



An assessment of financial management in South African Local Government: A case study of the Emfuleni Local Municipality

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DECLARATION

I, Lebohang Nkosi, solemnly declare that this work is original and the result of my labour. I further declare that complete references have duly acknowledged all information used and quoted.

A handwritten signature in black ink, appearing to read 'L. Nkosi', written over a horizontal line.

SIGNATURE

18 November 2024

DATE

DEDICATION

I dedicate this dissertation to my mother, Ntombizodwa Rose Nkosi and my two siblings, Lesedi and Thato Nkosi.

Thank you for being a lifejacket in a stormy ocean

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I want to forward my heartfelt gratitude to the following individuals who made a meaningful contribution toward the successful completion of this study:

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ABSTRACT

The study assesses financial management in Emfuleni Local Municipality (ELM). The primary aim is to analyse the effectiveness of ELM's financial management practices within the context of local government, focusing on ELM's financial performance from the financial year 2017-18 to 2020-21. By analysing the consolidated reports released by the South Africa Auditor General on Local Government, the study aims to assess ELM's compliance with the Municipal Financial Management Act (MFMA) and the impact it has on the municipality's financial health. The study adopted a qualitative research method and interpretivist paradigm to assess the extent to which ELM does not comply with the financial management practices and MFMA, in spending public funds beyond their budgetary imposed limitations. Furthermore, the study used document analysis in the reports to provide answers to the research objectives while content analysis was used to analyse data collected.

From content analysis, the study revealed that financial management practices at ELM are ineffective in making sure that ELM complies with MFMA. The study further found that the municipal financial performance is below expected standards. Systemic deficiencies in internal control and inadequate mechanisms for communication have also been found within the municipality. These problems cause considerable challenges in the creation and dissemination of financial information. As a result, ELM is facing a financial performance dilemma, with its operating budget continually in deficit. The municipality's financial statistics show that it spends more than it earns in income, worsening the issue.

Additionally, the audit found that ELM's management model is ineffective in ensuring compliance. The Municipality has been unable to avoid illegal expenditure, despite attempting to follow supply chain management laws. ELM's financial woes have exacerbated these issues, resulting in delayed invoice payments, and a wider gap between legal responsibilities and Municipality performance. Furthermore, this non-compliance has had a negative financial impact on ELM.

Keywords: Compliance, Financial Management, Local Government, Municipalities, Municipal Financial Management Act.

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ABBREVIATIONS

AG	Auditor General
AGSA	Auditor General of South Africa
BaSSREC	Basic and Social Science Research Ethics Committee
BCMM	Buffalo City Metropolitan Municipality
CCA	Chartered Certified Accountants
CFO	Chief Financial Officer
ELM	Emfuleni Local Municipality
EMM	Ekurhuleni Metropolitan Municipality
ESMA	European Securities and Markets Authority
FFC	Fiscal and Financial Commission
GRAP	Generally Recognised Accounting Practices Standards
IDP	Integrated Development Plan
KZN	KwaZulu-Natal
LGTA	Local Government Transition Act
MFMA	Municipal Financial Management Act
MPAC	Municipal Public Accounts Committee
MSA	Municipal System Act
MTEF	Medium-Term Expenditure Framework
NPA	National Prosecuting Authority
NT	National Treasury

NWU	North-West University
PFM	Public Financial Management
PPPF	Preferential Procurement Policy Framework
SAPS	South African Police Services
SCM	Supply Chain Management
SDBIP	Service Delivery and Budget Implementation Plan
SMT	Senior Management Team

CHAPTER 1: BACKGROUND AND ORIENTATION

1.1 Introduction

Over the previous decade, financial performance in municipalities has become of central concern for scholars, with the Auditor General of South Africa (AGSA) highlighting significant issues (Rulashe & Dyan, 2022). Furthermore, Rulashe and Dyan (2022) allude that a noteworthy challenge has been the failure of some municipalities to comply with key legislation such as the Municipal Financial Management Act 56 of 2003 (MFMA), which has led to a number of municipalities being placed under administration as per section 139 of the South African Constitution. The lack of compliance with MFMA has been followed by financial mismanagement, which includes irregular spending of funds due to poor institutions, structures, and policies to warrant accountability and transparency (AGSA, 2020).

Non-compliance with MFMA and poor financial management in South African local government has negatively affected operations, with several municipalities reporting poor financial outcomes (Koenane, 2017). Several studies have investigated the core cause behind the poor audit outcomes, emphasising the need to understand the country's historical context (the Apartheid era) and the prolonged effects on local government (Madue *et al.*, 2014). The constant challenges these municipalities face emphasise the need for governance structures to be improved to ensure better financial oversight.

1.2 Background and Orientation

There is a plethora of literature on financial management. Whilst academics have various conceptions of 'financial management', they universally agree that it involves setting indicators to manage resources effectively (Ntonizima, 2011; Sibanda, 2017; Ritonga *et al.*, 2019). Sound financial management is based on the principles of accountability and transparency, making sure that public funds are spent efficiently and responsibly. By adhering to these principles, governments can better allocate resources and establish robust financial controls that promote cost-effectiveness.

Smoke (2003) highlights that for the past three decades, the term 'financial management' has gained major traction in the public sector, particularly among local governments in both developed and developing countries. According to Sirmon *et al.* (2007), financial management in local government should have an end goal of achieving positive outcomes that benefit communities. Financial management reform has continued to serve as the key policy that ensures accountability. Otniche (2014) argues that the fundamental effectiveness of financial services is subject to their ability to function competitively and economically, which is a key factor in managing finances in local government.

The transition from the apartheid-era regime was denoted by major reforms implemented during the 1990s (Mbatha, 2020). The Mandela administration in 1994 embraced various legislative frameworks aimed at restructuring the country's economy, while stabilising political and social aspects (Mishrah, 2008). Mashiyane (2017) states that policies within the national and provincial governments were designed to ensure the implementation of the allocation of fiscal resources, prioritising rendering services at local government level. The local government plays a key role in the transition by implementing plans that address previous injustices and their effects (Binza, 2005; Pauw *et al.*, 2000).

Shuping (2021) highlights that Chapter Seven of the South African Constitution has empowered municipalities to enact financial legislation aimed at meeting the basic needs of the communities. Municipalities play a crucial role in governance, as they address the challenges faced locally. According to Martin (2000), the national government is accountable for matters that come from a local level. The Constitution gives municipalities the tools needed to fulfil their objectives, but poor financial management has affected service delivery (Oberholzer, 2013; Supromin & Choonhakhlai, 2017).

Research has indicated that the lack of adequate skills, poor financial management, weak internal control, poor leadership, and deficient governance have been contributors to the ongoing failure to comply with legislation, resulting in poor audit outcomes in municipalities (Ojo, 2009; Madue, Tsolo & Ramobai, 2014). The culture of non-compliance has resulted in financial mismanagement, wasteful, unauthorised, and irregular spending, totalling billions of Rands. Mhlomi (2022) notes that non-

compliance has had implications for municipal governance and financial stability. The Auditor General's (AG) 2020 report indicates that non-compliance has hindered several municipalities from achieving clean audits (Khaile, 2018).

Despite being placed under administration by the provincial government, and despite various intervention measures, Emfuleni Local Municipality (ELM) continues to show little progress in addressing its core challenges (CoGTA, 2023). Mantzaris (2014) argues that since 2014, the AG reports have revealed that ELM, and other municipalities, have often not, or have outright failed to, implement recommendations from the AG. In addition to poor financial management, CoGTA (2023) identifies recurring deficiencies, such as failure to comply with the constitutional and legislative requirements governing local government. These issues, including enforcement and regulation failures, are at the root of ELM's governance crisis.

1.3 Problem Statement

Municipalities in South Africa have continued to grapple with the large scale of challenges, with poor financial management being largely due to the lack of compliance with MFMA, and weak implementation mechanisms (AGSA, 2021). Despite the enactment of interventions such as Section 139, many municipalities show little progress and often tend to regress and disregard the recommendations of the AG (Ledger & Ramapedi, 2019). Lingering issues such as poor accountability, widespread corruption, and delayed submissions of reports are the ones commonly reported (AGSA, 2022; Khaile, 2018). In this context, ELM demonstrates relative efficiency in financial governance, compliance, and maintaining proper records, despite challenges with financial integrity and accountability (AGSA, 2022).

In practical terms, the AGSA yearly reports from 2017-18 to 2020-21 have provided a practical perspective on the persistent financial management issues at ELM. These reports have revealed a pattern of ELM's failures to manage its finances effectively and comply with legislation such as MFMA (AGSA, 2020). Despite Section 139 interventions being enacted by 2018, to prevent the collapse of the municipality's finances, stakeholders have shown little interest in addressing the issue or improving their performance (OUTA, 2020). This indifference has contributed to a continuous

decline in the municipality's audit opinion, promoting the implementation of criminal enforcement measures.

