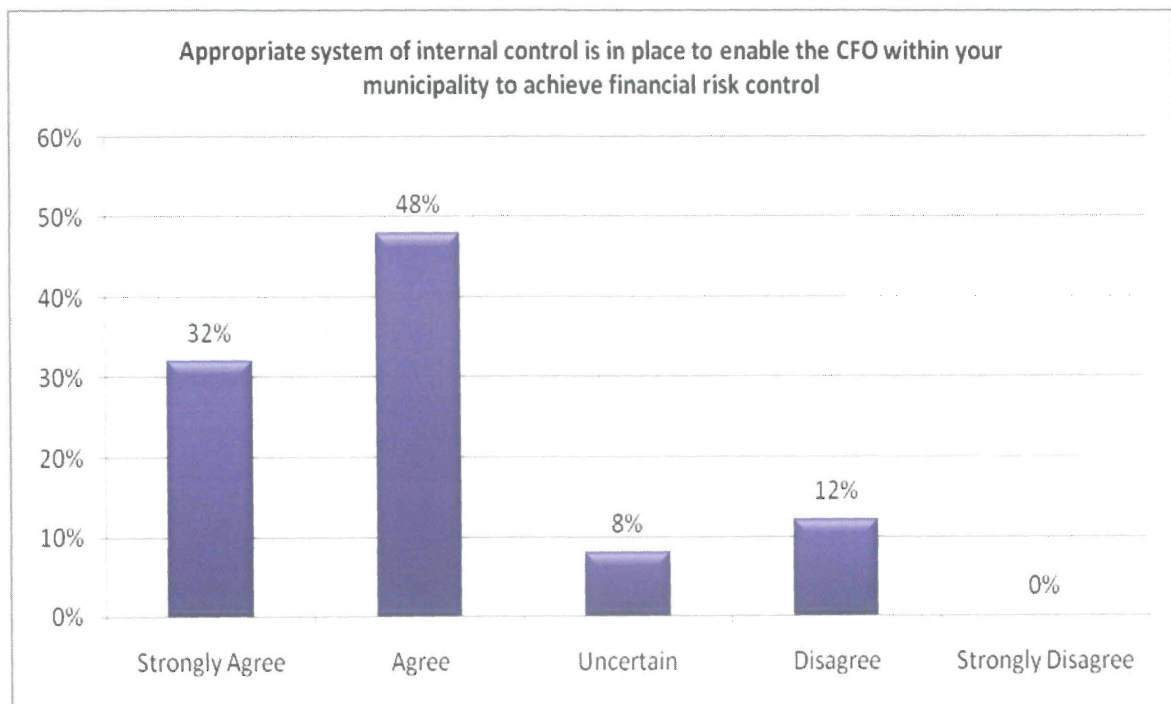
The respondents paint a very good picture of their municipalities with regard to financial management. The majority of the respondents indicated that they observe submission dates as stipulated by legislation and their reports are of expected standards. Their municipalities have well established audit committees and internal audit departments that operate as required by legislation. However, the information gathered from the office of the Auditor-General contradicts the views of the respondents. There is a tendency in life that one will paint a good picture of himself or his organisation; as a result, the researcher was expecting it.

4.3.5. Internal Control

Table 4.14: Appropriate system of internal control in place

Internal Control		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
IC 1	Appropriate system of internal control is in place to enable the CFO within your municipality to achieve financial risk control	32.0%	48.0%	8.0%	12.0%	0.0%
		8	12	2	3	0

Figure 4.12: Appropriate system of internal control in place



The data generated by the questionnaire revealed that 32% of the respondents strongly agree, whilst 48% agree that their municipalities have appropriate systems of internal control in place to enable the CFOs within municipalities to achieve financial risk control, and this represents 80% of the population (refer to Table 4.14 and Figure 4.12). However, the Auditor-General raised serious concerns relating to the weaknesses of the internal control systems, non-existence of internal audit committees and internal audit departments within municipalities (refer to Tables 2.7, 2.8 and 2.9). These issues raised by the Auditor-General are not in agreement with the data from municipalities; once again the validity of the information provided by the respondents is highly questionable.

Table 4.15: Assistance of appropriate systems of internal control

Internal Control		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
IC 2	Your municipality has an appropriate system of internal control which assist to:					
	a. improve financial management	40%	40%	4%	16%	0%
		10	10	1	4	0
	b. reduce the unauthorized usage of municipal resources	40.0%	44.0%	4.0%	12.0%	0%
		10	11	1	3	0
	c. improve financial reporting	40.0%	60.0%	0%	0%	0%
	10	15	0	0	0	

Figure 4.13: Assistance of appropriate systems of internal control

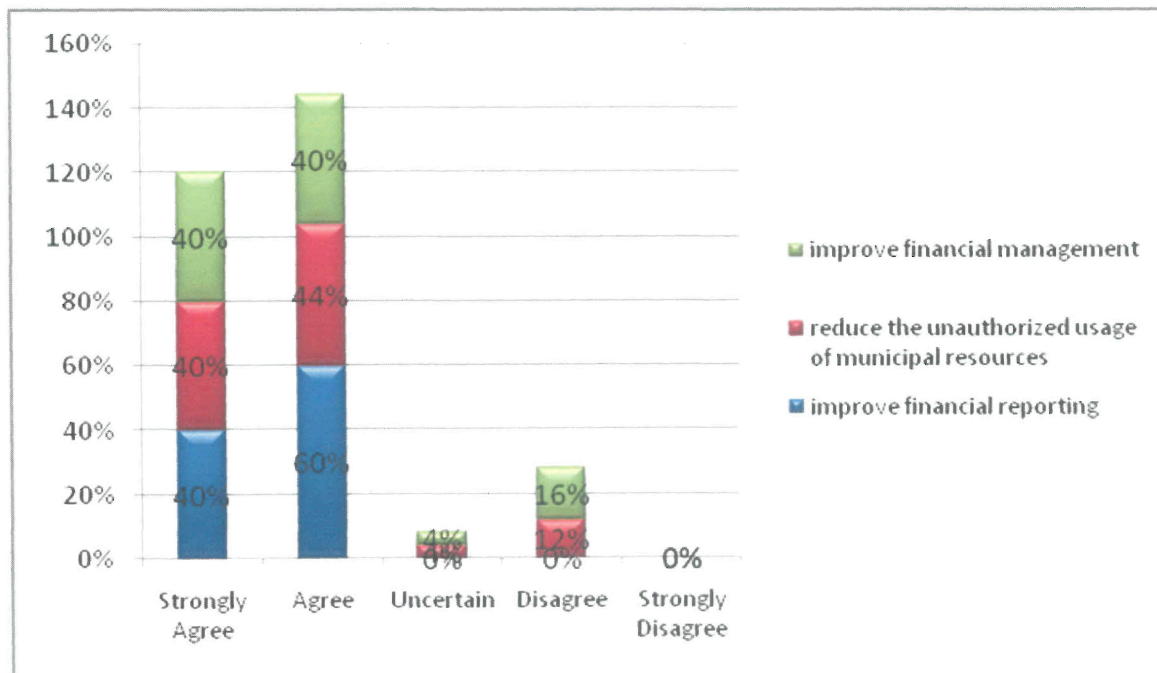


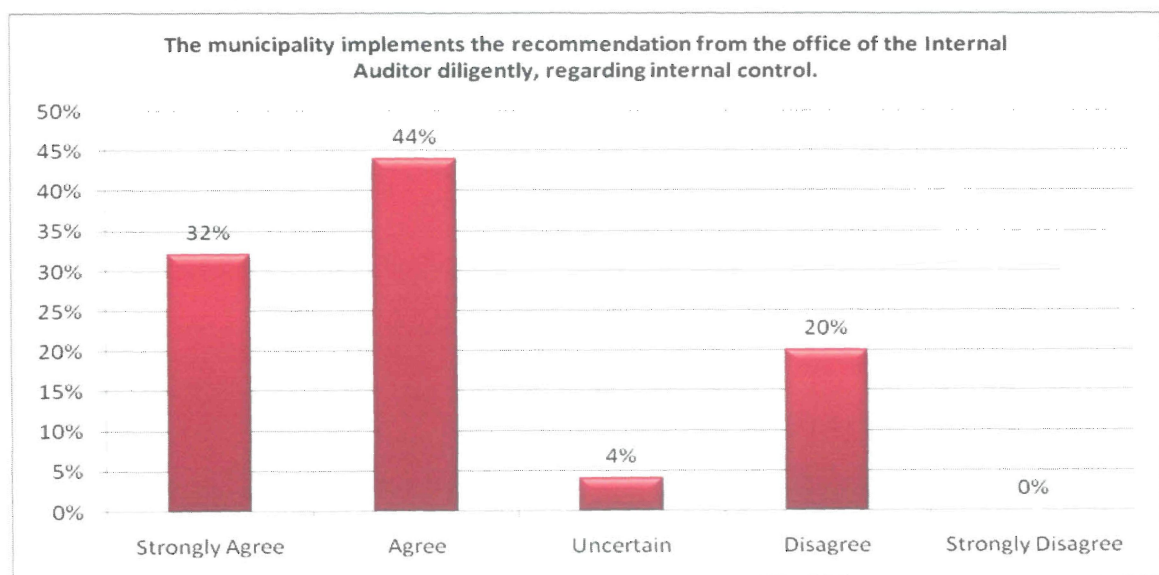
Figure 4.15 and Table 4.13 reveal that 80% (40% and 40%) of the respondents agree that the internal control system fosters improvement of the financial management within the municipality. Furthermore, 84% (40% and 44%) of the respondents agree that their municipalities developed and implemented appropriate systems of internal control that helps toward the reduction of unauthorised usage of municipal resources.

Table 4.15 and Figure 4.13 show that the interviewed municipal staff members unanimously agreed that their municipalities have an appropriate system of internal control which enhances financial reporting (refer to question IC 2 C above). In contrast, the Auditor-General raised a concern with regard to the internal control weakness and non-existence of internal audit departments as contributing factors of not expressing a qualified opinion on the financial statements of the municipalities (refer to tables 2.7, 2.8 and 2.9).

Table: 4.16: Implementation of the Internal Auditor’s recommendations

Internal Control		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
IC 3	The municipality implements the recommendation from the office of the <i>Internal Auditor</i> diligently, regarding internal control.	32.0%	44.0%	4.0%	20.0%	0.0%
		8	11	1	5	0

Figure: 4.14: Implementation of the Internal Auditor’s recommendations

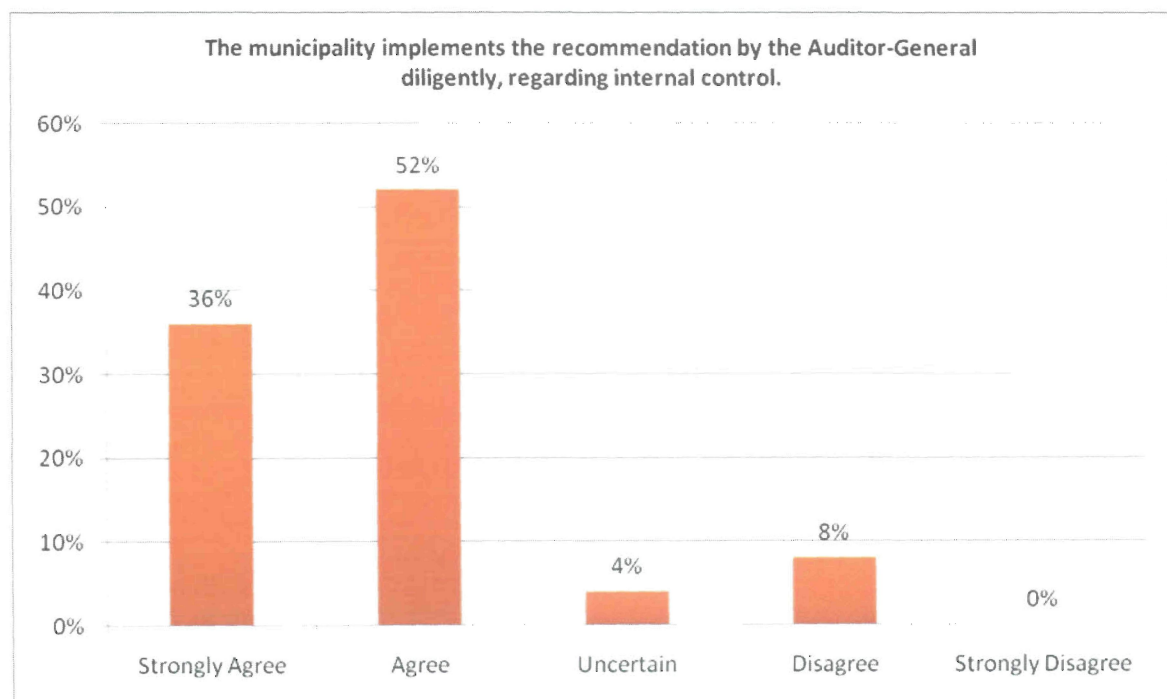


According to Table 4.12 and Figure 4.10, about 76% (32% and 44%) of the respondents strongly agreed and agreed that their municipalities diligently implement the recommendations from the office of the Internal Auditor. This will foster the adherence to the implementation of the policy and improve the effectiveness of the internal control measures as these constitute the core functions of the internal audit functions.

Table: 4.17. Implementation of the Auditor-General's recommendations

Internal Control		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
IC 4	The municipality implements the recommendation by the Auditor-General diligently, regarding internal control.	36.0%	52.0%	4.0%	8.0%	0.0%
		9	13	1	2	0

Figure 4.15: Implementation of the Auditor-General's recommendations



According to Figure 4.15 and Table 4.17, 88% (36% and 52%) of the respondents agree that municipalities diligently implement recommendations from the office of Auditor-General relating to internal control. Internal control measures constitute an

integral part of the operational financial systems within local municipalities; therefore, this shows that these municipalities are on the right track.

Question IC 6: What actions would you recommend to improve the internal control system of your municipality?

Summary of comments:

- The establishment of the internal audit department within each municipality that report to the Municipal Manager;
- Regularly reviewing of internal control procedures;
- Adherence to the Code of Conduct for municipal staff members;
- Recruitment and appointment of staff with appropriate expertise and experiences;
- To ensure adherence to relevant legislation the municipality should capacitate the municipal staff members with the relevant legislation;
- Internal procedures and policies relating the internal control should be reviewed at least annually and the changes to be fully implemented;
- Monitoring of internal control proceeds to ensure adherence;
- Draft and implement a procedure manual mapping the nature of financial activities for the municipality;
- Delegation of authority should be officially approved, implemented and adhered to it; and
- Family members should not be reporting to another family member.