The AG has consistently emphasised that good strategies are essential for addressing financial management and governance weaknesses. Weak financial management and non-compliance with MFMA have affected a municipality's ability to implement proper budgetary control. This raises a question: To what extent would ELM not comply with the financial management practices and MFMA in spending public funds beyond their budgetary imposed limitations? The research seeks to investigate the implications of ignoring ELM's non-compliance with the MFMA, focusing on its impact on financial misconduct, wasteful expenditure, and governance effectiveness. Understanding these dynamics is crucial for developing targeted policy interventions to strengthen municipal financial governance.

1.4 Research Questions

1.4.1 Primary Question

- To what extent does ELM not comply with the financial management practices and MFMA in spending the public funds beyond their budgetary imposed limitations?

1.4.2 Secondary Questions

- How effective is financial management in Emfuleni Local Municipality?
- How does the ELM's failure to comply with the MFMA affect its capacity to efficiently manage its finances?
- What are the obstacles faced by ELM in complying with the MFMA?
- What recommendations can be made for ELM to improve compliance with the MFMA in managing finances?

1.5 Research Objectives

1.5.1 Primary Objective

- To assess the extent to which ELM does not comply with the financial management practices and MFMA in spending the public funds beyond their budgetary imposed limitations.

1.5.2 Secondary Objectives

- To explore the effectiveness of financial management in Emfuleni Local Municipality.
- To assess the impact of the ELM's failure to comply with the MFMA on its capacity to manage its finances efficiently.
- To identify what obstacles and limitations are faced in ELM with MFMA.
- To make recommendations to ELM to improve compliance with MFMA in managing its finances.

1.6 Aim of the Study

This study aims to analyse the effectiveness of ELM's financial management practices by analysing the consolidated reports released by the AGSA on local government, particularly focusing on the ELM's financial performance from the financial years 2017-18 to 2020-21. This study will further review other related audit outcomes to explore how non-compliance with MFMA and poor financial management practices can cause overspending beyond their earmarked budgetary constraints. The study aims to explore the consequences of not addressing non-compliance with MFMA. Furthermore, it suggests that an investigation into how a lack of measures may lead to financial mismanagement, unauthorised spending, and the absence of strategies for recovering funds within municipalities be carried out. There are relevant documents that will be selected according to their currency, relevancy, and reliability of information. The selected period is crucial, as it highlights ongoing compliance challenges faced by the municipality.

1.7 Research Methodology and Research Design

Jansen and Warren (2020) define research methodology as the practical approach to conducting the study. For this study, a **qualitative method** will be used. According to Jansen and Warren (2020), qualitative methodology is incredibly rich and detailed, used to identify patterns and formulate theories. These methods enable the researcher to have complete insight into the study (Gray, 2004). According to Auriacombe (2016), a research methodology outlines the study's framework, describes the characteristics of the recognised topic, and specifies how data will be produced.

The study wants to get a thorough comprehension of the factors that impact financial management practices and compliance with the MFMA by utilising this strategy. By scrutinising financial documents and procedures, researchers can identify the root causes for the municipality's non-compliance with the MFMA, and inability to adhere to budgetary limitations. This technique enables the identification of systemic difficulties, governance concerns, and organisational culture variables that contribute to financial mismanagement. The main goal of using qualitative approaches is to get valuable insights that can be used to develop specific interventions and suggestions aimed at improving financial governance, strengthening accountability, and ensuring compliance with the budgetary restrictions specified in the MFMA.

The research design must serve as the overarching framework for all data collection and analysis in any study (Jogbo, 2016). The methods or approaches that will be used for data collecting, analysis, and sampling, that support the research's goals are also described in the research design. A **case study** method will be employed to conduct this study. The research will utilise the case study method to investigate ELM's different facets of financial management, such as governance structures, budgeting processes, revenue generation mechanisms, expenditure patterns, and adherence to regulatory frameworks such as the MFMA. This paper aims to generate meaningful insights into the problems faced by the local governments of South Africa in terms of financial management and examine these trends. From these findings further plans for corrective suggestions will be put forward.

1.8 Data Collection Method

Moyo (2017) believes that data-gathering methods are crucial tools that are part of the research process because of their capacity to obtain significant answers to research questions. Furthermore, the research question and study design are often determined by the types of data collection techniques (Meyer, 2001). This suggests that the techniques used to collect the data should give thorough interpretations, together with descriptions and explanations targeted at methodically addressing the study objectives. The researcher will primarily use **secondary data** as a method for collecting data in the study. This data is information that has already been collected by someone else. It can be found in a variety of sources, such as government publications, articles, journals, and books. The researcher will use document analysis as the preferred method of data collection.

1.8.1 Document Analysis

Bowen (2009) defines document analysis as the systematic examination of documents to identify patterns of meaning, gain an understanding of the context in which documents were produced, and develop empirical knowledge about the topic under investigation. However, the data will only be meaningful after these patterns have been translated into terms that respond to the study questions and objectives (Saunders *et al.*, 2012).

Hu (2015) states that qualitative research can use documents as a source of analysis for data collection. Documents, when utilised for interpreting data, can offer a meaningful understanding of the problem. Because the data being studied has already been obtained, analysing documents may save the researcher financial costs. According to Bowen (2009), the method is one of the most cost-effective ways, since researchers use existing resources rather than having to acquire new data. The researchers, however, must evaluate the quality of the documents to ensure that they are of quality and devoid of substantial bias.

In this context, document analysis is used to examine the consequences of the municipality's non-compliance with the MFMA and financial management practices, specifically on excessive expenditure. Document analysis is a methodical examination of financial records, budget papers, and regulatory frameworks such as

the MFMA. The research thus tries to analyse said papers for their underlying factors and outcomes of financial mismanagement in an effort to make focused solutions toward alleviating situations of budget limitations within ELMs.

The studied documents suggested the following sources for data collecting and analysis:

- Auditor General Reports
- ELM Annual Financial Statements
- ELM auditors report from the Auditor General's Office
- ELM Budget Reports
- Internal audit reports

1.9 Data Analysis

Maropo (2014) defines data analysis as a process of organising and reducing data to generate a report that needs interpretation regarding a research problem. Liba (2008, as cited by Maropo, 2014) describes data analysis as examining and explaining data while arranging it for practical purposes. Patton (2002, quoted in Matlala, 2018) expands the concept of data analysis as transforming raw data into patterns and frameworks that convey the core meaning of the data. Kawulich (2004) defines data analysis as summarising a substantial quantity of data through interpretations to improve understanding. While there are various methods of data analysis, the study will use content analysis.

1.9.1 Content Analysis

According to Hsieh and Shannon (2005), content analysis is a versatile method for interpreting written, spoken, and visual data. Auriacombe (2016) describe content analysis as a research method used to create an unbiased and methodical description of communicative information. This approach classifies responses into distinct types, and tallies the quantity or category of each type. Since this study requires content analysis, it will help the researcher to put context into the concepts with an in-depth understanding by giving several perspectives. Content analysis will

be done using data in various forms, including reports, papers, books, newspaper stories, and any other source of secondary data. The material would then be studied, and a written explanation of financial performance reported.

1.10 Data Processing and Interpretation

Data analysis is the process of compiling, modelling, and converting data to generalise meaning from it (Marshall & Rossman, 2006). I performed the following basic steps of data analysis. The data available on ELM's financial management were the audit reports where there were expenditure numbers. Data pertaining to the integrity of financial management procedures and ELM performance in each financial period is also included in the narratives.

Firstly, the researcher will assess the data collected to ensure that it is complete and consistent. The researcher will review the data to identify common themes. The researcher will connect these themes to the research problem being investigated. Burns (2004) argues that the purpose of content analysis is to assist researchers in building context from emergent themes. Content analysis enables researchers to identify patterns and themes in data that they did not originally anticipate. In this study, the researcher will maintain the reliability and trustworthiness of the research results during the analysis phase by explicitly articulating and consistently adhering to them, and to methodical document analysis processes.

The researcher will select significant difficulties directly related to the research topic and the breadth of the research questions to convert the data into usable knowledge. Later, Ibrahim (2012) suggests creating detailed accounts of these matters. The accounts offer insights into the present understanding of the subject and emphasise areas for more investigation.

1.11 Reliability and Validity

Some of the major considerations relevant during research include reliability and validity, ensuring the purpose of the research process is truthful and consistent. While dealing with the appropriateness and accuracy perspective of the research, validity represents the quality of the procedure for the test; the reliability is, on the other hand, based on the test of repeatability. Bolstering the argument presented

earlier with that of Sarantakos (2005), validity is the degree to which a research study has truthfully measured its intended objectives in checking the correctness of representing the world under investigation. Gray (2004) underlines that checks and balances of research must be included to maintain the authenticity of data so that, during analysis, proper interpretation of information is done to avoid fabrication and misrepresentation.

According to Sarantakos (2005), reliability means producing consistent outcomes whenever research is replicated. Research findings are reliable if, when given a repetition of the study, consistent findings were arrived at. There should be reliability with the consistency and dependability of the research findings, as expressed by Gray (2004). Validity will be based on the audit report of ELM, audited financial statements, recognised accounting standards, and principles based on the best practices in the industry. Consequently, research findings will be backed by data that has had its integrity tested and regulated, underpinned with information officially published by ELM and AGSA.

1.12 Significance of the Study

The study aims to make a major contribution by providing practical and strategic recommendations that will address the issue of compliance by ELM. Despite the study's primary focus being on local government, the findings will offer lessons that can be applied to other areas of government, helping to combat the problem of non-compliance with legislation. It will also enhance the conversation between academics by providing a foundation for further research in this area. This study is significant in that it will assess the efficiency and financial management in local government entities that has been receiving negative audit outcomes from the AG for some time. The study will also analyse how financial management serves to enhance compliance with the MFMA within ELM.

The findings of this study will be disseminated through academic papers, conferences, municipal seminars, community participation forums, and the media; thus, it impacts by improving curricula with many predicted effects in academic research. The study would amount to realisation by the municipality from these findings in a big way to help further the development of policy effectiveness and

improvement of operational efficiency. There will be benefits for the community through improved openness and active local government participation. The public at large will be informed and provided with instruments to enhance public trust and good governance at the same time. This wide dissemination plan guarantees that the outcome of the research will be disseminated in such a manner as to have significant impact on the different groups of people and institutions involved.

1.13 Limitations of the Study

Limitations are the study's shortcomings and constraints concerning its ability to be completed (Locke *et al.*, 2017). The investigation will be restricted to solely covering the ELM. The researcher will take on the duty of gathering the data and making sure it is comprehensive, allowing adequate time for thorough analysis, and taking into consideration the time and effort needed to finish the study of each document. The researcher's accessibility to the required materials for the analysis is critical to the study's effectiveness. The absence of physical presence does not nullify the perspectives and findings that this study will articulate. This is because the researcher refers to institutional reports from reputable institutions.

1.14 Ethical Considerations

Social science researchers need to adhere to a strict ethical code of conduct when carrying out their investigations. As I will reveal further, the research was grounded on such ethics. In every scientific investigation, ethical considerations have to be put in place. Welman *et al.* (2005) urge researchers not to falsify the results and the reports, as proposed by the document study. Data management involves presenting accurate and dependable findings to achieve the study's goals. The researcher is morally obligated to investigate by seeking the truth without fabricating or falsifying the obtained facts (Kumar, 1999; Sarantakos, 2005). The research will be governed by principles of truth, honesty, integrity, and transparency to ensure objectivity. High ethical standards will be maintained in academic writing, using a reliable referencing system. The researcher will also avoid plagiarism by properly acknowledging and citing all sources utilised in the study. The researcher will be dedicated to investigating with honesty and professionalism to prevent any legal consequences, both now and in the future.

1.15 Chapter Outlines

Chapter One: Introduction and Background of the Study

This chapter introduces the study, covering the background and orientation of the study and the problem statement. It also presents research questions, research objectives, and the aim of the study. Additionally, a brief overview of the methodology that will be used for the collection of data is outlined. Lastly, the ethical considerations of the study were presented.

Chapter Two: A Theoretical Exposition of Financial Management in the Context of Municipal Financial Management

The concept of public financial management will be covered in detail in Chapter Two as a systematic and rational way for the government to oversee and account for the use of the resources entrusted to them. A theory will be reviewed and its relevance to municipal finance management will be examined. It will further examine the attributes that constitute an effective financial management practice, as well as important subjects that are fundamental to the development and implementation of a budget in a municipal setting. Lastly, the chapter will focus on the impact of failure to comply with MFMA on the management of finances.

Chapter Three: Research Methodology

This chapter will discuss the paradigm used in this study. Furthermore, it will present an in-depth explanation of the research methodology and research design employed. Additionally, this chapter will also present the data collection method followed by the limitations of the study and lastly the ethical considerations.

Chapter Four: Findings and Discussions

This chapter will interpret, analyse, and discuss the findings of to what degree Emfuleni Local Municipality complies with the MFMA. The chapter will also present obstacles and limitations faced by Emfuleni Local Municipality's financial management practice which raises the question regarding compliance by the municipality to the MFMA.

Chapter Five: Recommendations and Conclusions

This chapter will present the summary of the findings. Moreover, the chapter will provide recommendations for both Emfuleni Local Municipality and other municipalities. The chapter will also provide recommendations for future study.

CHAPTER 2: THEORETICAL EXPOSITION OF PUBLIC FINANCIAL MANAGEMENT WITHIN THE CONTEXT OF MUNICIPAL FINANCIAL MANAGEMENT

2.1 Introduction

A comprehensive framework of laws, rules, and regulations governs financial standards and norms in the municipal sector. As per the provisions of sections 214 and 215 of the Constitution (1996), the local government, which functions autonomously, guarantees the proficient and successful implementation of budgets and the economic administration of all municipal financial affairs. Furthermore, the Constitution requires legislation such as the MFMA to enforce the regulations and criteria for overseeing municipal finances efficiently.

The chapter offers a general idea of public financial management in a municipal context. It starts by analysing systems theory and its relevance to municipal finance management. The chapter will also look at the principles of financial management and practices relevant to municipalities. The chapter further examines the financial management systems and processes employed by municipalities. Finally, the chapter will look at the impact of the failure to comply with the MFMA on municipalities' capacity to manage their finances efficiently.

2.2 Analysis of the Systems Theory

Systems Theory is a practical method for comprehending complex phenomena by breaking them down into interconnected components (Heywood, 2002; Schwella, 1983; Ansari, 2004). Ludwig von Bertalanffy propagated the term in the 1940s to advocate the integration of science throughout disciplines (Amagoh, 2008; Kramer, 1974). Systems Theory is a management framework that is employed to tackle complex environmental changes and ascertain efficient approaches to control. It entails delineating constituent parts that determine the characteristics of a system and developing it as a resolution to complex issues (Ansari, 2004).

The interdependence of the components is critical for attaining strategic goals and preventing unexpected repercussions. There exist two distinct categories of systems:

open systems and closed systems. Open systems engage in interactions with the surrounding environment, primarily emphasising achieving overall objectives and making ongoing enhancements (von Bertalanffy, 1950; Johnson, Kast, & Rosenzweig, 1964). Conversely, closed systems are limited by the lack of interaction with the external environment. Municipalities in South Africa operate as open systems, which alludes that their decisions consider the needs of the community and have a legally enforceable impact on society. This method helps in addressing complex problems and achieving strategic objectives (Valentinov, 2014).

The system has a feedback loop where decisions and outcomes are sent back to influence future decisions (Friedman & Allen, 2011). For instance, the absence of consequences for overspending might foster a culture of poor financial management, leading to a great disregard for budgetary constraints. Systems theory also considers emergent characteristics that arise from the interaction between the components. A municipality may encounter challenges in complying with legislation (such as the MFMA) and budgetary limitations owing to structural causes such as bureaucratic inefficiency or past patterns of mismanagement

Systems theory recognises that organisations operate in broader contexts that include social, political, and economic environments. Exogenous influences, such as changes in government funding or swings in public sentiment, may influence the municipality's financial decision-making and its ability to comply with financial regulations (Dale & Strauss, 2019). Furthermore, systems theory acknowledges that organisations can adapt and modify themselves in response to both internal and external factors (Luhmann, 1995). Understanding the root causes of overspending can assist in developing more effective financial management methods, ensuring compliance with the MFMA, and fostering a culture of accountability within the local government. This approach emphasises the need to perceive the municipality as a complex and interconnected system, rather than only focusing on individual components or isolated instances of financial mismanagement.

2.2.1 An Application of the Systems Theory to Local Government

According to Anderson (2011), local governments conform to Easton's well-developed political system which categorises political activity as a reaction to socio-

economic circumstances. A systems model, according to Johnson, Kast, and Rosenzweig (1964), brings together decision-making into administrative arrangements (processes and procedures) and the organisational structure (departmentalisation). To accomplish its goals, improve efficiency, and promote sound decision-making, the system, therefore, keeps up its interactions with the environment. A system is, in practice, organised and constructed based on interdependent parts that are arranged to achieve the main aims or goals.

The circumstances in which the system functions are referred to as the environment in terms of structure. Kramer (1975) defines the environment as encompassing everything external to the system. Nevertheless, both the system and the environment can exert an impact on one another. Within the context of local government, the internal environment pertains to the municipality itself as a distinct entity. The management framework incorporates the financial management system as an essential component of the entire system. By contrast, the boundaries within which the constituency communicates its needs and expectations to the municipality are set by the external environment (Du Toit *et al.*, 2002).

In practice, when applied to local government instances, systems theory provides a useful framework for comprehending the complex dynamics of financial management. This highlights the interdependence of different elements in the financial system, demonstrating how a choice made in one domain can have widespread effects throughout. Local governments need this perspective to navigate complex financial landscapes, ensuring a holistic evaluation of budgetary allocation, revenue streams, and expenditure decisions. In addition, systems theory emphasises the existence of feedback loops, in which budgetary performance influences future financial planning. This allows local governments to adapt and respond to changing economic conditions and policy priorities while retaining financial and fiscal resilience.