Conclusion:

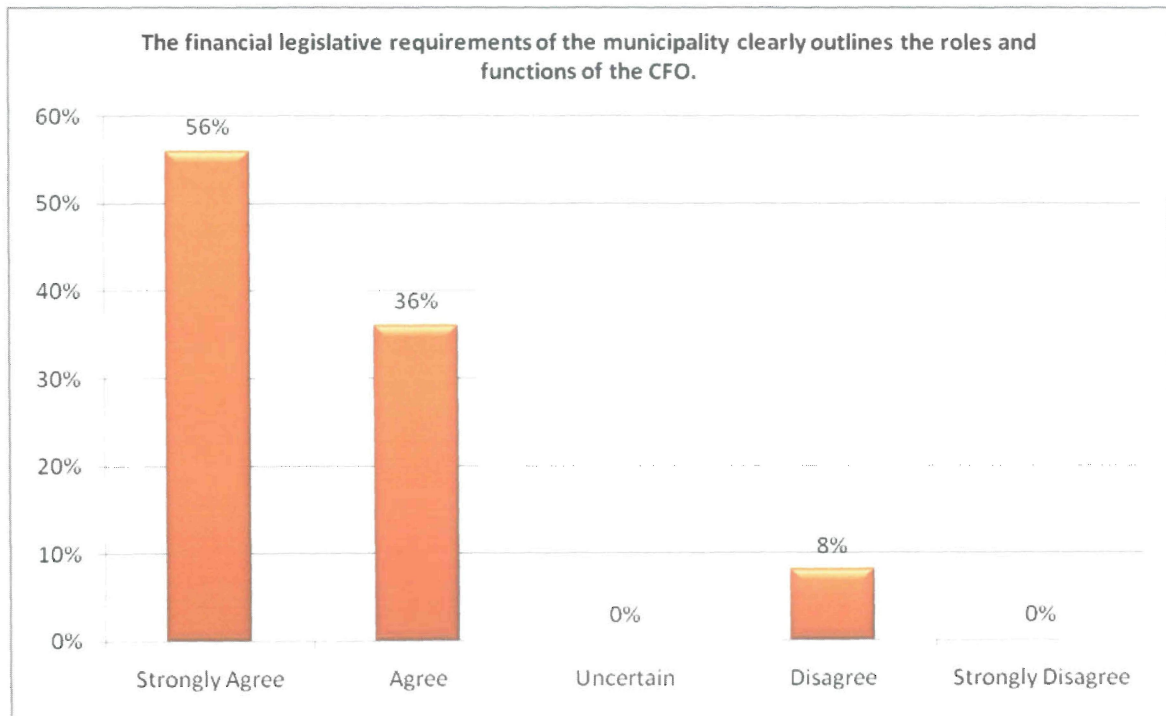
According to the information gathered from the questionnaire, most of the municipalities' respondents have an appropriate systems of internal control that enhance financial risk control; however, this is in contrast to the information from the office of the Auditor-General, i.e., there is weakness in the systems of internal control, as discussed in chapter two, section 2.9.7.5.5, Tables 2.7, 2.8 and 2.9 above. Controls are in place which contribute towards better financial management and reporting, and lastly, their municipalities implement diligently recommendations from the office of the Auditor-General and internal auditors.

4.3.6. Financial legislation

Table 4.18: Financial legislation outlines the roles and functions of the CFO

Financial legislation		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FL 1	The financial legislative requirements of the municipality clearly outline the roles and functions of the CFO.	56.0%	36.0%	0.0%	8.0%	0.0%
		14	9	0	2	0

Figure 4.16: Financial legislation outlines the roles and functions of the CFO

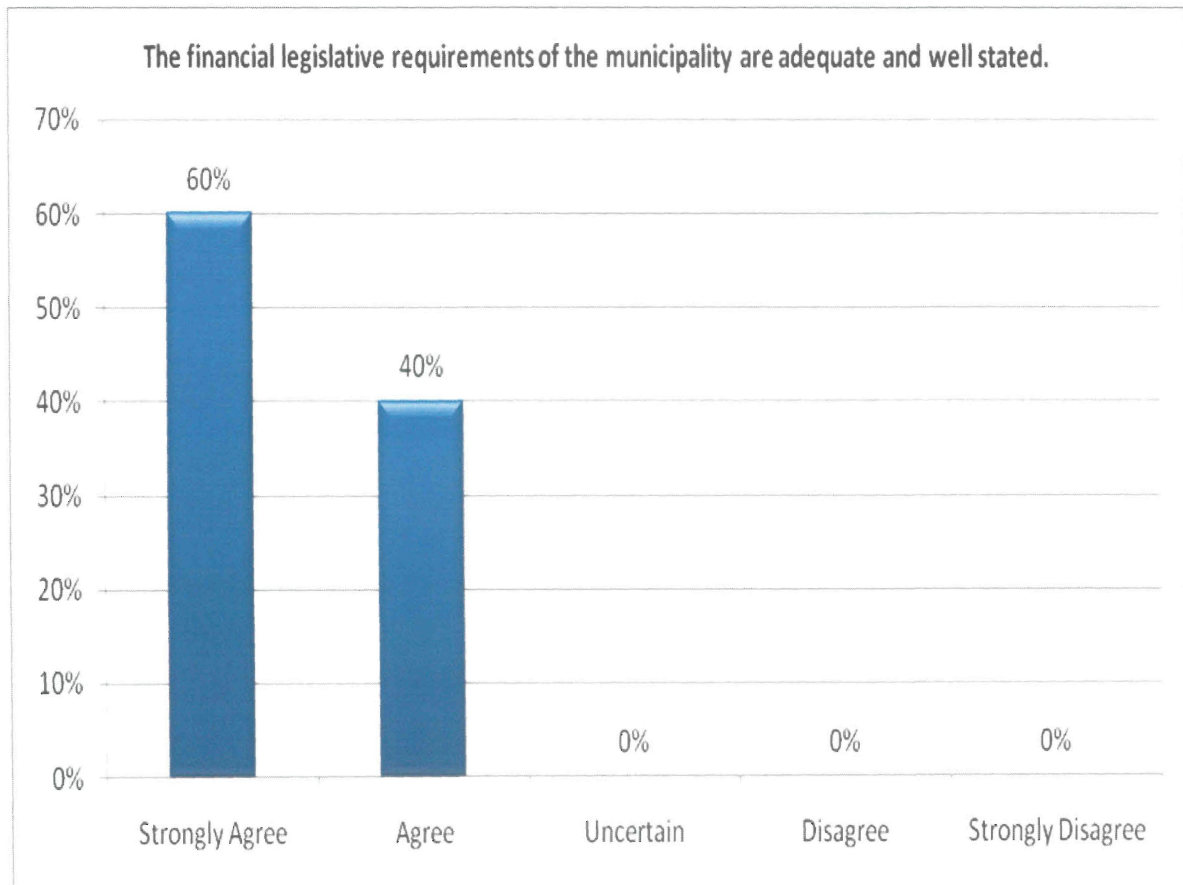


According to Figure 4.16 and Table 4.18, 56% of the respondents strongly agree and 36% agree that the financial legislative requirements of the municipalities clearly outline the roles and function of the CFO. These legislative requirements are commonly used as a guideline for the development of key performance areas (roles and functions of the CFOs) by the municipal council.

Table 4.19: Financial requirements are adequate and well stated

Financial Legislation		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FL 2	The financial legislative requirements of the municipality are adequate and well stated.	60%	40%	0%	0%	0%
		15	10	0	0	0

Figure 4.17: Financial requirements are adequate and well stated

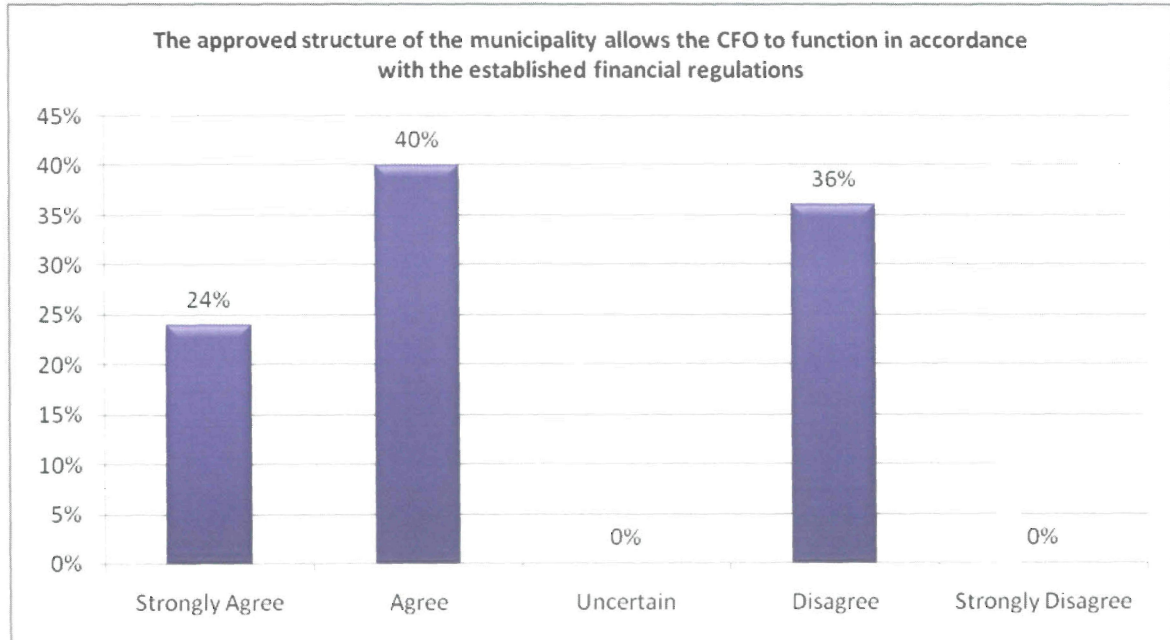


All the respondents unanimously (60% and 40%) agreed that the financial legislative requirements of the municipalities are adequate and well stated (see question FL 2 in Table 4.19 and Figure 4.17). Then, in principle, the respondents agree that the government has played its part in formulating legislative framework; therefore, if the office of the CFO within municipalities is not functional, the problem is with the implementation of the legislation by the municipalities.

Table 4.20: Approved structure allows the CFO to function effectively

Financial Legislation		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FL 3	The approved structure of the municipality allows the CFO to function in accordance with the established financial regulations	24%	40%	0%	36%	0%
		6	10	0	9	0

Figure 4.18: Approved structure allows the CFO to function effectively



According to the data gathered from the respondents, 24% strongly agree and 40% agree that the approved structure of the municipalities allows the CFO to function in accordance with the established financial regulation (Table 4.20 and Figure 4.18 above). A material 36% disagree: this sounds a warning bell for challenges to the researcher.

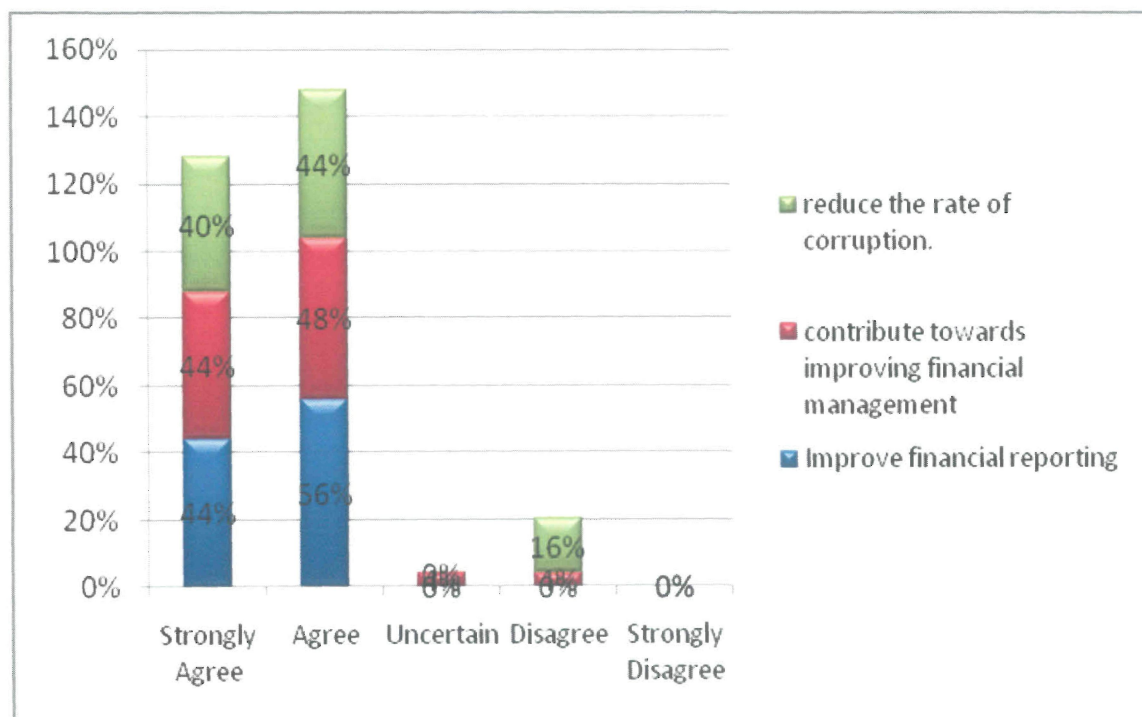
According to Table 3.1 in section 3.2.3, 50% (four out of eight) of the local municipalities have, at most, three approved positions of managers. As a result, some of the managers will be expected to be responsible to perform more than one functional area. This is likely to compromise the internal control process and in turn, it will not be in line with the requirements of legislation.

According to the typical organogram of the CFO's office (refer to Figure 3.1 on section 3.2.2) it is divided into four functional or operational areas viz. Supply Chain, Revenue, Expenditure and Budget. These functional areas form the core functional operation of the office of the CFO. No matter the size of the municipality, these functional areas are important; therefore, according to McKinney (1995), general principles of control that refer to separation of duties and separation of operations were discussed in Section 2.9.6.1 above.

Table 4.21: Effect of adherence to financial legislation

Financial legislation		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FL 4	According to your opinion, adherence to financial legislation has an effect to:					
	a. reduces the rate of corruption.	40.0%	44.0%	0.0%	16.0%	0.0%
		10	11	0	4	0
	b. contribute towards improving financial management	44.0%	48.0%	4.0%	4.0%	0.0%
		11	12	1	1	0
	c. Improve financial reporting	44.0%	56.0%	0.0%	0.0%	0.0%
	11	14	0	0	0	

Figure 4.19: Effect of adherence to financial legislation



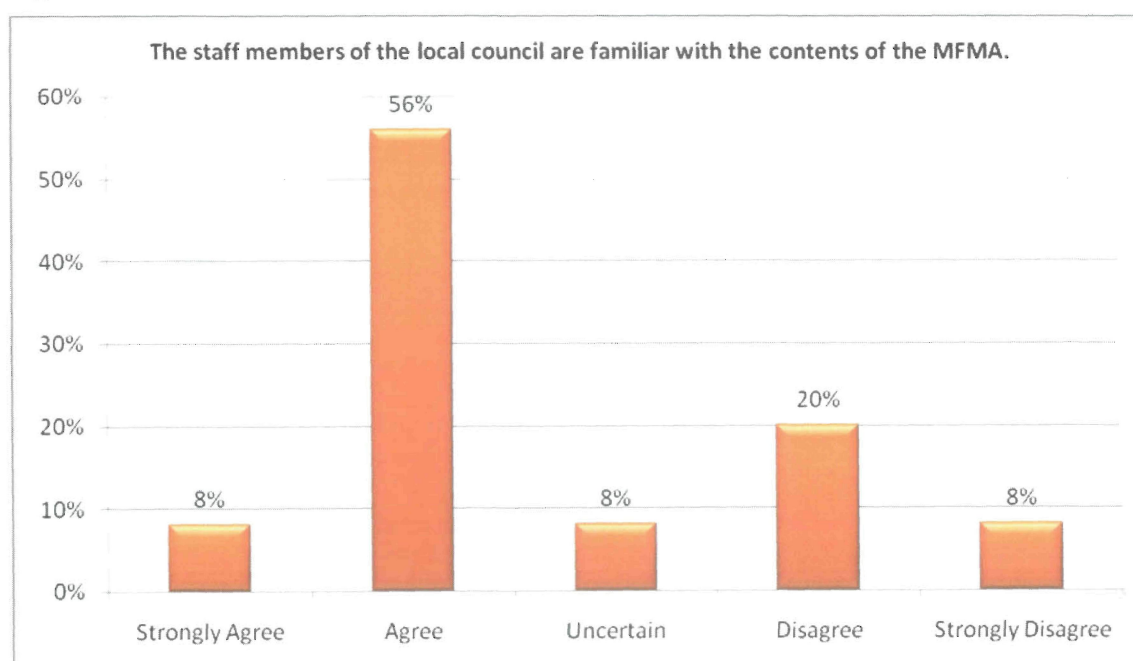
According to Figure 4.19 and Table 4.21, 84% (40% and 44%) of the respondents agreed that according to their opinion, adherence to financial legislation has an effect to reduce the rate of corruption; 92% (44% and 48%) agreed that adherence to financial legislation contribute towards improving financial management (see Figure 4.19) whilst all the respondents (44% and 56%) unanimously agreed that adherence to financial legislation improves financial reporting (refer to table 4.21).

According to the Auditor-General’s report there is no evidence that there is a significant improvement regarding financial management and reporting (for more information refer to Table 2.5 on analysis of the Auditor-General’s opinion, and also refer to Table 2.7, 2.8 and 2.9) two on qualification emphasis of matter for the opinion, therefore, the municipal staff members are aware of the negative impact of not adhering to the legislation framework.

Table 4.22: Municipal staff members are familiar with the MFMA

Financial legislation		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FL 5	The staff members of the local council are familiar with the contents of the MFMA.	8.0%	56.0%	8.0%	20.0%	8.0%
		2	14	2	5	2

Figure 4.20: Municipal staff members are familiar with the MFMA



According to Table 4.22 and Figure 4.20, 8% of the respondents strongly disagree, 20% disagree whilst 8% is uncertain that the staff members in the office of the CFO are familiar with the contents of the MFMA No. 56 of 2003. Collectively, 36% (8%, 20% and 8%) of the respondents cannot say with certainty that they are familiar with the contents of the Act. This is relatively high taking into consideration that MFMA No. 56 of 2003 governs the operations of the office of the CFO since 2003. This situation could be the result of quite a number of financial legislation that needs to be abounded by the staff in the office of the CFO.

The researcher was expecting a relatively low percentage of staff members who are not familiar with the content of the MFMA, as a relative high percentage of the respondents agreed that adherence to financial legislation contribute towards the reduction of corruption, improving financial management and reporting, as depicted by Figure 4.19 and Table 4.21 above.

Question FL 6: Which other financial legislative documents regulate municipal finance other than MFMA No. 56 of 2003?

List of municipal financial legislative documents

- Division of Revenue Act;
- Municipal Systems Act;
- Credit and Debt Collection;
- Municipal Structure Act;
- Property Rates Act;
- Income Tax Act;
- Vat Act;
- National Treasury Circulars;
- Supply Chain Management Act;
- Preferential Procurement Policy Framework Act; and
- Water Services and Electricity Act.

Question FL 7: How can the municipality improve financial compliance?

Summary of the comments:

- Mediation of policy to all staff members within the municipality;
- Ensure adherence to time frames as stipulated in the policy documents;
- Recruitment and selection of staff members;
- With appropriate technical knowledge and necessary experience;
- Continuous internal capacity development of staff members;
- Identification and implementation of information system that is able to produce reports required by legislation;
- Ensure that all municipal staff members and councillors have a fair understanding of the financial legislation of the municipality;
- Drafting financial strategic plans with clear objectives, goals and timeframes stating out responsibilities and responsible staff members; and
- Corporate governance issues should be complied with – e.g. the Internal Auditor should only perform the internal audit function.

Conclusion:

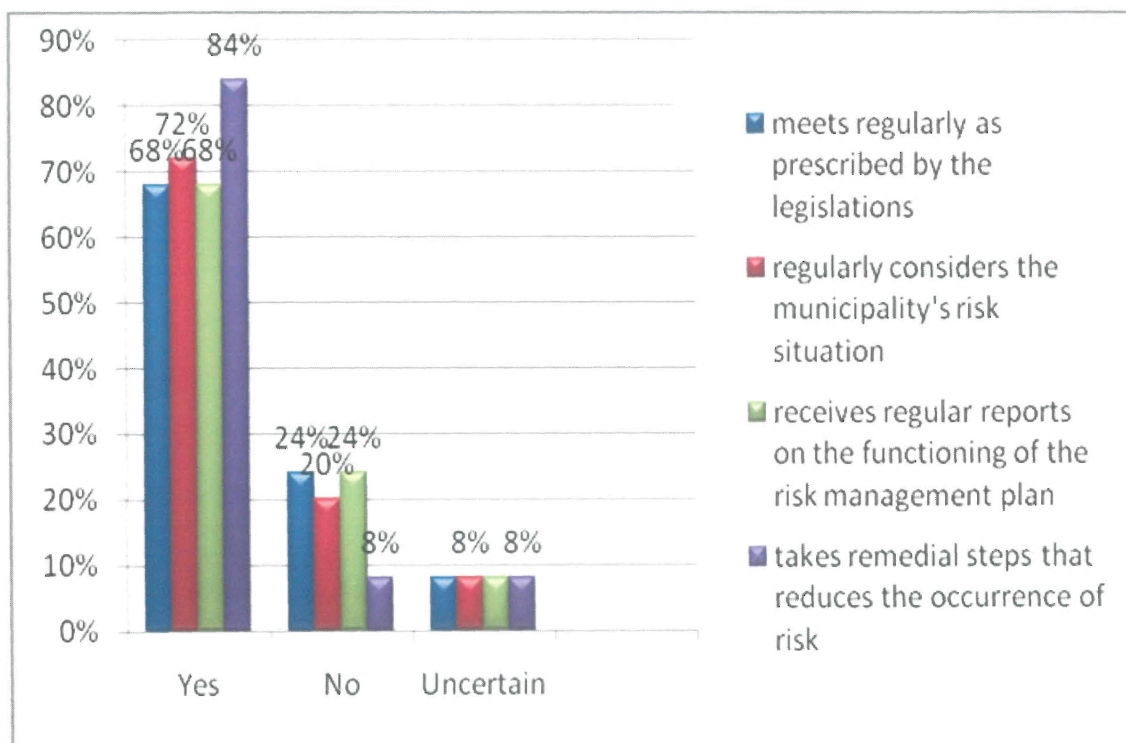
The majority of the respondents are of the opinion that the municipal legislations are appropriate and clearly state what are expected of the CFOs. The respondents also agreed that the approved structures of the office of the CFO allows the CFO to function effectively; however, this is in contrast to the literature review in section 3.2.2, as it was suggested that for the office of the CFO to function effectively, it must have at least four divisional heads to promote separation of duties among revenue management, income management, budget management and supply chain management. The effective implementation of the financial legislation contributes to better financial management, enhance financial reporting and contribute towards the reduction of corruption. It should be noted with dismay that 36% (8%, 20% and 8%) of the respondents revealed that their staff members are not familiar with the contents of the MFMA.

4.3.7. Risk management

Table 4.23: Functioning of the risk committee

Risk management				
	Your municipality has an independent risk or audit committee that:	Yes	No	Uncertain
RM 1	a. meets regularly as prescribed by legislation	68.0%	24.0%	8.0%
		17	6	2
	b. regularly considers the municipality's risk situation	72.0%	20.0%	8.0%
		18	5	2
	c. receives regular reports on the functioning of the risk management plan	68.0%	24.0%	8.0%
		17	6	2
	d. takes remedial steps that reduces the occurrence of risk	84.0%	8.0%	8.0%
		21	2	2

Figure 4.21: Functioning of the risk committee



As is shown in Table 4.23 in conjunction with Figure 4.21, 68% of the respondents confirmed that their municipalities have an independent risk or audit committee that meets regularly as prescribed by legislation. 72% of the respondents agree that their

risk or independent audit committee meet regularly to assess the municipality's risk situation (refer to question RM 1b in Table 4.23 and Figure 4.21).

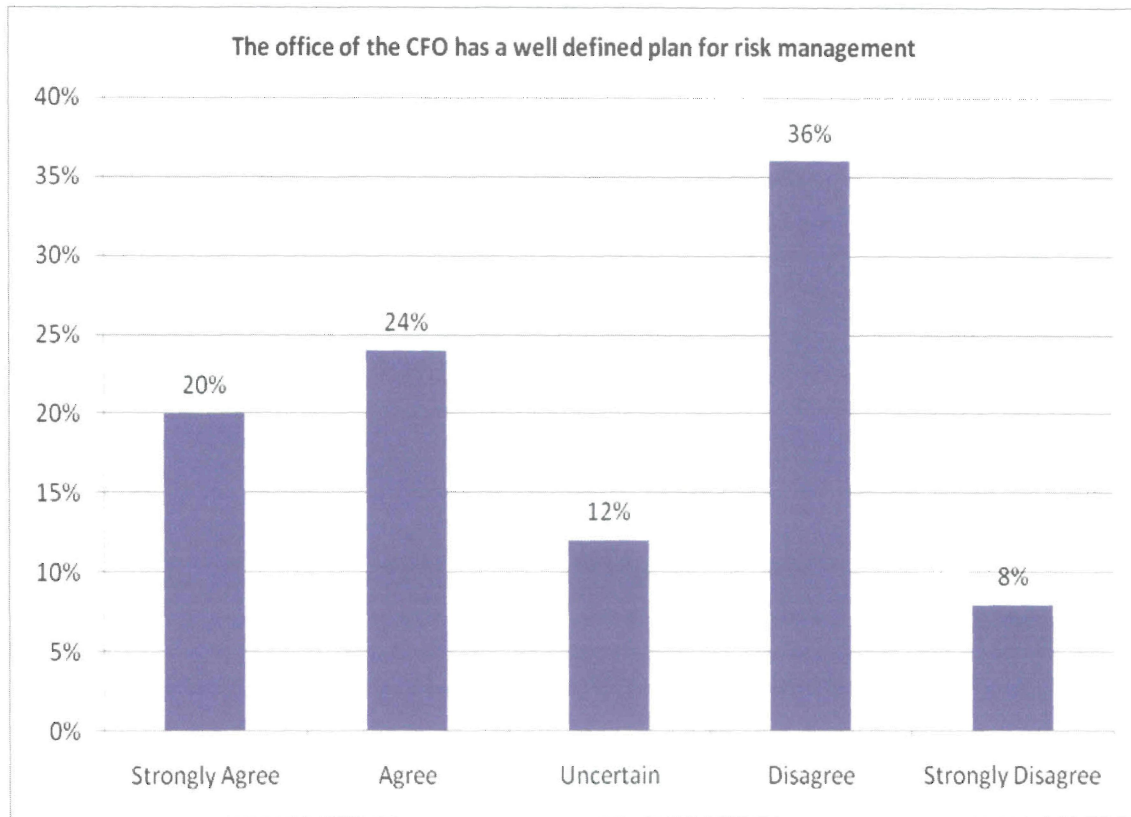
According to Table 4.23 and Figure 4.21, 68% of the respondents agree that their municipalities have an independent risk committee that receives regular reports on the functioning of the risk management plan.

Question RM 1d in Table 4.23 reveal that 84% of the respondents indicated that their audit committees take remedial steps with a view to reduce the occurrence of identified risk. On the contrary, according to the Auditor-General, at an average over a period of three consecutive financial years, 68% of the municipalities had adverse or disclaimer of opinion (refer to Table 2.9). Non-existence of audit committees was one of the qualification emphases of matter for the unqualified, adverse or disclaimer of opinion (refer to Tables 2.7, 2.8 and 2.9 in Section 2.10.3). It is assumed that the audit committee is also functioning as a risk committee.

Table 4.24: Well-defined risk management plan

Risk Management		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
RM 2	The office of the CFO has a well-defined plan for risk management.	20.0%	24.0%	12.0%	36.0%	8.0%
		5	6	3	9	2

Figure 4.22: Well-defined risk management plan

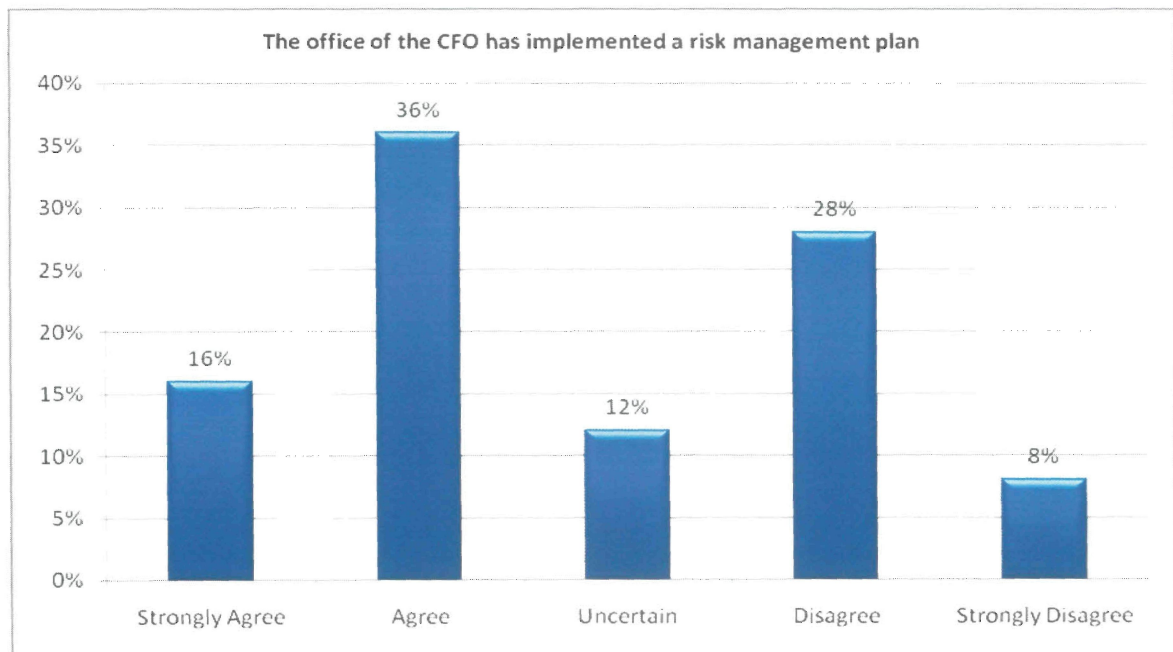


The analysis of the respondents as it can be seen in Table 4.24 and Figure 4.22, depict that 20% strongly agree and 24% agree that the office of the CFO has a well defined risk management plan. The two categories constitute 44%. Therefore, more than half of the respondents do not agree that their CFOs have a well-defined risk management plan. This information sounds a warning bell to the researcher; therefore, the Municipal Manager, with the help of the CFO, needs to address this issue as a matter of urgency within local municipalities in Gauteng. The validity of the responses comes under question if the responses to the previous question (RM 1c) above in Table 4.23 state that 68% of the respondents said that there are regular reports on the risk management implementation plan. This needs to be taken into account when this response is valued.