2.2.2 An Application of the Systems Theory to Municipal Financial Management

Aligning internal control, accountability, and compliance is essential for making informed decisions that directly affect the municipalities' current and future state of

finances. To efficiently handle financial resources, a municipality must create suitable conditions that give priority to transparency and responsibility (Diamond & Khemani, 2005). It is important to recognise that the approach prioritises compliance with legislative requirements and protects and promotes the public interest. It allows management to uphold the integrity of the budget at both the strategic and operational levels. Parry (in ACCA, 2010) notes that the arrangement of the system involves an organised method that encompasses important areas of municipal financial management.

ACCA (2010) states that the feasibility of the systems involves a systematic approach that aims to include four important facets of municipal financial management. These areas are:

- Aggregate financial management, which includes monetary sustainability, resource mobilisation, and allocation.
- Operational management encompasses the areas of performance, value-for-money, and budget management.
- Governance: the state of being transparent and accountable.
- Fiduciary risk management includes implementing controls, ensuring compliance, and monitoring.

Diamond and Khemani (2005) state that a properly integrated financial management system should demonstrate the following characteristics. It functions as a tool for managing and must consider the administrative and managerial needs of the institution. The system should offer a comprehensive array of both financial and non-financial data. As a tool for management, it should provide the necessary information for making good decisions and improve reporting and performance management. The system's primary purpose is to continuously gather, analyse, and distribute information to the appropriate stakeholders within the budget system.

2.3 An Explanation of the Concept of Public Financial Management

Cangiano *et al.* (2013) argue that Public Financial Management (PFM) is an inherently multidisciplinary field rooted in the principles of accounting, auditing,

political science, and economics. PFM, as defined by Garcia-Sanchez and Cuadrado-Balleros (2018), includes the procedures and practices related to government budgeting, allocation of resources, accounting, and debt management, as well as the methodologies used for monitoring and evaluating financial activities.

According to the World Bank (2015), PFM refers to the government's collecting, distributing, and monitoring their financial activities through several methods. Equally, Morgner and Chene (2014) define PFM as the control of government operations such as taxation, debt management, revenue collection, budget processes, financial oversight, financial reporting, and resource distribution. Overall, PFM is crucial for overseeing financial control, accounting, governance, and record-keeping for effective public sector management.

According to Odior and OsiAlenoghena (2014), PFM refers to how the government handles its funds in accordance with the norms and regulations governing financial planning, budgeting, and financial management. It ensures the efficient and effective use of public funds by public officials. Public authorities, especially, are advised to emphasize financial discipline, financial management, cost-effectiveness, and prioritising spending via PFM (Shuping, 2021). This enables municipal administrators to gradually enhance financial management, transparency, and accountability.

The government is facing constant pressure to enhance transparency and oversight of the use of public funds, while also increasing service efficiency. The MFMA includes guidelines for effective financial management in the public sector, but specific disciplinary actions to enforce accountability among public officials have consistently been ineffective (Mathebula, 2014). The Chartered Certified Accountants (2010) emphasise that PFM has a crucial position in improving service delivery. This indicates that it provides instructions on how public authorities should use public funding to tackle the identified issues in communities. The notion emphasises that PFM acts as a guideline in promoting compliance, governance, and management of financial aggregates. Holynskyy (2017) states that PFM is crucial for financial planning, financial management, and compliance with legislation, in addition to managing public financial resources.

2.3.1 Objectives set out for Public Financial Management

Cigfaro (2016) states that PFM is concerned with good governance principles and focuses on ensuring efficient service delivery and proper use of public funds. In this context, this indicates that the municipal officials' responsibilities align with the mandate of MFMA by demonstrating dedication to ensuring cost-effectiveness and oversight of public funds to accomplish service delivery goals. The National Treasury (2018) suggests that given the government's limited resources, the PFM aims to optimise service delivery by regulating public finances.

PFM, according to Lawson (2015) has four objectives that can enhance service and financial performance in the public sector. Lawson described the PFM objectives as follows:

- The primary goal of PFM involves overseeing the overall fiscal discipline of public institutions.
- The secondary goal involves effectively distributing resources based on the needs of the community, budget priorities, and development strategies.
- The tertiary goal involves efficient government management of operations whilst ensuring cost-effectiveness in services provided; and
- The quaternary goal involves guaranteeing adherence to proper processes and procedures in public fund expenditure and ensuring transparency and accessibility of information for accountability.

2.4 A Historical Overview of Financial Management in Local Government

Many governments globally have continuously suffered a budget deficit before turning to borrowing to pay for their growing expenditure (Visser & Erasmus, 2020). PFM was introduced as a tool in the early 1970s as a tool to address this issue (Visser & Erasmus, 2002). World governments acknowledged the necessity of using taxpayers' funds in an efficient, and cost-effective way, to address the growing budget deficit.

Improving PFM is important in addressing the issue (Keita, 2014). Without adequate structural organisation or effective financial management systems, this problem may have resulted in a significant rise in a nation's debt and limited the resources that could be allocated to future economic development. To reduce and address these risks, countries such as Canada, New Zealand and the United Kingdom have adopted financial management systems to control expenditure, ensure compliance, supervise, and evaluate the usage of public funds (Commonwealth Secretariat, 2006). These steps have enabled them to manage these public funds and avert financial issues.

In the period 1948 to 1994, the Department of State Expenditure had the task of coordinating and supervising the administration of public funds in all areas of the South African government (Shuping, 2021). Under the Apartheid regime, the national parliament had restricted power in overseeing the country's finances, as this task was performed by the executive branch (Keita, 2014). The allocation of money on paper was not easily accessible to all people, and the financial administrative responsibilities related to handling public monies were not disclosed to the public (Folscher & Cole, 2006). This led to a deficiency in accountability, transparency, verification of competent financial management systems, and legal compliance in South Africa.

2.4.1 An Overview of Financial Management in Local Government:

International Context

The management of public finances is a critical aspect of governance that influences the overall development and sustainability of local governments. Proper management ensures that resources are allocated efficiently, revenue is collected effectively, and expenditures align with the priorities and needs of the population. Public Financial Management (PFM) reforms have been adopted worldwide to improve the financial performance of local governments, aiming to address challenges such as financial mismanagement, budgetary gaps, and lack of transparency. Adekoya (2020) argues that poor financial management has been a central issue preventing local governments from achieving long-term growth. Many local governments struggle to meet the demands of their citizens due to significant gaps between available resources and the needs of the population (Adekoya, 2020).

Understanding the role of budgeting, taxes, spending, and financial policies is essential to comprehend the underlying challenges and potential reforms needed to improve local government financial performance.

A fundamental aspect of public finance management is budgeting, which acts as a financial blueprint for government spending. The budgeting process enables governments to allocate resources efficiently across different sectors, such as education, healthcare, and infrastructure. However, as Adekoya (2020) highlights, local governments often face challenges in this area, particularly due to insufficient resources and poor financial planning. Effective budgeting requires long-term planning to ensure that governments can meet both short-term and future needs. Many local governments struggle with creating comprehensive, long-term financial plans, which leads to short-sighted fiscal decisions. A critical issue in some local governments is the tendency to focus on immediate needs without considering the long-term financial implications. Without adequate planning, local governments may be forced to resort to borrowing or rely on uncertain revenue sources to meet budgetary gaps, creating long-term financial instability (Adekoya, 2020).

Brazil's Fiscal Responsibility Laws (FRL), implemented in 2000, aim to ensure financial discipline among municipalities by imposing strict rules on spending, budgeting, and borrowing. These laws require local governments to balance their budgets, limit personnel expenditures, and follow transparency guidelines (Lopes & Pinho, 2002). While they promote fiscal responsibility, some argue that the laws' rigidity can hinder municipalities' ability to respond flexibly to unforeseen challenges, such as economic crises (Albuquerque, 2010). Similarly to Poland, as explored by Uryszek (2013), the decentralisation of public finances has not led to greater autonomy for local governments. Despite having control over local budgets, local governments in Poland struggle with limited financial autonomy, particularly when it comes to fulfilling essential expenditures. The disparity between local revenues and required spending has led to the accumulation of substantial debts. To remedy this issue, equalisation funds were introduced to bridge the horizontal budgetary gap, allowing wealthier regions to support poorer ones (Uryszek, 2013). Equalisation funds are designed to ensure that all local governments can provide a basic level of public services, regardless of their economic standing. However, the challenge

remains that many local governments still lack sufficient resources to meet their citizens' needs, and financial autonomy is a key concern.

Taxation is the primary means by which local governments generate revenue. Local taxes typically include property taxes, sales taxes, and various user fees. However, as Eze and Harrison (2013) note, Nigeria's local governments face significant challenges in tax collection due to constitutional loopholes, which allow the creation of joint state and local government accounts. These joint accounts complicate the allocation of revenue between state and local governments, affecting the autonomy of local governments in managing their finances. This lack of clarity and control over revenue generation results in financial inefficiencies and hinders the ability of local governments to fulfil their financial obligations.