Table 4.25: Implementation of a risk management plan

Risk management		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
RM 3	The office of the CFO has implemented a risk management plan.	16.0%	36.0%	12.0%	28.0%	8.0%
		4	9	3	7	2

Figure 4.23: Implementation of a risk management plan



According to Table 4.25 and Figure 4.23 above, 48% (12% not certain, 28% disagree and 8% strongly disagree) of the participants do not agree that the office of the CFO has implemented the risk management plan. This means that about 50% of the staff members are not aware of implementation of the risk management plan and this poses a serious concern to the researcher and recommendations will be made to the municipalities. The above response shows the same contradiction to question RM 1c in Table 4.23 as the response to question RM 2 in Table 4.24.

Table 4.26: Risk management systems are in place

Risk management						
RM 4	A risk management systems is in place that:	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
	a. contribute towards better financial management	12.0%	40.0%	16.0%	24.0%	8.0%
	b. assists in safeguarding the resources of the municipality	8.0%	44.0%	16.0%	32.0%	0.0%
		3	10	4	6	2
		2	11	4	8	0

Figure 4.24: Risk management systems are in place

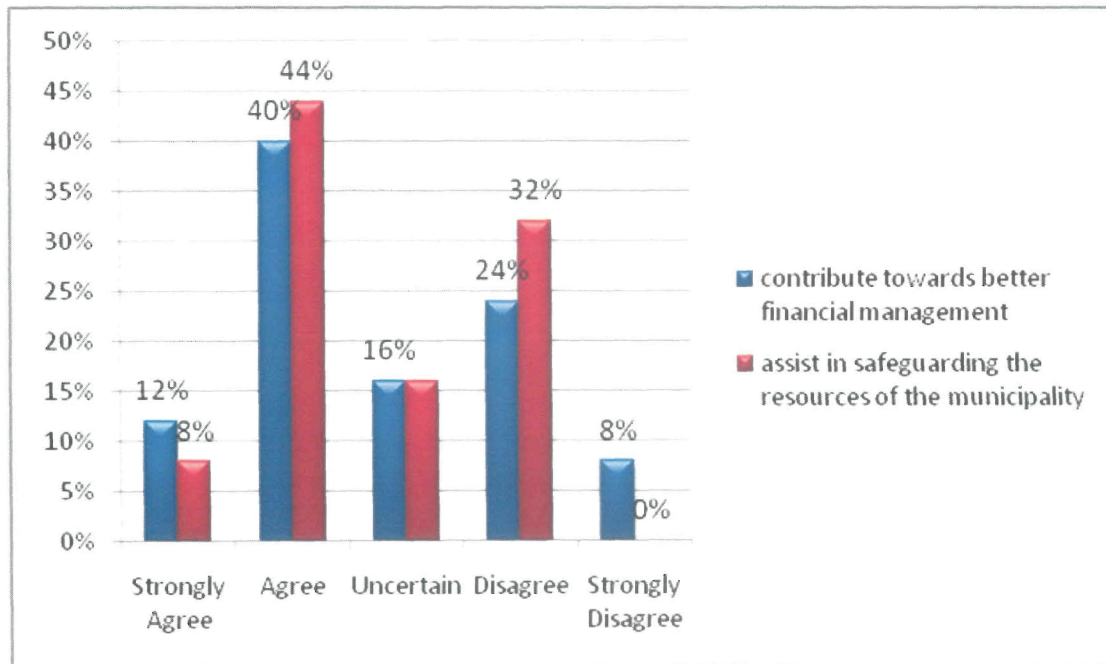


Table 4.26 and Figure 4.24 reveal that 52% (12% & 40%) of the respondents agree that a risk management system is in place that contributes towards better financial management. Only 8% of the respondents strongly agree and 44% agree that their municipalities have a risk management system that assists in safeguarding the resources of their municipality. The respondents are divided into almost two halves: the one half does not agree that a risk management system is actually in place whilst the other half agrees. This is a serious challenge as some of the risk, if not managed, can result in a loss of major operational activities of the municipalities that can cost a fortune or can give rise to bad service delivery.

Table 4.27: Internal audit department

Risk management					
RM 5	Does your municipality have an internal audit department that:		Yes	No	Uncertain
	a. the audit department is separate / independent from the office of the CFO		52.0%	28.0%	20.0%
			13	7	5
	b. function independently from the office of the CFO		52.0%	28.0%	20.0%
			13	7	5
	c. does it report to the: (tick the appropriate box / boxes)	CFO	Audit Committee	Municipal Manager	Other (name)
	0.0%	61.5%	0.0%	38.5%	
	0	8	0	5	

About half the respondents agree that their municipalities have an internal audit department that is operationally independent from the office of the CFO, furthermore it functions independently from the office of the CFO; this is represented by 52% in Table 4.27. The challenge is: what about the other 48% of the municipalities which do not have audit committees, because if the respondents are uncertain it can be accepted or assumed that an internal audit department does not exist.

Figure 4.25: To whom does the internal audit department report

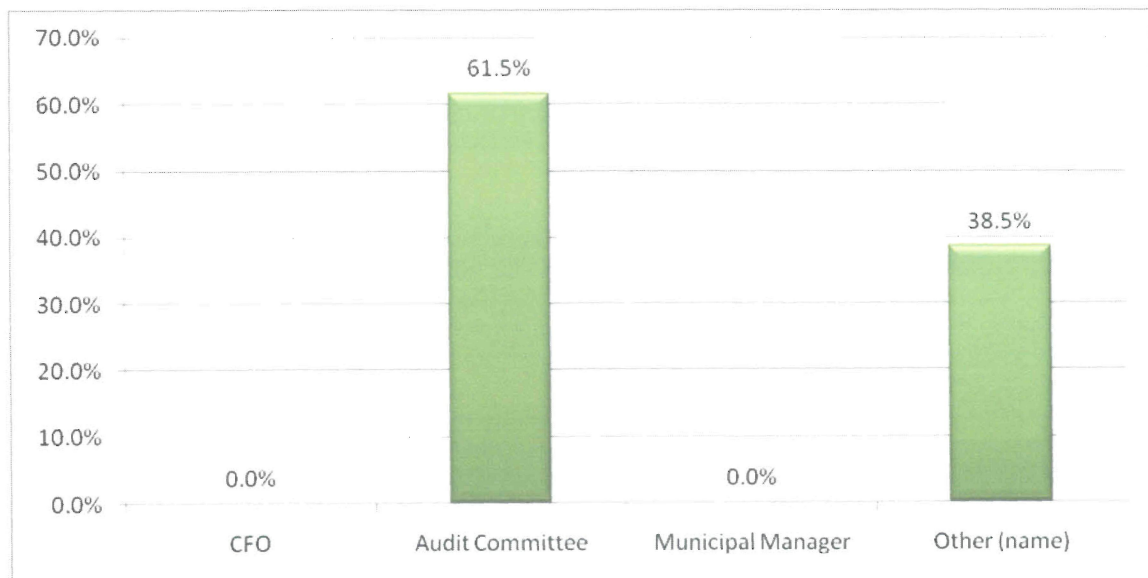


Table 4.27 and Figure 4.25 above depict that 61.5% of the respondents reveal that their municipalities have an internal audit department that report to the audit committee and this complies with the King report. But Tables 2.7, 2.8 and 2.9 reveal that the Auditor-General raised, among others, concerns under the heading

Emphasis of Matter, lack of internal auditors, lack or ineffective audit committees and other governance matters.

Figure 4.25 and Table 4.27 show that 38,5% of the respondents confirmed that their municipalities have audit departments that was established six months ago and it reports to the Chief Operating Officer, who then report to the Municipal Manager. The internal auditor was appointed when the audit department was established, subsequently to the appointment, the audit manager was appointed three months later.

Question RM 6: In your opinion what can be done to improve risk management in your municipality?

Summary of the comments:

- Develop and implement a risk management plan. The plan must be supported and cascaded from top management to staff members in the lower levels;
- Develop a culture of risk awareness within the municipality;
- Establish a risk management unit, to be headed by a senior official who reports to the Municipal Manager;
- Establishment of a risk management committee or extension of the roles and responsibilities of the audit committee to include risk management;
- Establishment and implementation of the anti-corruption and travelling policy;
- Segregation of related financial duties;
- Managers should be officially delegated to be responsible for risk management within their sections or department;
- Establishment of back-up plans for all catastrophic risks;
- Encourage job rotation or multi-skills within the office of the CFO;
- Review the risk plans regularly with a view of improving it; and
- Establish an internal audit department that reports directly to the Accounting Officer (Municipal Manager) not the CFO.

Conclusion:

The respondents revealed that their municipalities have established governance structures that are effectively operational, but, this is in contrast with the information gathered for the Auditor-General (see chapter two). About half of the respondents indicated that their municipalities do not have a risk management plan in place. About 50% of the respondents revealed that the risk management plan is not implemented and there is a close correlation between having a risk management plan and its implementation. Therefore, there is an urgent need for the Municipal Manager, with the help of the CFO, to pay attention to the establishment of the risk management plan and its implementation.

4.3.8. Strategic management

Table 4.28: Impact of the strategy to the municipality

Strategic management		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
SM 2	Does the strategy contribute towards:					
	a. better services delivery to the communities they serve	16%	56%	8%	20%	0%
		4	14	3	5	
	b. improved financial management	20%	56%	8%	16%	0%
		5	14	2	4	0
	c. safeguarding the resources of the municipality	20%	52%	8%	20%	0%
	5	13	2	5	0	

Figure 4.26: Impact of the strategy to the municipality

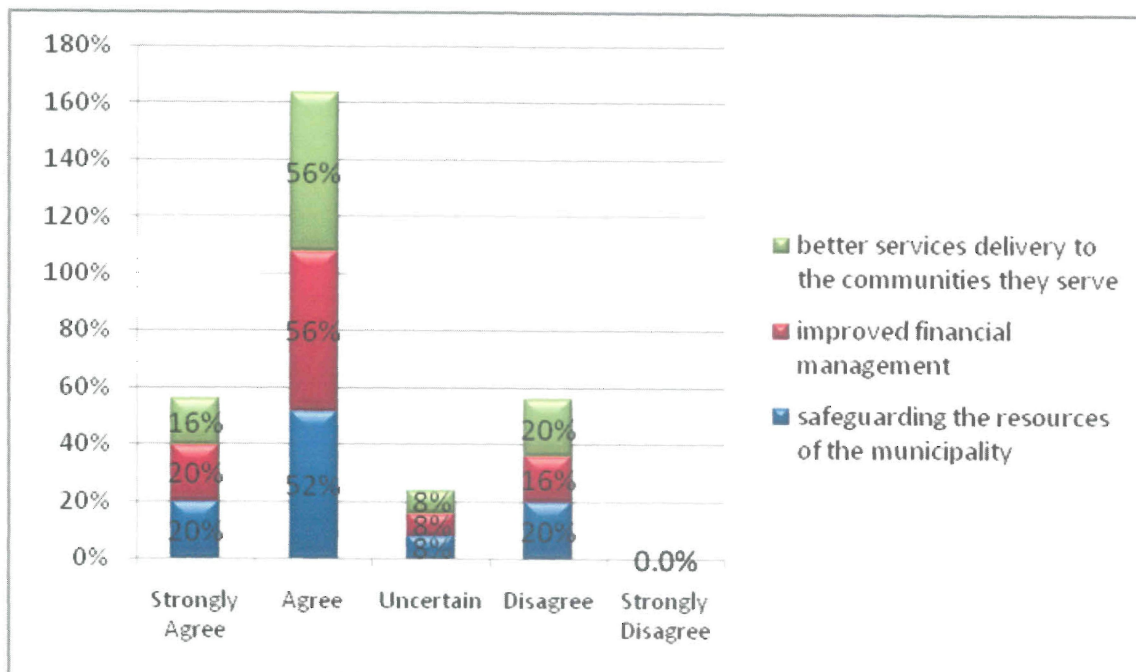
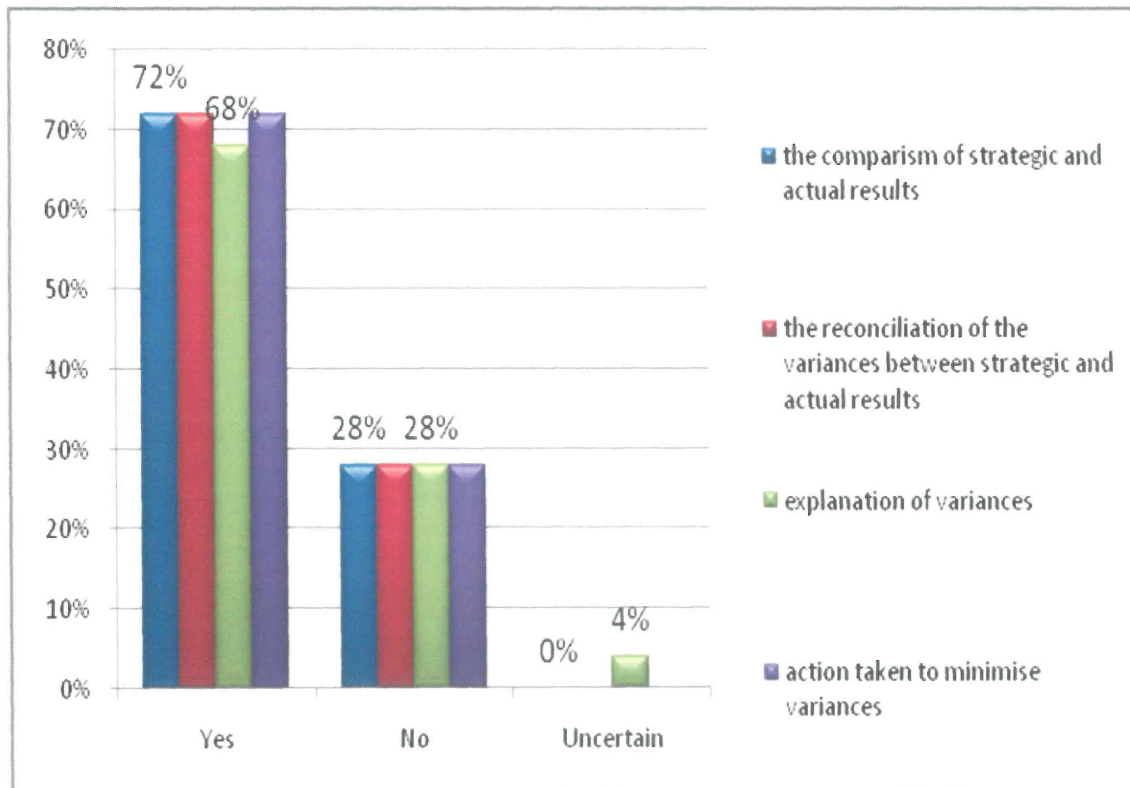


Table 4.28 and Figure 4.26 reveal that 72% (16% and 56%) of the respondents are satisfied that the strategy of their municipalities is to contribute towards better service delivery to the communities they serve. Question SM 2b in Table 4.21 above depicts that 76% (20% and 56%) of the respondents agree that the strategy has an effect of improving financial management. Lastly, 72% (20% and 52%) of the respondents confirm that the strategy enhances the safeguarding of the resources of the Municipality (refer to question SM 2c above).