In many cases, local governments also depend on transfers or grants from central governments to supplement their revenues (Adekoya, 2020). These transfers are often not sufficient to meet the growing needs of local communities, leading to financial constraints. Moreover, poor tax administration, low tax compliance, and insufficient technical expertise in tax collection contribute to the inefficiency of the local tax systems. As a result, local governments struggle to raise adequate revenue, which directly impacts their ability to provide essential public services.

Expenditure management is another critical element of financial management in local governments (Adekoya, 2020). Local governments are responsible for funding a wide range of services, such as healthcare, education, infrastructure development, and social welfare programs. However, many local governments face challenges in effectively managing expenditures, which can lead to waste, inefficiency, and corruption. Adebayo, Dada, and Olarewaju (2014) emphasize the need for local governments to improve their financial control mechanisms to ensure that resources are spent in line with the priorities of the local population. Without proper oversight, funds may be misallocated or misused, undermining the potential impact of public spending.

A key issue in local government spending is the lack of transparency and accountability, which can lead to the misuse of funds. In some cases, local governments may prioritize projects based on political or personal interests, rather

than on the needs of the community (Izueke, Anyadike, & Nzekwe 2013). This can result in underfunding of critical services such as healthcare and education while diverting funds to less essential projects. Furthermore, improper budgetary processes and inadequate implementation of approved budgets can exacerbate spending inefficiencies. According to Izueke, Anyadike, and Nzekwe (2013), poor financial management practices such as delayed project implementation, cost overruns, and lack of accountability in financial reporting are pervasive problems in Nigerian local governments. These issues not only undermine the effectiveness of public spending but also erode public trust in local governments.

Effective financial policies and governance frameworks are essential for maintaining fiscal discipline and promoting transparency in local government financial management (Adekoya, 2020). Governments must establish clear rules and regulations that guide how public funds are raised, allocated, and spent. This includes establishing procurement procedures, setting limits on borrowing, and requiring regular audits of government finances. In many countries, local governments are subject to national financial regulations that provide a framework for their operations (Izueke, Anyadike, & Nzekwe 2013). These regulations ensure that local governments adhere to sound financial practices, thereby promoting accountability and reducing the potential for corruption.

However, in some cases, poor governance and corruption remain significant barriers to effective financial management. As noted by Izueke, Anyadike, and Nzekwe (2013), corruption in Nigeria's local governments has led to the misallocation of resources, with funds being diverted from their intended purposes. Without strong oversight mechanisms and effective anti-corruption measures, local governments may struggle to manage their finances properly, leading to waste and inefficiency.

2.5 Financial Management in the Municipal Context

Madue (2009) notes that financial management in municipal government is crucial for financial discipline, ensuring efficient and effective resource allocation accountability, and transparency. The primary goal of financial management is to provide public officials with total control over public finances while simultaneously ensuring the allocation of resources and accountability in government financial

concerns (Fourie, 2015). Decision-makers are important in managing the financial flow to determine how funds are distributed, and compare actual expenditures to the budget (Paine, 2018).

Khumalo (2018) notes that municipalities' poor handling of public finances is a common feature of financial management practices in the public sector. Compliance with regulations, inadequate auditing records, and ineffective financial management may all be factors. AGSA (2022a) states that only 40 out of the 257 municipalities received safe water. Weaknesses in municipal financial management stem from factors such as failure to adhere to accounting rules, irregular expenditures, and a deficiency in financial management skills.

2.5.1 An Overview of Financial Management in Local Government: South African Context

Public financial management (PFM) plays a vital role in ensuring that governments effectively manage public funds to fulfill their responsibilities towards their citizens. The Constitution of the Republic of South Africa (1996) mandates the government to ensure the welfare of its citizens through effective financial management, which includes setting standards for service delivery that are both effective and cost-efficient. Non-compliance with these standards can lead to service shortages and dissatisfaction, resulting in public and government disputes (Visser & Erasmus, 2002). This underscores the importance of managing public finances effectively to meet the needs of the population and uphold government accountability.

At the start of 1996, South Africa's National Treasury implemented significant financial reforms to assist local governments in meeting their service delivery objectives. These reforms included the introduction of the Municipal Finance Management Act (MFMA), which remains a cornerstone of the financial reform movement (Shuping, 2021). The MFMA, enacted to address historical financial disparities inherited from apartheid, replaced the Local Government Transition Act 209 of 1993 and sought to build a transparent, efficient, and accountable local government financial management system. This move aimed to rectify the racially biased systems left by apartheid and align municipal finances with the democratic government's principles of accountability and equality (National Treasury, 2005).

The introduction of the MFMA aimed at achieving a transparent and efficient management of municipal funds, enhancing the capacity of municipalities to manage budgets, allocate resources, and fulfill their mandates for service delivery. The MFMA ensures that municipalities implement sound financial practices, thereby improving local government accountability and service provision.

Section 152 of the Constitution (1996) outlines the objectives of local government, with a primary focus on ensuring a democratic, accountable government for communities. This entails fostering social and economic development, promoting community engagement, and ensuring effective service delivery. Local governments are tasked with responding to the needs of their communities while maintaining financial prudence. Municipalities must balance the social and economic needs of the public with the resources available to them, a challenge exacerbated by limited financial capacity in some municipalities (Shuping, 2021).

Shuping (2021) further emphasizes that municipalities should aim to meet these objectives within their financial and administrative capacity. The allocation of resources should prioritize essential services, and local governments are expected to make prudent decisions that enhance their ability to respond to emerging needs and demands. This requires efficient management of municipal finances, including the formulation of accurate budgets, sound financial policies, and strategic planning for long-term financial sustainability.

Proper financial management and budgeting are integral to a municipality's ability to meet its objectives. According to Adekoya (2020), the financial health of a local government significantly impacts its ability to provide essential services, maintain infrastructure, and respond to unforeseen challenges. Local governments must develop sound budgeting practices to ensure that they allocate available resources effectively, especially given the often-limited financial resources at their disposal.

The budgeting process involves careful planning to ensure that financial resources are allocated to the sectors that will most benefit the community (Shuping, 2021). Effective budgeting allows local governments to address urgent needs while planning for future growth. According to Mazibuko and Fourie (2013), the budgeting process is essential in promoting long-term development by allocating funds for

capital investment, infrastructure expansion, and maintenance. This, in turn, supports the broader goal of economic and social development.

Budgeting in municipalities is not only about allocating funds; it also includes ensuring accountability in financial management (Mazibuko & Fourie, 2013). The MFMA requires municipalities to follow strict financial regulations to ensure that public funds are spent efficiently and transparently. It also mandates municipalities to submit regular financial reports to the National Treasury, promoting transparency and accountability (National Treasury, 2005). Without effective budgeting and resource allocation, municipalities would be unable to fulfill their constitutional mandates and deliver services that meet citizens' needs.

In addition to managing budgets, municipalities in South Africa also rely heavily on taxation to generate revenue (Mazibuko & Fourie, 2013). Local governments are authorised to impose taxes on property and other sources of local revenue, such as user fees for services like water, electricity, and waste management. However, the effectiveness of tax collection varies across municipalities, with some struggling to collect sufficient revenue due to inefficiencies in the tax system and low tax compliance rates (Shuping, 2021).

Taxation is a critical tool for local governments to raise the funds necessary to provide essential services. As Adekoya (2020) points out, a local government's financial health is directly linked to its ability to generate revenue through taxes and other sources. However, many municipalities face challenges in this regard, particularly in underdeveloped or rural areas where tax collection infrastructure is weak. Moreover, some municipalities have struggled with the equitable distribution of resources due to discrepancies in their ability to raise funds from local taxes.

Expenditure management is another crucial aspect of public financial management. The funds allocated through the budgeting process must be spent judiciously to fulfill the needs of the community (Shuping, 2021). The MFMA emphasizes financial accountability, requiring municipalities to adopt sound financial control mechanisms to prevent misuse or misallocation of resources. Proper financial controls are essential to ensure that funds are used for their intended purposes, such as funding

critical infrastructure projects, improving service delivery, and addressing community needs.

Mahlaku (2010) suggests that municipal governments must focus on enhancing transparency and accountability in spending to improve the effectiveness of public services. Shuping (2021) states that municipalities should develop mechanisms to monitor spending and evaluate the outcomes of their financial decisions. Furthermore, public participation in budgeting and financial oversight can help ensure that spending aligns with community priorities and increases public trust in local government.

The establishment of financial policies is essential in guiding how local governments handle budgets, taxes, and expenditures. South African municipalities must comply with national laws and regulations, to ensure proper financial oversight. According to Mbatha (2020), financial policies establish a framework for managing public finances, guiding the allocation of resources and ensuring accountability in the management of taxpayer money. Municipalities must also implement financial policies that promote effective governance and transparency, reducing the risks of corruption and mismanagement.