Table 4.29: Impact of the strategic plan on the municipality

Strategic management				
SM 3	Does the strategic plan make provision for:	Yes	No	Uncertain
		a. the comparison of strategic and actual results	72.0%	28.0%
		18	7	0
b. the reconciliation of the variances between strategic and actual results		72.0%	28.0%	0.0%
		18	7	0
	c. explanation of variances	68.0%	28.0%	4.0%
		17	7	1
	d. action taken to minimise variances	72.0%	28.0%	0.0%
		18	7	0

Figure 4.27: Impact of the strategic plan on the municipality



According to the data gathered from the questionnaire, as it is reflected in question SM 3 C in Table 4.29 and Figure 4.27, 68% of the respondents pointed out that the strategic plan of their municipalities make provision for the explanation of variances, whilst 72% of the respondents agreed that the strategic plan to make provision for the reconciliation of the variances between strategic and actual financial results, comparison of strategic and actual financial results, and furthermore, action are taken by the municipalities to minimise the occurrence of financial variances in future.

Question SM 4: In your opinion, what steps can be taken to improve strategic formulation and implementation?

Summary of comments:

- Ward councillors should be involved in strategic planning and implementation of the strategy to improve the buy-in principle.
- Budget is a tool to implement the strategic plan, which should be based on realistic estimates.

- The following should be addressed in the strategic plans of the municipality: income generators; debt management; cash flow management, supply chain management and effective usage of resources.
- Cash flow projection processes should be implemented.
- Debtor collections can be improved if the Credit Control Policy was properly implemented and supported by council.
- Bad debts should be written off, where appropriate, and procedure should be spelt out clearly.
- Indigent policy should be actively implemented and the poorest of the poor should be encouraged to register.
- An effective and reliable system of taking the reading of water and electricity should be put in place.
- An aggressive economic development policy would attract investors, tourism and thereby create income through services.
- The uneconomical resources or activities should be transferred into Private Public Partnerships.

Conclusion:

The analysis of the questionnaire completed by the respondents revealed that the majority of the respondents' municipalities have strategic plans that contribute towards the improvement of service delivery and better financial management. The strategic plan also makes provision to compare the actual expenditure against the budget, reconcile the variance and take remedial action against variances to ensure that they do not recur.

4.3.9. Budgeting processes

Table 4.30: Alignment of the budget to strategic objectives

Budgeting Processes		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
BP 1	The budget is aligned to the strategic objectives of the municipality.	32.0%	40.0%	8.0%	20.0%	0.0%
		8	10	2	5	0

Figure 4.28: Alignment of the budget to strategic objectives

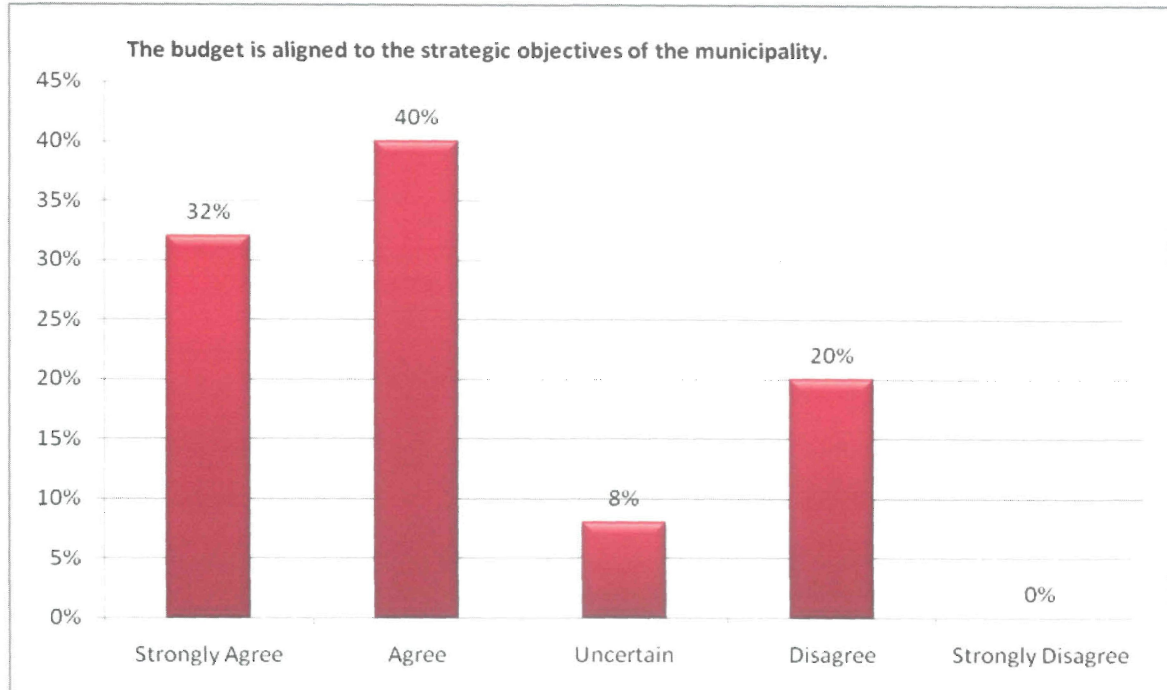
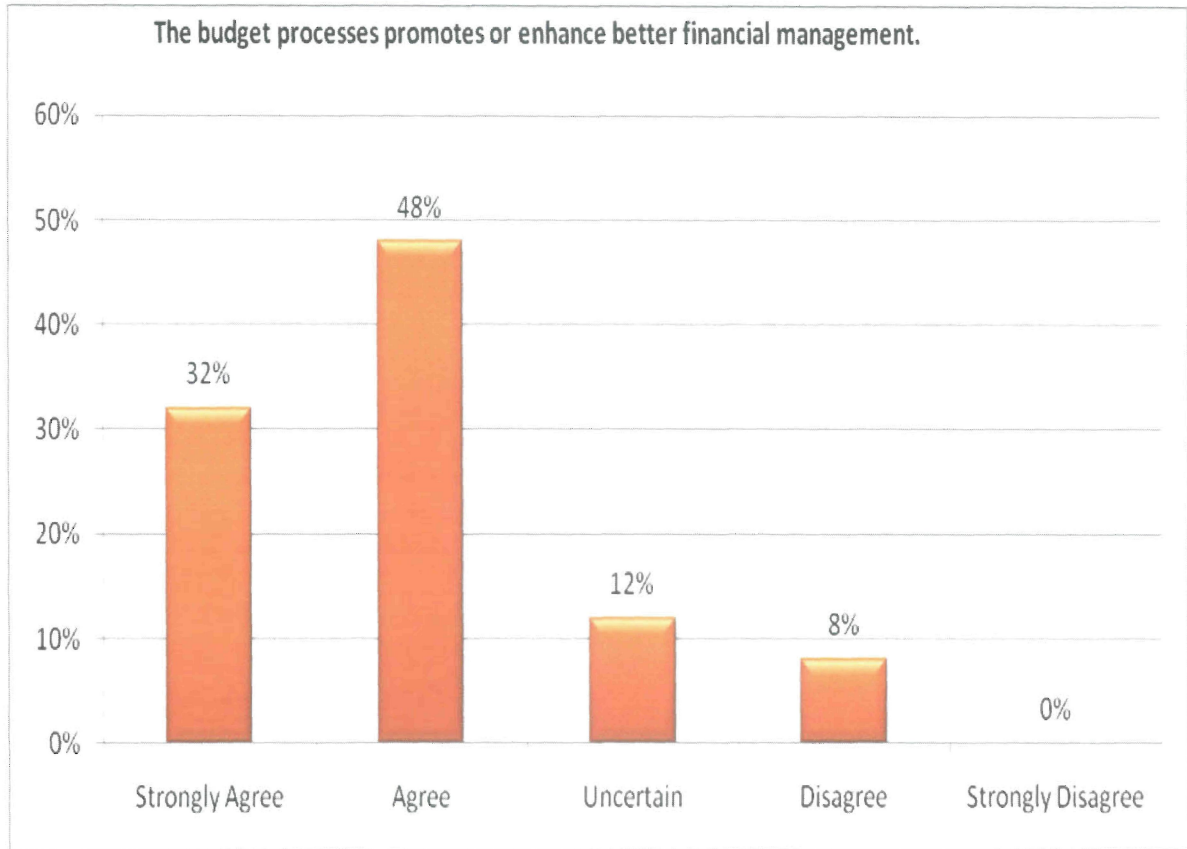


Table 4.30 and Figure 4.28 show that 40% of the respondents agreed and 32% strongly agreed that their budgets are aligned to strategic objectives, i.e., Integrated Development Plans. The two categories represent the majority of the respondents by 72%. This shows that municipalities use a budget as a tool to manage performance of the strategic objectives.

Table 4.31: Influence of the budget process to financial management

Budgeting processes		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
BP 2	The budget processes promote or enhance better financial management.	32.0%	48.0%	12.0%	8.0%	0.0%
		8	12	3	2	0

Figure 4.29: Influence of the budget process on financial management

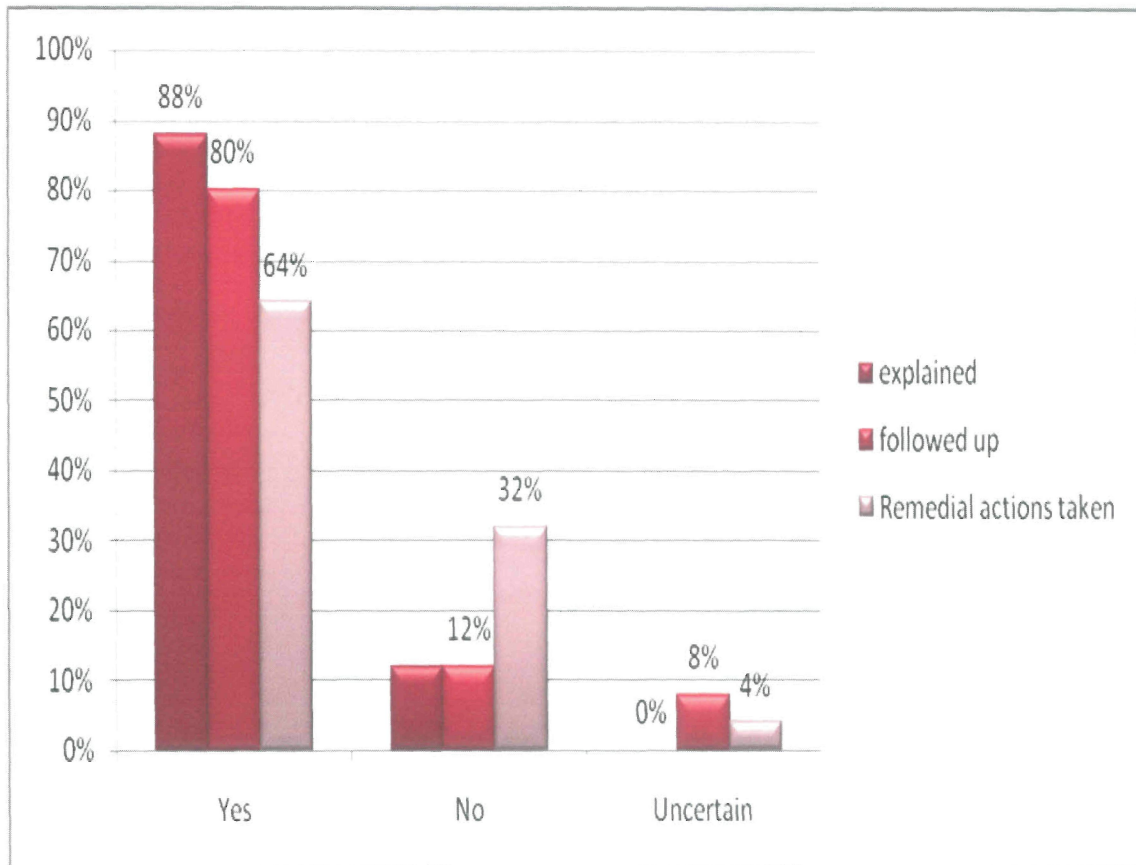


Generally, municipalities use the budget process to enhance or promote better financial management. This is reflected in analysis of the data whereby 32% of the respondents strongly agreed, and 48% agreed that their municipalities use the budget process to promote or enhance better financial management (refer to Table 4.31 or Figure 4.29). Therefore, 80% of the respondents support the above statement and the budget process is used to improve financial management.