2.6 Characteristics for Measuring Effective Financial Management in Municipalities

According to Adedirian *et al.* (2003), municipal financial management is an essential procedure that entails the transparent and efficient administration of public resources to warrant quality services. Encouraging accountability is fundamental to the decision-making process in local government. Financial planning, leadership and financial reporting add value to financial practices by making sure that systems are strong, that money is allocated wisely, that resources are used as efficiently as possible, and that public confidence is built (IASB, 2008). For communities to properly fulfil their fiscal obligations and provide high-quality public services, sound financial management is crucial.

2.6.1 Transparency and Accountability

The concept of municipal financial accountability has generated several interpretations, serving as a framework for ethical considerations (Day & Rudolf, 1987). Usually, it connotes concepts like accountability, enforcement, and responsibility. According to Sibanda (2017), responsibility and accountability are interconnected ideas that need public authorities to take responsibility for programmes and choices using public funds. PFM should be characterised by transparency and comprehensibility. Accountability, as defined by Khalo (2013), is the obligation to reveal, clarify, and provide a rationale for the acts undertaken. Financial accountability, as determined by Fourie (2007), refers to the responsibility of public entities in positions of authority to explain their use of public funds.

Transparency, according to Adejuwon (2012), is necessary to make powerful executives responsible for their actions, or inaction. In order to encourage ethical and prudent behaviour in financial management, good governance and transparency are important. According to Fourie (2007), the municipal manager is responsible for the officials' behaviour. Hence, it is imperative to reprimand an official for their unethical conduct to establish their accountability to the public. To maintain solid public financial management, it is crucial to build effective control procedures that guarantee openness.

2.6.2 Sustainability

Maintaining financial sustainability presents issues for South African municipalities. Local governments must maintain budgetary reserves to effectively handle changes in revenue and spending while ensuring the continued development of infrastructure and supply of services (Gorina, Maher, & Park, 2019; Guo & Wang, 2017). To secure the ongoing operation and growth of communities, it is crucial to provide funding for municipal budgets that align with legal obligations.

Accurate fiscal sustainability metrics are essential for assessing a municipality's financial adaptability and capacity to endure unforeseen financial disruptions. Liquidity is an important factor in determining a council's financial well-being because it directly affects its stability and reputation (Ryan, Robinson, & Grigg, 2000). However, during the implementation process, there may be a shortage of

appropriate methods for assessing budgetary sustainability. Hence, it is imperative to employ a complete metric that evaluates a municipal council's ability to fulfil immediate responsibilities and offers an understanding of its long-term sustainability.

2.6.3 Financial Planning and Monitoring

An effective financial management system is necessary for municipalities to provide services to the public. Paul *et al.* (2013) defines financial management as the process of planning, organising, regulating, and monitoring the financial resources of an organisation to fulfil its stated objectives. It encompasses all the duties associated with how the organisation acquires its financial resources (Fourie *et al.*, 2013). Financial management in municipalities encompasses several operations, including asset acquisition, money use, transfers, risk assessment, and other financial procedures (Stanleigh, 2016). Financial reporting, auditing, and budgeting facilitate the effective administration of municipal finances. To address corruption in local towns, it is necessary to implement robust financial management practices that incorporate efficient accountability systems to protect municipal finances. Based on this debate, it can be inferred that effective management of municipal finances is essential for achieving good governance. Municipalities can optimize the utilization of local finances by employing rigorous procedures.

2.6.4 Leadership

According to Mantzaris (2014), leadership is a process in which individuals are accountable for reaching certain goals. The line between political will and leadership positions is frequently blurred as municipalities operate in a political atmosphere. The distribution of power and resources is frequently politicised via public participation in decision-making. This emphasises the significant need for political will and leadership in the operation of municipalities (Eglin & Ngamlana in GGLN, 2015).

Financial security and sound budgeting depend on strong leadership. Due to shortcomings in administration and contract management, a general strategy might impede budget execution and raise irregular spending (AGSA, 2018). Leadership faults continue to have an impact on administrative activities and restrict the local council's monitoring ability. A lack of strong political and administrative leadership

causes slow response times when addressing risk areas and adopting internal controls. Overcoming these problems needs coordination between political and administrative entities (AGSA, 2017).

2.7 Financial Management Practices in Municipalities

Municipal financial management is primarily responsible for preventing the misuse of public funds by implementing measures that address irregular and wasteful behaviour (Addo, 2017). To support these efforts, the public sector has had to embrace practices used in the private sector. Efficient financial management methods are expected to positively influence government revenue collection, audit processes, and budget procedures, to facilitate the provision of high-quality services (Maina, 2016). Financial control, auditing, and accounting are important financial practices employed in the public sector to make sure that proper financial management (Cheruiyot *et al.*, 2017; Maina, 2016; Addo, 2017). Without any specific order of significance, the ensuing paragraphs will discuss the practices in detail.

2.7.1 Financial Control

Provost (2012) defines financial control in the public sector as a collection of processes, and procedures that management must follow to make sure that resources align with the government's objectives. Khanyile (2016) notes that financial control not only assures compliance but also improves efficiency in managing public funds. It aims to guarantee that public monies are used in a manner that fosters order and regulation over finances. Financial practices entail creating a strategic strategy based on legislative guidelines that regulate municipal financial management. The practice includes expenses, transparency, overseeing cash flow, and guaranteeing effective audits and accountability.

2.7.2 Accounting

Accounting is described as the process of documenting, evaluating, and communicating an organisation's events and transactions, according to CPA Australia (2012). Several researchers have noted that accounting involves quantifying, documenting financial transactions, and sharing financial information with the organisation's stakeholders through financial reports (Pauw *et al.*, 2009).

Accounting enables an organisation to obtain financial data, document transactions methodically, evaluate adherence to policies and processes, and determine the financial position of the business. Public officials can use accounting to validate received funds or incurred costs.

2.7.2.1 Standards for Municipal Accounting

Municipalities in South Africa are encouraged to produce their financial accounts using an accrual accounting approach (Pauw *et al.*, 2009). The accrual accounting concept recognises transactions in real-time rather than only when the receipt of money is due. According to this notion, public institutions' financial accounts represent future payments and receivables, in addition to cash transactions that have already happened. The financial statements of the public institution will reflect past revenues and expenses as well as future receivables, following the rules of accrual accounting.

Municipalities use analytical financial instruments as part of their accounting strategy within the framework of an accounting system. These tools are referred to as Accounting Standards. These standards are universally employed as regulatory tools for managing financial transactions, preparing financial statements, and conducting audits (Garg, 2012). These standards are intricately linked to the accounting system and significantly impact the efficiency of a municipality's financial accounting practice.

2.7.2.2 Generally Recognised Accounting Practices Standards (GRAP)

According to Section 122 (3) of the MFMA and Section 216 of the 1996 Constitution, financial statements are to be produced following GRAP, which are accounting standards used to provide uniformity in the public sector (Fourie & Opperman, 2011). The goal of the GRAP is to allow institutions to streamline their transactions and create financial reports according to established standards (Botlhoko, 2017).

Ancketill and Phillips (2010) propose that the absence of transparency and financial management expertise in the municipal sector might lead to significant non-compliance. The idea is based on the belief that transparency is crucial because of understanding the reasons for financial decisions made during the fiscal year

(Shuping, 2021). Moreover, the lack of skills may hinder their ability to understand the financial terminology used in statements and guidelines, thereby affecting their compliance with GRAP. Accountability and transparency rely on accurate financial reporting; however, the absence of financial management skills in municipalities impedes this achievement (Brand, 2018).

2.7.3 Auditing

Auditing in the public sector is essential for financial accountability, but it faces obstacles in South Africa because of dysfunctional municipalities (ASGA, 2019a). Most municipalities, by failing to adhere to the constitutional obligation, have hindered service delivery and led to financial non-compliance. Effective auditing is supported by leadership and local governance frameworks that align with a robust financial management system (Laubscher, 2012). Functional local governance depends on a competent, productive, and responsible local government.

Removing fraud and unethical behaviour is essential to guarantee that public funds are used for their intended purpose. Van der Waldt (2016) asserts that municipalities have been mandated by the AG to provide detailed documentation of all financial affairs as part of their commitment to public accountability. Meeting the criteria set by the AG for municipal financial management involves fulfilling many standards, including performance audits and accounting.

Section 188(1) of the Constitution (1996) mandates the AG to be liable for reporting on and auditing government finances. This includes creating a financial statement that covers financial affairs in all spheres of government, agencies, and institutions. Every year, the AG and another government department present reports on municipal financial management (Van der Waldt, 2016). The AG will provide a decision regarding the audit-based public financial accounts, the General Notice it issued, and the International Auditing Code per the Public Audit Act (PAA No. 25, 2004).

2.7.4 Financial Reporting

Local government operations depend heavily on financial reporting and auditing (Mazibuko & Fourie, 2013b). Monthly reports are analysed in accordance with

Section 71 of the MFMA, which includes expenditure, actual revenue, borrowings, capital expenditure, and other relevant budget information (South Africa, Republic, 2003). According to Simson, Sharma, and Aziz (2011), financial disclosures are intended to foster adherence to budgetary requirements. They provide financial resources for both internal and external entities, and the accounting system provides records of financial accounts and reports, which can be easily accessed for analysis and investigation purposes.

According to the South Africa Republic's 2003 regulations, the Accounting Officer in the council is required to produce a monthly budget statement within 10 days following the end of each month, which evaluates the executed budget (Shuping, 2021). The Accounting Officer is required to submit a report on the budget and performance evaluation halfway through the year, by the municipal budget statement. The report should also indicate any failures and be submitted to the Provincial Treasury, ultimately reaching the National Treasury. The importance of implementing oversight reports on yearly reports cannot be overstated.

2.8 Budgeting Framework for Municipalities

As stated by the United Nations Human Settlements Programme (2009), local governments utilise a municipal budget to manage the creation and allocation of funds, aiming to reduce wasteful expenses, improve the efficiency of revenue collection, and maintain the credit of the municipality. Matena (2018) notes that it provides a detailed breakdown of approved activities, costs, and sources of money for a certain year or several years. The MFMA mandates municipalities to offer transparent budgets that align with community needs to ensure public trust in resource allocation and use (Hanabe *et al.*, 2018). It requires municipalities to produce a budget detailing how short and medium-term municipal revenue, spending, and obligations will be maintained. This is done to ensure that the municipality's financial activities align with its goals, policies, and approved budget (Hanabe *et al.*, 2018).

2.8.1 Municipal Budget Cycle

According to Andrews *et al.* (2014), municipalities commonly engage in financial management activities such as budget development, approval, implementation, and

assessment. These methods are crucial for successfully and efficiently managing public budgets. Effective administration of public finances necessitates a holistic strategy encompassing the stages of planning, authorization, implementation, and assessment.

According to Ueshima (2014), Public Financial Management may be classified into two main categories: upstream and middle stream. Upstream activities encompass budget preparation and allocation, while middle-stream activities include budget implementation, accounting, reporting, and auditing. Additionally, it encompasses the processes of formulating, approving, executing, and evaluating budgets. The budget cycle plays a crucial role in fostering effective government, and financial management, ensuring transparency, and encouraging accountability.



Figure 2-1: Municipal Budget Cycle

Compiled by Author

2.8.1.1 Budget Preparation

Majam (2017) states that budget preparation is the first stage in the process for government entities to accomplish their vision and goals. The process involves the prioritization of community needs, the formulation of strategic plans, the making of decisions, and the estimation of financial resources. The achievement of an institution's vision relies on effectively managing present and future requirements, equitable distribution of resources, established priorities, and financial viability. Budget preparations entail the computation of projected income and expenses (Majam, 2017). Municipalities establish a budget that takes into account the macro-economy and integrated development plan (IDP) to ensure a balance between present and future demands.

Dentlinger (2018) contends that local budgets frequently suffer from insufficiency because of the influence exerted by politicians and the national government. Municipalities frequently provide funds to projects that exceed their financial capabilities, disregarding their ability to generate money, the volume of their revenue sources, and their methods of managing expenses (Alfreds, 2018). Some of the

municipalities do not have sufficient cash to finance their IDP (Van Rensburg, 2018). According to Van Rensburg (2018), a significant number of South Africa's municipalities, namely 25% of the total 257, implemented budgets without sufficient funding following the 2016-17 financial year. This implies that municipal administrators frequently disregard or overlook the obligations outlined in Section 15 of the MFMA.

2.8.1.2 Budget Approval

The budget approval process is a vital stage in the government's financial management. It necessitates specific authorization from the provincial legislature before delivering services to the public and allocating funds to accomplish service delivery objectives (Shah, 2007). This procedure entails a comprehensive examination of the budget's formulation, taking into account pertinent policies and legislative guidelines. The primary responsibility of the provincial legislature is to allocate resources in accordance with community priorities, government policies, and accurate revenue and spending forecasts (Kamau, Rotich, & Anyango, 2017). In addition, they possess the authority to officially approve the spending limit and financial effectiveness of a government entity, guaranteeing that resources are distributed according to practical projections. This procedure is crucial for guaranteeing the public's contentment with government policies and the achievement of service delivery goals (Nicol *et al.*, 2017).

2.8.1.3 Budget Execution

Cain *et al.* (2004) define this as the systematic administration of money in accordance with the approved budget. It is a process of translating budget choices into financial transactions that are paid by budgeted financial allocations (Farvacque-Vitkovic & Kopanyi, 2014). Thus, implementing a budget is linked to how public funds must be used in accordance with the legislature for the provision of services. The process starts with the financial distribution procedure, which guarantees that each budgetary unit receives the necessary cash to carry out the planned activities in a methodical manner.

2.8.1.4 Budget Evaluation

Budget evaluation involves comparing an institution's executed budget with the authorised budget (Rustin & Nel, 2011). According to Mofolo (2016), it is a procedure that shows how well expenditure decisions match the approved budget and its needs. Section 100 of the MFMA requires adequate measures to monitor and assess planned income and expenses. The decrease in clean audits in municipalities, however, indicates significant deficiencies in the oversight and financial management functions, such as budget monitoring and evaluation (Sibanda, 2017). The AG's 2016-17 report on performances supports the claim by revealing that the number of clean audits decreased by 7% compared to the previous financial year, indicating failure by municipalities to monitor and evaluate their practices (Corruption Watch, 2018).

2.8.2 Medium-Term Expenditure Framework

The Medium-Term Expenditure Framework (MTEF) is a budget process that is used for continuous planning of service delivery projects with a duration of three years (Fourie, 2005). The focus is on identifying an organisation's goals and correctly representing its expenses. It aids in assessing whether the allocated funds align with policy objectives and financial plans, considering previous performance. Rustin and Nel (2011) define it as a systematic approach to developing a comprehensive plan and budget, involving CEOs, government agencies, and provincial administrations, to effectively allocate public resources by establishing realistic objectives, initiatives, and programmes.

Sections 28 and 72 of the MFMA require an update of spending and income projections for programmes and ensure monies are used reasonably by the municipal manager (Holmes & Evans, 2003). An efficient MTEF promotes disciplined decision-making, affordability, accurate estimations, defined fiscal goals, and prioritization of money to ensure the municipality's budget is approved and funds are utilized prudently.

Mboweni (2018) asserts that the government should enhance the internal auditing capabilities of municipalities to restore public trust in the efficacy of budgeting methods at the local government level. This idea was made because more towns are

adopting budgets that lack funding while being closely monitored by municipal management and councillors. 50% of Mpumalanga municipalities in the 2020-21 fiscal year lacked sufficient funds to meet their expenses (AGSA, 2022a).

2.9 Municipal Financial Management Cycle

A municipality’s financial condition determines its ability to fulfil its constitutional duty of delivering services to its constituents (Coetzee & Kleyhans, 2019). Municipalities, therefore, should always adopt sound financial management measures to promote good governance. The management of public finances and service delivery is seen as an ongoing process that involves planning, executing, assessing, auditing, and enhancing, depending on results in the public sector (Shuping, 2021). To ensure the implementation of high-quality financial choices in municipalities, it is important to establish a financial management cycle.

This cycle serves as a valuable source of financial information, enabling effective management of spending and risk (Shuping, 2021). Ultimately, this contributes to the improvement of good governance in municipalities. Municipalities must prioritise the protection of their money to ensure efficient operations and foster prosperity. In recent years, the management of finances in municipalities has emerged as a significant challenge that undermines effective government (Imuezerua & Chinomona, 2015).

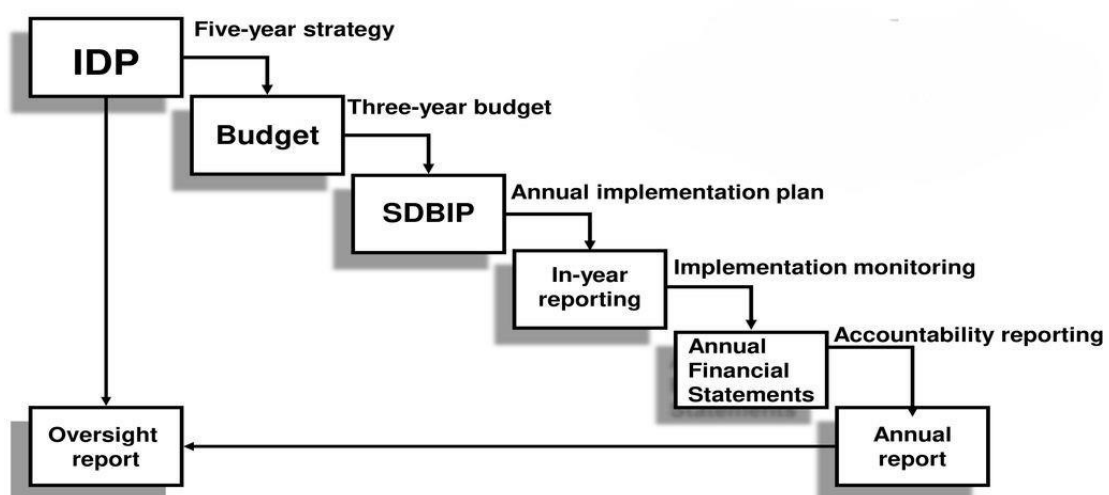


Figure 2-2: Municipal Financial Management and Accountability

Source: National Treasury (2011)

The figure illustrates how the accountability cycle's element interacts with financial management. It emphasises the need to have accurate information in each accountability document to ensure the functioning of a municipality's organisational structure, policies, processes, and procedures.