Table 4.32: Comparison of the budget and expenditure and variance analysis

Budgeting processes		Yes	No	Uncertain
BP 3	a. the budget is compared with the actual expenditure and projections for the remainder of the year.	72.0%	12.0%	16.0%
	b. are any variances: explained	88.0%	12.0%	0.0%
	: followed up	80.0%	12.0%	8.0%
	: Remedial actions taken	64.0%	32.0%	4.0%

Figure 4.30: Comparison of the budget and expenditure and variance analysis



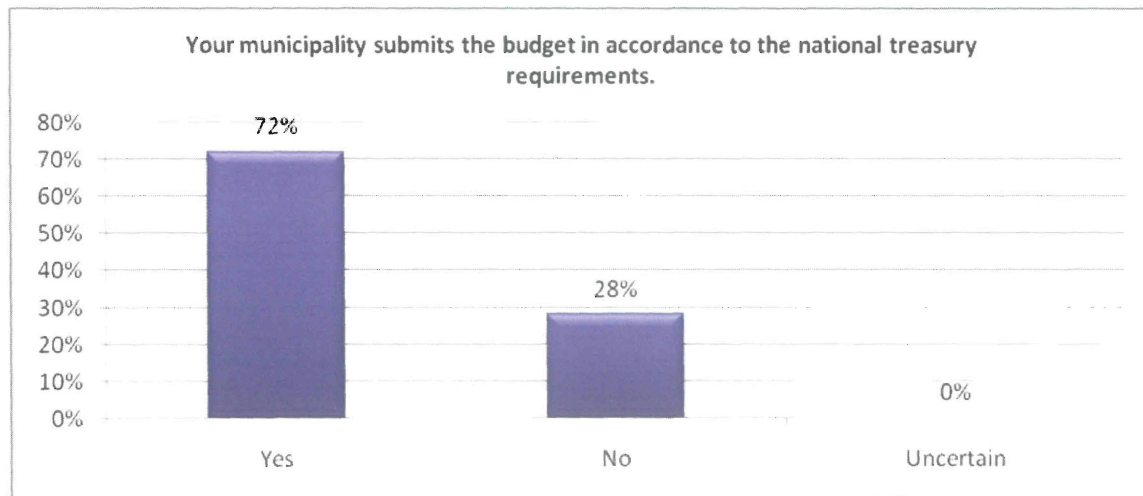
According to Table 4.32 (refer to question BP 3a) and Figure 4.30, 72% of the respondents agree that their finance division compares the budget year to date with the actual expenditure to date and the available budget is projected for the remainder of the year.

Table 4.32 (question BP 3b) and Figure 4.30 indicate that 88% of the respondents support that, when their municipalities discover that there are variances they make sure that those variances are explained; 80% of the respondents reveal that follow-ups are made to ensure that variances should not recur; furthermore, 64% of the respondents reported that remedial actions are taken against all known variances.

Table 4.33: The submission of the budget

Budgeting processes		Yes	No	Uncertain
BP 4	Your municipality submits the budget in accordance to the National Treasury requirements.	72.0%	28.0%	0.0%
		18	7	0

Figure 4.31: The submission of the budget



Question BP 4 in Table 4.33 and Figure 4.31 shows that according to 72% of the respondents, their municipalities submit their budgets as required by treasurer regulation. This shows a good reflection in terms of the budget administration of the local municipalities.

Question BP 5: What would you advise your municipality to do, to improve the budgeting processes?

Summary of the comments:

- Start on time and follow the MFMA No. 56 of 2003 circular guidelines;
- Complete the Integrated Development Plan on time;
- Have clear guidelines on Council's vision;
- Budgets to be ward based;
- The budget and treasury office should liaise with the stakeholders regularly and involve them throughout the process;
- The municipality must involve junior staff members in the budget process and planning process to build capacity;
- The budget process should be properly planned with a reasonable timeframe and should be circulated to all stakeholders in advance; and
- Conduct information sessions to inform stakeholders what is expected of them and when.

Conclusion:

The respondents agreed that the budget of their municipalities is aligned to address strategic objectives and it enhances better financial management. Municipalities make provision to compare the budget and actual expenditure, any variances are explained and remedial actions taken to ensure that such variances should not recur. Lastly, the majority of the respondents agreed that their municipalities submit the budget as prescribed by the legislation.

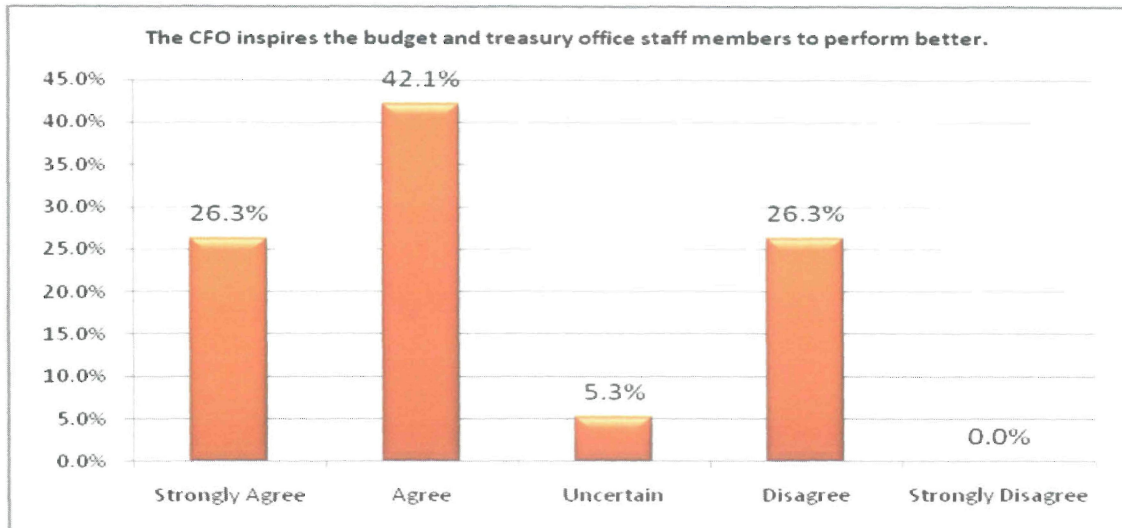
4.3.10. Leadership role

Table 4.1 and Figure 4.1 above reveal that twenty five out of the total population of thirty two respondents who completed and returned the questionnaire, it was further revealed that six of the respondents were CFOs. The question on the leadership role is mainly referring to the leadership style of the CFO; as a result, the six questionnaires completed by the CFOs were not considered in the analysis of this question in order to get a true reflection of their leadership style.

Table 4.34: The CFO inspires the staff members

Leadership role		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
LR 1	The CFO inspires the budget and treasury office staff members to perform better.	26.3%	42.1%	5.3%	26.3%	0.0%
		5	8	1	5	0

Figure 4.32: The CFO inspires the staff members

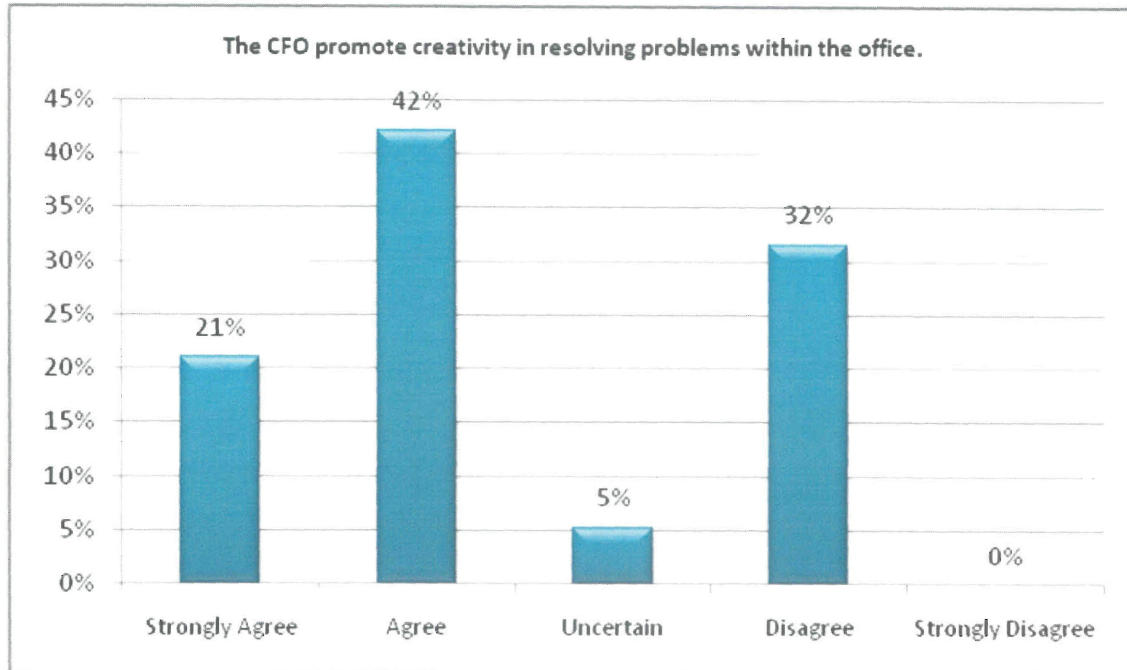


The majority of the respondents agree that the manner in which their CFOs operate inspires them to perform better. This was revealed in Table 4.34 and Figure 4.32 by 68.4% (26.3% and 42.1%) of the respondents who agree and strongly agree. This is one of the qualities of a transformational leader (refer to section 2.9.3 above).

Table 4.35: The CFO promotes creativity in problem solving

Leadership role		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
LR 2	The CFO promotes creativity in resolving problems within the office.	21%	42%	5%	32%	0%
		4	8	1	6	0

Figure 4.33: The CFO promotes creativity in problem solving



Question LR 2 in Table 4.35 and Figure 4.33 shows that 63% (21% and 42%) of the respondents divulged that their CFOs tap in on their talent and therefore promote creativity in resolving work-related problems within the office. This is in line with the intellectual stimulation concept of leadership which states that a transformational leader promotes intelligence, rationality and careful problem solving to staff members (see chapter two).

Table 4.36: The CFO renders advice to staff members

Leadership role		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
LR 3	The CFO renders individual advice to staff members.	21%	42%	5%	26%	5%
		4	8	1	5	1

Figure 4.34: The CFO renders advice to staff members



The analysis of the completed and returned questionnaire as reflected in Table 4.36 and Figure 4.34 shows that 21% of the respondents strongly agree and 42% agree that their CFOs render individual advice to staff members. Individualised consideration as a concept of leadership refers to a leader who gives personal attention, treats each employee individually, coaches and advises (see transformational leadership style). This is an indication of good leadership by the CFOs.

Table 4.37: The CFO follows the Code of Conduct

Leadership role		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
LR 4	The CFO follows the Code of Conduct for municipal staff members.	10.5%	21.1%	10.5%	47.4%	10.5%
		2	4	2	9	2

Figure 4.35: The CFO follows the Code of Conduct

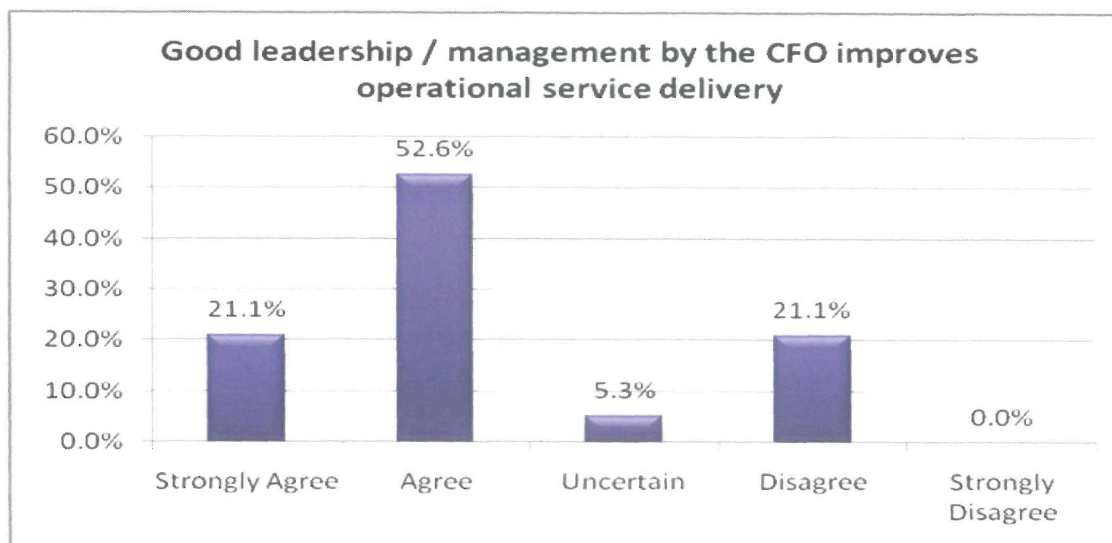


According to Table 4.37 and Figure 4.35, 57.9% (47.4% and 10.5%) of the respondents disagree or strongly disagree and 10.5% are not certain that their CFOs follow the Code of Conduct for municipal staff members. The researcher was expecting a close correlation between the CFO following the Code of Conduct and perceived contribution of the Code towards the reduction of corrupt activities. In Table 4.5 and Figure 4.5, it is revealed by 92% of the respondents that the Code of Conduct contributes towards the reduction of occurrence of corrupt activities within their municipalities. The above statement was supported by Craythorne (1993:94) when stating that the main objectives of the Code of Conduct is to prevent dishonesty, corruption, unethical behaviours and abuse of information, conflict of interest being bias, and to hold people accountable in terms of the Code of Conduct for these actions (refer to Section 2.9.2). Therefore, there is a great need for the CFOs to take action to change the perception that the CFO is not following the code.

Table 4.38: Relationship between good leadership and service delivery

Leadership role		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
LR 5	Good leadership / management by the CFO improves operational service delivery	21.1%	52.6%	5.3%	21.1%	0.0%
		4	10	1	4	0

Figure 4.36: Relationship between good leadership and service delivery



A majority of 73.7% (21.1% and 52.6%) of the respondents agreed that good leadership or management by the CFO improves operational delivery of service to the community served by the municipality (refer to Table 4.28 and Figure 4.36). This shows confidence in the leadership style of the CFOs.

4.3.11. The roles of the CFO

Table 4.39: The role of the CFO in the new dispensation

The role of the CFO			
CFO 1	Do you think the role of the CFO of the municipality have changed significantly in the new dispensation for the local municipality? Briefly motivate your answer.		
	Yes -85% and No 15%		
	If yes, what factors contributed towards this changed situation (Please tick one or more appropriate Box/es		
	a. New legislation	35.3%	18
	b. re-demarcation of municipal boundaries	29.4%	15
	c. new type of local government	25.5%	13
d. corporate governance	9.8%	5	
e. other (please name)			

Results in Table 4.39 show that 85% of the respondents agree that the role of the CFO of the municipality have changed significantly in the new dispensation for the local municipality. The motivation for the above responses is shown in Table 4.39:

- That the highest number of the respondents i.e., 35,5% suggested that the new legislation contributed to the change of the role of the CFO;
- The second popular reason was the re-demarcation of municipal boundaries with 29,4%;
- New type of municipality came third with 25,5%; and
- Lastly corporate governance with only 9,8%.

Question CFO 1: Do you think the role of the CFO of the municipality has changed significantly in the new dispensation for the local municipality? Briefly motivate your answer.

Summary of the comments

- The role of the CFO should have changed significantly if the MFMA No. 56 of 2003 had been followed, but inappropriate appointments with both the Municipal Manager and the CFO have resulted in numerous problems. An appropriate CFO commenced employment during October and an improvement in compliance should have become evident;
- The legislations have been changed; as a result, the preparation of the financial statements has changed to be in line with the new legislation;
- Presently, communities should be involved in the budgeting process;
- The CFO must lead and direct financial resources of the municipality, ensure profitability and liquidity of the municipality.
- The CFO's involvement should be a co-ordinating role between strategy and implementation for all the numerous stakeholders.

Question "if yes": What are the challenges faced by the office of the CFO within the municipality? How can these challenges be addressed?

Summary of the comments

- An improved financial system would improve reporting and accurate decision making;
- Vacancies filled by appropriate personnel would assist in performing tasks;
- Capacity building in areas such as computers, personnel management, office etiquette and diversity management;

- Appointment of consultants;
- Review the organogram in the office of the CFO to be in line with the current legislative requirements;
- The CFOs should familiarise themselves with the current legislative financial management procedures and guidelines;
- The impact of the National Credit Act in the collection of outstanding debts;
- Adverse opinion or disclaimer of opinion by the Auditor-General – capacitate staff members who are responsible to prepare financial statements;
- Implementation of GRAP or GAMAP accounting standards – training of staff members with regard to the implementation of the statements;
- Legislation deems asset management to be a highly specialized function – creation of a position in the organogram, recruitment and employment of competent staff members;
- Financial reporting system requires adjustment;
- Recruitment, selection and employment of experience and qualified staff in the office of the CFOs are a challenge – the municipality should consider outsourcing the recruitment and employment of staff in the CFO's office.
- Implementation of the newly enacted legislation: – the municipality should approach either the National Department of Provincial and Local government or National Treasury to assist in the implementation of the newly enacted Act. The national department should conduct workshops on the implementation of the new legislation; and
- The role of councillors in financing management - the National Department of Provincial and Local government, National Treasury and the Institute for Municipal Finance office should develop guidelines and train the councillors on responsibilities with regard to financial management.

4.4` CONCLUSION:

In this chapter, the roles of the CFO within the municipal council were critically analysed with the use of a questionnaire, and it indicated that the office of the CFO within local municipalities in Gauteng generally are functional. Evidence based on the general report of the Auditor-General on the audit outcome of local government, on the contrary, indicated that the office of the CFOs within the local municipalities is dysfunctional.

In Chapter 5, the researcher will concentrate on the summary of the study, the critique of the findings which will be based on the municipalities and government point of view, the recommendations and the concluding remarks, and lastly, areas of future research will be discussed.

CHAPTER 5

SUMMARY, CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

5.1. INTRODUCTION

In chapter one, the background and research programme which include the objectives, methodology, research design and limitations were discussed.

In chapter two, the literature review was analysed. It is mainly based on library books which were supplemented by journals, government gazettes, newspaper cuttings, other government publications, and the appropriate acts of parliament. The researcher concentrated on the roles of the CFO. Comparisons of the role of the CFO of the municipalities and corporate world were done. Furthermore, the roles of the CFO of the municipalities were discussed in detail. The role of stakeholders in municipal financial management was discussed, and lastly, challenges facing municipal finance were highlighted. Information gathered in the literature review formed a solid foundation for chapter three.

Chapter three dealt mainly with the research design, research instrument, piloting of the research instrument, ethical consideration, data collection technique, data analysis and limitation of the questionnaire. The information discussed in this chapter was used as building blocks in the next chapter.

In chapter four, the researcher, through the application of the research tool obtained the perceptions of the executive personnel in the offices of the CFOs in eight local municipalities, with regard to the effectiveness of financial management in their respective environments, within the ambit of the guidance of the law on good governance, in order to enhance service delivery and promote better financial management.

5.2. RESEARCH GOALS ACHIEVED

It was imperative for the researcher for the purpose of this research to achieve both the main and ancillary objectives as stated in section 1.2.1 and 1.2.2.

5.2.1 Main objectives

The following key roles and functions of the CFO within local municipal council were identified, and discussed in the literature review:

- Strategic management;
- Code of Professional Conduct;
- Leadership;
- Risk management;
- Budget management;
- Legislation requirement;
- Internal control; and
- Financial management.

The researcher is of the opinion that the main objective has been achieved i.e., *'to critically analyse the roles and functions of the Chief Financial Officer within local municipal council to gain in-depth understanding of these roles and functions in order to recommend an improvement in financial management and service delivery for the local municipalities in Gauteng province'*. The study of the literature disclosed that adherence to the above key roles and the functions of the CFO would be a prerequisite for successful financial management by the CFO, so that the public funds will be managed in such a way that it will satisfy the requirements of acceptable service delivery by the municipalities. However, what was the state of financial management in practice: was the guidance, as discussed in the literature review, sufficient, and if yes, was it applied properly? A critical analysis of the responses received on the questionnaire, revealed a situation where the researcher cannot state emphatically that the guidance (legislation) was applied sufficiently, due to some respondents not being aware of what was expected from them by the

legislation and good governance guidelines. It is perceived that such responses were due to limited level of education / training and experience in the financial environment. If it was assumed that the guidance was sufficient, the researcher had to conclude that it was not effectively applied in practice, and as a result, made suggestions to improve the practical application therefore leading to better financial management in practice and better service delivery to the community of the local municipality (Refer to paragraph 5.4).

The researcher is thus of the opinion that the main objectives were achieved, and in doing so, also achieved the ancillary objectives i.e., to analyse the literature on the delegation of powers and function in relation to financial matters, in order to determine the expectation from the office of the CFO and to analyse the material activities of and the problems faced by the office of the CFO, in order to implement the municipal financial legislation; and proper financial management.

5.3. LIMITATIONS

The environment in which the local municipalities operate in Gauteng is not similar to the rest of the local municipalities in South Africa; it also differs from metropolitan and district municipalities. Therefore, it will not be possible to draw conclusions and generalisations which are applicable to all local municipalities in South Africa or metropolitan and district municipalities.

5.4. RECOMMENDATIONS

Local municipalities within the boundaries of Gauteng are advised to address the following summarised recommendations to improve the efficiency and effectiveness of the functioning of the office of the CFOs as it will culminate to improve the service delivery:

- Acquirement of competent staff with the necessary academic qualification and experience of the financial world;
- Implementation of the Code of Conduct which should be maintained by an example from the top management echelon and a positive approach;

- Education and training of staff members introduce training apprentices;
- Effective implementation of control systems with diligent following of suggestions and recommendations of the Auditor-General for improved financial control;
- Diligent implementation of legislation requirements in order to attain the discipline and requirements for the good taken up in legislation;
- Effective risk management. Hence sensitivity for what can go wrong, plan for it and take remedial steps where necessary;
- Strategic implementation and management – where structure and action should follow, measured against the actual financial results;
- Budget management to overcome the problems encountered where planning meets reality, and not to make the same mistakes in future.

Refer to Annexure D for detailed elaboration on the above-mentioned recommendations.

5.5. AREAS OF FURTHER RESEARCH

The research topic should be extended to other provinces to be able to make conclusions and generalisations that will be applicable to local municipalities in South Africa.

Research needs to be undertaken to establish why there is a high turnover of staff amongst the CFOs and their managers or deputies in Local Municipalities in Gauteng.

5.6. CONCLUSION

Table 2.5 on page 51 above reveals that the Auditor-General expressed only one unqualified opinion out of the eight (12.5%) local municipalities in Gauteng during the 2003/04 and 2004/05 financial year audit, whilst, three out of out of eight (37.5%) unqualified opinion were expressed in the 2005/06 financial year. This means that 62.5% of the local municipalities in Gauteng during the financial year 2005/06 did not conduct their finances properly, according to the Auditor-General. Therefore, there is a need for those municipalities to improve their financial administration; as a result, it

is advisable for municipalities to implement the recommendations from the Auditor-General as per municipal final management letter.

Recommendations made in section 5.4 above are based on the information gathered from the Auditor-General, National Department of Local and Provincial government and all (eight) local municipalities within the boundaries of the Gauteng province. Furthermore, it is advisable for the CFOs to review financial administration within their municipalities with a view of identifying and implement recommendations (see section 5.6 above) that will enhance better financial management. Better financial management means better utilisation of public funds to the benefit of the community, i.e., improvement of service delivery.

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THE NATIONAL TREASURY

MUNICIPALITY / MUNICIPAL ENTITY

CODE OF CONDUCT FOR SUPPLY CHAIN MANAGEMENT PRACTITIONERS AND OTHER ROLE PLAYERS

In accordance with regulation 46(4) and 46(5) of the Local government Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations, the supply chain management policy of a municipality or municipal entity is required take into account the National Treasury's Code of Conduct for supply chain management practitioners and other role players. Alternatively, a municipality or municipal entity may adopt the National Treasury Code of Conduct. When adopted, such Code of Conduct becomes binding on all officials and other role players involved in the implementation of the supply chain management policy of the municipality or municipal entity.

The **purpose** of this Code of Conduct is to promote mutual trust and respect and an environment where business can be conducted with integrity and in a fair and reasonable manner.

General Principles

The **municipality / municipal entity** *select which is applicable* commits itself to a policy of fair dealing and integrity in the conducting of its business. Officials and other role players involved in supply chain management (SCM) are in a position of trust, implying a duty to act in the public interest. Officials and other role players should not perform their duties to unlawfully gain any form of compensation, payment or gratuities from any person, or provider/contractor for themselves, their family or their friends.

Officials and other role players involved in SCM should ensure that they perform their duties efficiently, effectively and with integrity, in accordance with the relevant legislation, policies and guidelines. They should ensure that public resources are administered responsibly.

Officials and other role players involved in SCM should be fair and impartial in the performance of their functions. They should at no time afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual. They should not abuse the power and authority vested in them.

Conflict of interest

An official or other role player involved with supply chain management –

- (a) must treat all providers and potential providers equitably;
- (b) may not use his or her position for private gain or to improperly benefit another person;
- (c) may not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R350;
- (d) must declare to the accounting officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
- (e) must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process, or in any award of a contract by the **municipality / municipal entity** *select which is applicable* ;
- (f) must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
- (g) must declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest;
- (h) should not place him/herself under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties; and

- (i) Should not take improper advantage of their previous office after leaving their official position.

Accountability

Practitioners are accountable for their decisions and actions to the public.

Practitioners should use public property scrupulously.

Only accounting officers or their delegates have the authority to commit the **municipality / municipal entity** select which is applicable to any transaction for the procurement of goods and / or services.

All transactions conducted by a practitioner should be recorded and accounted for in an appropriate accounting system. Practitioners should not make any false or misleading entries into such a system for any reason whatsoever.

Practitioners must assist the accounting officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system.

Practitioners must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including

- (i) any alleged fraud, corruption, favouritism or unfair conduct;
- (ii) any alleged contravention of the policy on inducements, rewards, gifts and favours to municipalities or municipal entities, officials or other role players; and
- (iii) any alleged breach of this Code of Conduct.

Any declarations made must be recorded in a register which the accounting officer must keep for this purpose. Any declarations made by the accounting officer must be made to the **mayor / board of directors** select which is applicable who must ensure that such declaration is recorded in the register.

Openness

Practitioners should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only if it is in the public interest to do so.

Confidentiality

Any information that is the property of the **municipality / municipal entity** select which is applicable or its providers should be protected at all times. No information regarding any bid / contract / bidder / contractor may be revealed if such an action will infringe on the relevant bidder's / contractor's personal rights.

Matters of confidential nature in the possession of officials and other role players involved in SCM should be kept confidential unless legislation, the performance of duty or the provisions of law requires otherwise. Such restrictions also apply to officials and other role players involved in SCM after separation from service.

Bid Specification / Evaluation / Adjudication Committees

- 6.1 Bid specification, evaluation and adjudication committees should implement supply chain management on behalf of the **municipality / municipal entity** select which is applicable in an honest, fair, impartial, transparent, cost-effective and accountable manner.
- 6.2. Bid evaluation / adjudication committees should be familiar with and adhere to the prescribed legislation, directives and procedures in respect of supply chain management in order to perform effectively and efficiently.
- 6.3 All members of bid adjudication committees should be cleared by the accounting officer at the level of "CONFIDENTIAL" and should be required to declare their financial interest annually.
- 6.4 No person should-
 - 6.4.1 interfere with the supply chain management system of the **municipality / municipal entity** select which is applicable; or
 - 6.4.2 amend or tamper with any price quotation / bid after its submission.

Combative Practices

Combative practices are unethical and illegal and should be avoided at all cost. They include but are not limited to:

- (i) Suggestions to fictitious lower quotations;
- (ii) Reference to non-existent competition;
- (iii) Exploiting errors in price quotations / bids;
- (iv) Soliciting price quotations / bids from bidders / contractors whose names appear on the Register for Tender Defaulters.

QUESTIONNAIRE FOR THE STUDY

General Information

Designation of the Respondent				
CFO		Deputy CFO	Manager	Other

Previous work experience in municipality in years				
0 - 5 years		6 - 10 years	11-15 years	
16 - 20 years		21- 25 years	26+ years	

Code of Conduct										
					Yes	No	Uncertain			
CC 1	Municipal staff members have a copy of the Code of Conduct for municipal staff members									
					Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	
CC 2	Your municipality has implemented a Code of Conduct for municipal staff members.									
CC 3	The municipal Code of Conduct contributes towards reduction of corruption.									
CC 4	Municipal staff members are familiar with the contents of the Code of Conduct.									
CC 5	The Municipal Code of Conduct contribute towards better management / governance in the Municipality									
CC 6	In your opinion, what measures could be taken to improve the implementation of the Code of Conduct for municipal staff members?									

Financial Reporting Requirement					
FRR 1	Has your municipality submitted financial statements to the Auditor General as required by legislation:	Yes	No	Uncertain	
	a. the last financial year - 2005/6				
	b. the year before the last financial year - 2004/5				
	c. three years ago - 2003/4				
FRR 2	Which audit opinion was expressed by the Auditor-General during the following years	Qualified	Unqualified	Disclaimer	Adverse
	a. the last financial year - 2005/6				
	b. the year before the last financial year - 2004/5				
	c. three years ago - 2003/4				
FRR 3	Your municipality has an audit committee that:				
	<input type="text"/>				
	a. meet regularly as prescribed by legislation				
	b. considers financial reports				
	c. considers the report of the auditor general				
FRR 4	Financial statements are based upon proper financial records				
		Strongly Agree	Agree	Uncertain	Disagree
FRR 5	The municipality implements the recommendations from the office of the Auditor General diligently.				
FRR 6	Appropriate financial reporting is in place that:				
	a. contribute towards better financial management.				
	b. assists to prevent corruption				
	c. reduces an unauthorised use of resources				
FRR 7	What would you advise the office of the CFO to do, in order to improve the reporting function of the municipality.				

Internal Control		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
IC 1	Appropriate system of internal control is in place to enable the CFO within your municipality to achieve financial risk control					
IC 2	Your municipality has an appropriate system of internal control which assist to:					
	a. improve financial management					
	b. reduce the unauthorized usage of municipal resources					
	c. improve financial reporting					
IC 3	The municipality implements the recommendation from the office of the Internal Auditor diligently, regarding internal control.					
IC 4	The municipality implements the recommendation by the auditor general diligently, regarding internal control.					
IC 5	Internal control measures form an integral part of the financial / operational systems of the municipality.					
IC 6	What actions will you recommend to improve the internal control systems of your municipality?					

Financial Legislation		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
FL 1	The financial legislative requirements of the municipality clearly outline the roles and functions of the CFO.					
FL 2	The financial legislative requirements of the municipality are adequate and well stated.					
FL 3	The approved structure of the municipality allows the CFO to function in accordance with the established financial regulations					
FL 4	According to your opinion, adherence to financial legislation has an effect to:					
	a. reduce the rate of corruption.					
	b. contribute towards improving financial management					
	c. Improve financial reporting					
FL 5	The staff members of the local council are familiar with the contents of the MFMA.					
FL 6	Which other financial legislative documents that regulate municipal finances are you familiar with?					
FL 7	How can the municipality improve financial compliance? Motivate your answer.					

Risk Management					
	Your municipality has an independent risk or audit committee that:	Yes	No	Uncertain	
RM 1	a. meets regularly as prescribed by the legislations				
	b. regularly considers the municipality's risk situation				
	c. receives regular reports on the functioning of the risk management plan				
	d. takes remedial steps that reduces the occurrence of risk				
		Strongly Agree	Agree	Uncertain	Disagree
RM 2	The office of the CFO has a well-defined plan for risk management.				
RM 3	The office of the CFO has implemented a risk management plan.				
RM 4	A risk management systems is in place that:				
	a. contribute towards better financial management				
	b. assists in safeguarding the resources of the municipality				
	Does your municipality have an internal audit department that:	Yes	No	Uncertain	
RM 5	a. the audit department is separate / independent from the office of the CFO				
	b. function independently from the office of the CFO				
	c. does it report to the: (tick the appropriate box / boxes)	CFO	Audit Committee	Municipal Manager	Other (name)
RM 6	In your opinion what can be done to improve the risk management within the municipality?				

Strategic Management		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
SM 1	The operational activities of the office of the CFO support the strategy of the municipality.					
SM 2	Does the strategy contribute towards:					
	a. better services delivery to the communities they serve					
	b. improved financial management					
SM 3	c. safeguarding the resources of the municipality					
	Does the strategic plan make provision for:			Yes	No	Uncertain
	a. the comparison of strategic and actual results					
	b. the reconciliation of the variances between strategic and actual results					
SM 3	c. explanation of variances					
	d. action taken to minimise variances					
SM 4	In your opinion, what steps can be taken to improve strategic formulation and implementation municipality?					

Budgeting Processes		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
BP 1	The budget is aligned to the strategic objectives of the municipality.					
BP 2	The budget processes promotes or enhance better financial management.					
				Yes	No	Uncertain
BP 3	a. the budget is compared with the actual expenditure and projections for the remainder of the year.					
	b. are any variances: explained					
	: followed up					
	: Remedial actions taken					
BP 4	Your municipality submits the budget in accordance to the national treasury requirements.					
BP 5	What would you advice your municipality to do, to improve the budgeting processes?					

Leadership role		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
LR 1	The CFO inspires the budget and treasury office staff members to perform better.					
LR 2	The CFO promotes creativity in resolving problems within the office.					
LR 3	The CFO renders individual advice to staff members.					
LR 4	The CFO follows the Code of Conduct for municipal staff members.					
LR 5	Good leadership / management by the CFO improves operational service delivery					

The roles of the CFO		
CFO 1	Do you think the role of the CFO of the municipality have changed significantly in the new dispensation for the local municipality? Briefly motivate your answer.	
	If yes, what factors contributed towards this changed situation (Please tick one or more appropriate Box/es)	
	a. New legislation	<input type="checkbox"/>
	b. re-demarcation of municipal borders	<input type="checkbox"/>
	c. new type of local government	<input type="checkbox"/>
d. corporate governance	<input type="checkbox"/>	
e. other (please name)	<input type="checkbox"/>	

CFO 2	What are the challenges faced by the office of the CFO within the municipality?
CFO 3	Now can these challenges be addressed? Motivate your answer.

ANNEXURE C

PO Box 5079
Pretoria
0001
21 July 2007

Attention: Mpho
The Municipal Manager
Mogale City Local Municipality
PO Box 94
Krugersdorp
1740

Fax Number: 011 953 2547

Re: LETTER OF INTRODUCTION

I am Jevio Mculu, attached to the Gauteng Department of Education as a Project Manager: Examinations and Finance.

I have enrolled with the University of North West (Potchefstroom Business School) for Masters in Business Administration (MBA). The research topic for my dissertation is '*a critical analysis of the roles of the Chief Financial Officer within a local municipality*'.

Find attached are copies of confirmation of registration for the research topic and certificate of registration for the academic year 2007 issued by the University.

The research will be based on municipalities within the borders of Gauteng Province. Mogale City Local Municipality is one of the municipalities that have been identified. The functionality of the Office of the Chief Financial Officer will be analysed, with the use of a structured questionnaire and it will be compared with another neighbouring municipalities.

Conducting a research forms a crucial component of the dissertation. The dissertation is the last requirement to be satisfied for the MBA degree.

I therefore, request to conduct a research on the functionality of the Office of the Chief Financial Officer within Mogale City Local Municipality for the purpose of my studies.

Thanking you in anticipation.

Yours Faithful

Jevio Mculu

Contact Numbers: 084 824 5555 or 082 872 8986

Fax number: 086 654 8841

E-mail: jeviom@gpg.gov.za

Number of pages: 8 inclusive

Recommendations

1 Acquirement of competent staff

Table 4.2 and Figure 4.2 revealed that 56% of the management echelon of the finance division has less than five years working experience. The municipalities are advised to implement the following to ensure that they have competent staff in appropriate positions:

- During the recruitment and selection procedure, the competency assessment should be used among other methods to identify and select the candidate with the financial technical expertise and relevant experience;
- Municipalities should engage in retention of staff members by establishing and implementing a succession plan, more especially at the level of the CFO, Deputy CFO and managers to minimise loss of skills, expertise and delays in filling those positions; and
- The local government Sector Education Training and Authority (LGSETA) should establish and conduct training according to the individual municipalities' need. The office of the CFO through the Corporate Service (Human Resources) should work hand in hand with LGSETA in the process of bridging the skills gap of the Finance Division within the municipality.

2. Implementation of Code of Conduct

Table 4.6 reveals that 92% (20% and 72%) of the respondents agree that the municipal Code of Conduct contribute towards the reduction of corrupt activities within the municipal council.

- The municipalities are advised that the Code of Conduct should be distributed to all staff members who should acknowledge receipt by signing; the signed

acknowledgement to be filed in the staff personnel file. The Code should be built into the performance agreement contract of staff members; and

- The municipalities should ensure that all staff members understand the contents of the Code of Conduct by conducting workshops or seminars; furthermore, if there are staff members who do not understand the media in which the code is written, it must be translated to them.

3. Education and training of staff members

According to Table 2.10, the Auditor-General expressed three unqualified audit opinions during the financial year 2005/6. Three out of eight municipalities is a relatively low result as it is less than half; as a result, the municipalities should consider implementing the following recommendations to improve the situation:

- During the recruitment and selection process, the competency assessment should be used amongst other methods to identify and select the candidate with the financial technical expertise and relevant experience; and
- In the event that the service is outsourced by the municipality, the contract should make provision for the service provider to transfer skills to the relevant municipal staff members.

4. Effective implementation of control systems

Table 4.14 revealed that 32% of the respondents strongly agree, whilst, 48% agree that their municipalities have appropriate systems of internal control in place to enable the CFOs within municipalities to achieve financial control. The following recommendation will assist the municipalities to enhance internal control measures:

- The CFO should develop, implement and maintain controls to ensure that regular reconciliations are performed on all suspense accounts and reviewed with regular follow-up on long-outstanding items. Supporting documentation and details of all amounts in suspense accounts should be adequately maintained. Suspense accounts should be reviewed and cleaned on a regular basis;

- The office of the CFO should develop and implement a policy on inventory which incorporates provisions on the safeguarding of inventory and the preparation of reconciliations between the register and the general ledger on a regular basis; and
- The CFO must ensure that detailed financial management systems are devolved, documented, distributed and mediated to relevant staff members including, among other things:
 - The budget process;
 - Risk management plan;
 - Reporting systems on expenditure and revenue;
 - Cash flow requirement;
 - Fixed asset management;
 - Provision and procurement processes;
 - Fraud awareness and whistle blowing;
 - Reconciliation of figures e.g. bank balance and suspense accounts; and
 - Internal control measures.
- The CFO should establish and maintain separate registers to log recommendations from the Auditor-General, internal audit committee and internal auditors to ensure diligent implementation of the recommendations and to monitor the progress made;
- Management should establish policy and procedures with regard to the use of electronic signature and ensure that electronic signatures are kept safe;
- Management, with the assistance of the CFO should establish and implement adequate control procedures to ensure that all the invoices received are captured accurately and source documents are filed systematically to ensure quick retrieval. These control procedures should be maintained throughout the year to ensure that all monies paid are accurately accounted for at the end of the financial year;

- Internal procedures and policies relating to internal control should be reviewed at least annually, aligned to the Auditor-Generals' recommendations and implemented diligently;
- Municipalities should establish the audit committee as it is required by the legislation. The audit committee must assess the effectiveness of the internal control systems and the internal audit department. Furthermore, it should render financial advice to the council and municipal manager;
- The office of the CFO should review information captured on the system to ensure that they have been captured correctly and in the correct accounting period. Proper detective controls should be in place to identify any duplicate transaction;
- The finance governance committees should review the accounting authority report, annual report and Annual Financial Statement to ensure that the relevant disclosures are made and are compliant to legislation; and
- The office of the CFO should review amounts disclosed in the Annual Financial Statement to ensure that they agree with the trial balance before submitting the Annual Financial Statement to the Auditor-General for audit purposes.

5. Diligent implementation of legislation requirements

According to Figure 4.18, 92% of the respondents agree that the financial legislative requirements of the municipalities clearly outline the roles and functions of the CFO. It is therefore, imperative for the municipalities to implement the financial legislation to improve financial management. The following are recommended:

- The office of the CFO should develop and implement or must update their policies and procedures to include procedure with regard to the processing of journals in the accounting package before the Annual Financial Statement is compiled and submitted to the Auditor-General for audit;

- The office of the CFO should design and implement an adequate policy framework to ensure compliance with Statements of GAMAP / GRAP relating to discounting of financial assets and liabilities and other legislations required by statutes;
- The organogram of the municipalities should make provision for the establishment of the following autonomous divisions: supply chain management; revenue management; expenditure management and financial reporting. These divisions must be allocated to different staff members. This allocation of related duties will enhance the effectiveness and efficiency of the internal control measures.

6. Effective risk management

Table 4.23 shows that 84% of the respondents indicated that their audit committees take remedial steps with a view to reduce the occurrence of identified risk. The following recommendations should be considered if the municipality wants to counteract the negative impact of the occurrence of risk:

- The municipalities should establish a risk management or internal auditing department that reports directly to the Municipal Manager and work hand-in-hand with the audit committee;
- There is a need for greater awareness rising, improved coordination of the three tiers of government with regard to capacity building of anti-corruption initiatives. The municipalities are advised to initiate the process;
- The internal audit department should assess the effectiveness of the internal control systems and conduct risk assessment of the municipality to minimise the likelihood of fraudulent and corrupt activities from occurring, as they undermine the attainment of value for money which is the *batho pele* principle;
- Municipalities are advised to establish and implement fraud awareness as a first step in combating fraud. Gloeck and De Jager (2005) argue that a high level of fraud awareness normally results in relatively lower fraud occurrence;

- An adequate detailed disaster recovery plan should be developed by the management with the assistance of the CFO and internal auditors, approved by the municipal council and implemented by the municipality.
- The municipal council as it is charged with governance should liaise with the office of the CFO, internal auditors, external auditors and the audit committee to ensure that controls are monitored at all times to enhance compliance with the municipal financial legislative framework; and
- Management of the municipality through the guidance of the CFO should consider the risk of government subsidy not being received and develop a strategy to ensure that the municipality remains a going concern without relying on government subsidy.

7. Strategic implementation and management

Table 4.28 reveals that 72% (16% and 56%) of the respondents are satisfied that the strategy of their municipalities do contribute towards better service delivery to the communities they serve. As a result, the municipalities are advised to implement the following recommendations in order to improve their strategic implementation:

- Municipalities need to develop a strategy to ensure a culture of continual learning and practical competency for the finance staff members;
- Municipalities should establish the audit committee as it is required by the legislation. The audit committee must assess the effectiveness of the internal control systems and the internal audit department. Furthermore, it should render financial advice to the council and Municipal Manager;
- The CFO should review the recommendations from the corporate governance committees and advise the Municipal Manager with regard to the implementation and implications of not implementing these recommendations; and
- The municipality with the assistance of the CFO should ensure that adequate participation by those charged with governance to foster that the necessary skills

and experience are applied consistently to enhance independent judgement to matters relating to financial management.

5.6.1 Budget management

Table 4.30 and Figure 4.28 show that 72% of the respondents agreed that their budgets are aligned to strategic objectives i.e., Integrated Development Plans. The following are recommended to the municipalities:

- The municipal council should approve a separate detailed budget for all project administration costs with the approval of the project. Controls should be implemented to ensure that project administration costs do not exceed the maximum allowed of 10% of the total project cost;
- Line managers should be delegated to be responsible for the preparations and control of their budgets as an integral part of the execution of their line management responsibilities. The office of the CFO should not play a decentralised role of treasury by performing financial management functions on behalf of line managers. Therefore, the CFO should assume a financial advisory role to the managers; and
- The budget should be ward based and the amount budgeted for should be realistic. The budget process should be properly planned with reasonable time frames and should be circulated to all stakeholders in advance. The office of the CFO should conduct information sessions to inform the stakeholders about their responsibilities in relation to the budget process.