2.9.1 Integrated Development Plan (IDP)

This establishes a municipality's development plan, making sure it is aligned with the available resources. An elected municipal council is mandated by Section 25 of the Municipal Systems Act (act 32 of 2000) to adopt an IDP which will be used for the next five years. The White Paper of Local Government and Municipality Systems Act 32 of 2000 serves as a base for the IDP. It functions within a legislative framework that aims to unite the work of the spheres of government in a sound plan to enhance the quality of life.

2.9.2 Budget

A municipality is mandated by section 26 of the Municipal System Act (32 of 2000) to draft a financial plan that involves budget projections. Municipalities are to draft a budget for the next three years and outline the revenue-raising and expenditure management for approval by the council (National Treasury, 2004). The budget allocation needs to be in alignment with the goals set out in the IDP.

2.9.3 Service Delivery and Budget Implementation Plan (SDBIP)

The MFMA serves as a foundation for the drafting of the SDBIP (National Treasury, 2004). It sets out the service plan and budgetary targets on a monthly or quarterly basis, and is aligned with the annual targets set out in the budget and IDP. It further serves as an 'Implementation Plan' for the municipality while it further shows the basis for performance agreements of the municipal manager and senior management.

2.9.4 In-year report

Over a period of three years the administration will present a monthly, quarterly, and mid-year report to the council based on the implementation of the budget and SDBIP

(National Treasury, 2000). The council uses this report to track the municipality's financial and service delivery performance.

2.9.5 Annual Financial Statements

The financial conditions and an overview of the budget implementation are reflected in the report. These reports are to be submitted to the AG in accordance with the legislative framework. The AG is responsible for issuing a report on the audit to indicate reliance on financial statements and to exercise oversight.

2.9.6 Annual Report

Municipalities are mandated by section 121(1) of MFMA to prepare annual reports for each financial year. Annual reports, according to Barac *et al.* (2015), are accountability instruments used by municipal officials to provide reports on performance budgetary and SDBIP performance. They also serve as progress reports for meeting set IDP goals throughout the financial year.

2.9.7 Oversight report

Councils are mandated by section 129(1) of MFMA to produce an oversight report of the municipality and municipal entities containing comments from the Council highlighted on each annual report and actual performance, as per MFMA circular 32.

2.10 Components Associated with Financial Management in Municipalities

Enwereji and Uwizeyimana (2019) note that although South Africa has a robust legal system, there are still concerns over non-compliance by municipality financial management. The AG's previous reports have highlighted the prevalence of financial mismanagement in municipalities, particularly in KwaZulu-Natal (KZN) (Mbatha, 2020). Only a small number of municipalities in the province had clean audits for the 2019/20 fiscal year. The AG observed inadequate municipal financial responsibility, detrimental to community service delivery (AGSA, 2021). Despite several investigations, only a small number of public officials were convicted of corruption, due to insufficient evidence to justify their imprisonment.

Management is essential for ensuring integrity and accountability of financial expenditure to maintain spending while implementing financial management mechanisms (Libate, 2020). The implementation of proper financial control measures is important in ensuring that the spending is still within budget restrictions. A sound financial management which aligns planning and decision-making ensures that each budget allocation is consistent with the financial objectives (Schaeffer & Yilmaz, 2008). To ensure the system runs properly in a municipal setting, it is critical to focus on key areas of expenditure management to ensure that the financial system runs effectively and sustainably. These areas have been identified and will be discussed below.

2.10.1 Internal control

For municipalities to efficiently manage their finances, it is essential to establish a thorough internal control structure. Fourie *et al.* (2011) state that the internal control mechanism involves managing an organisation's financial resources cautiously to mitigate risks. Organisations employ internal control mechanisms to ensure the attainment of their goals via the use of dependable financial reporting and processes that adhere to regulatory requirements and rules (Banerjee, 2015). The implementation of an internal control mechanism can enhance the effectiveness of financial accounting systems in municipalities, and prevent the occurrence of corrupt activities (Micheni, 2017). By implementing internal control systems, municipalities may enhance their operational efficiency and effectiveness. This is achieved via the establishment of open and trustworthy financial reporting practices, as well as ensuring compliance with regulations such as the MFMA.

2.10.2 Risk Management

This component is crucial for improving the administration of local government budgets. Stanleigh (2016) defines risk management as the systematic identification, assessment, and mitigation of both internal and external obstacles that might impede organizational efficiency. Potential obstacles may encompass financial instability, subpar investments, inadequate company expertise, managerial blunders, natural calamities, and accidents. According to Enwereji and Uwizeyimana (2019), local municipalities need to evaluate the risk in order to develop effective strategic

solutions. The risks inherent in municipal government encompass both potential dangers and possibilities, which need efficient management. Local communities are required to categorize perceived dangers and provide alternate methods of reducing these risks with minimum variations (Fourie, Opperman, Scott & Kumar, 2011). Inadequate risk management in municipalities can lead to insufficient financial responsibility, which in turn can result in subpar service.

2.10.3 Revenue Management

According to Mazibuko (2013), obtaining self-sufficient income collecting calls for a major organisational change for municipalities. The tax base of the municipality is of utmost importance in the administration of the municipality, considering the economic, social, and legal conditions (Mbatha, 2020). Traditionally, municipal income has been created to finance the construction of infrastructure and the provision of services. A robust financial management system should be established based on a solid framework of revenue optimisation concepts.

The concepts that are included in this framework include vertical equity, horizontal equity, ability to pay, economic efficiency, financial sustainability, efficiency, simplicity, beneficiary contribution, and enforcement. Services must be funded by beneficiaries, residents, or property owners, either via direct or indirect means, in accordance with the general benefit concept (Shah, 2006; Slack, 2009). One common problem in towns is the limitation on funds for infrastructure development caused by a culture of not paying for municipal services. The rise in the number of families defaulting on payments is linked to the inadequate collection of income. Shah (2006) highlights the significance of efficiently implementing payments in the process of collecting income.

The absence of sanctions for non-compliance with the law in municipalities demonstrates the lack of enforcement (Mazibuko, 2020). The factors that contribute to this situation include a lack of responsibility, insufficient determination from political leaders to efficiently gather and handle income, weak institutional and organisational abilities, absence of incentives, inadequate processes for enforcing tax collection, and a lenient attitude towards dishonesty (Shah, 2006). Moreover, the lack of information impedes leaders from including numerous taxpayers in their

revenue databases. It is essential to determine the number of persons who lack the willingness or ability to fulfil their tax obligations, as well as the extent of income being avoided. Even if taxpayers are correctly recognised, there can still be inadequate and incorrect data on their tax responsibilities, payments, and unsettled amounts (Shah, 2006). The non-recoverable debt persists on the municipality's records for a duration beyond 120 days.

2.10.4 Regulatory Compliance

The proper operation and administration of the organisation depend heavily on compliance rules being followed. Compliance pertains to the actions implemented by a municipality to guarantee that its staff adhere to legal and regulatory obligations (Root, 2017). These criteria involve several facets, such as law, policy frameworks, and institutional rules, procedures, and guidelines (Benedek, 2012; Nzewi, 2017; Notshulwana-Matebese, 2021).

It is essential to acknowledge that not complying with requirements may result in the use of punitive measures or sanctions, in addition to limitations intended to enforce compliance (Root, 2017; Langevoort, 2017). Compliance failures have many consequences that affect not just the municipality, but also its stakeholders and the wider society. Hence, it is vital to thoroughly analyse and comprehend the fundamental elements of compliance failures, since they substantially impact the municipality's entire corporate governance framework (Root, 2017; Notshulwana-Matebese, 2021).

2.10.5 Supply Chain Management

South African municipalities use external SCM systems to obtain services that they do not have in-house (Fourie & Opperman, 2011). Municipalities are mandated by Section 111 of MFMA to create policies for managing the supply chain. Municipalities are mandated to adhere to the Preferential Procurement Policy Framework (PPPF) (Act 5 of 2000) through a competitive bidding process. Ensuring transparency is crucial to maintaining the integrity of the procurement process, as stated in Section 118 of the MFMA, to prevent any tampering or unauthorised changes to submitted quotations. Municipalities must implement safeguards to prevent interference or improper involvement that could undermine the process or those managing it.

2.11 Legislative Framework Guiding Financial Management in Municipalities

The National Treasury has enacted legislation and regulations to ensure the stipulations set out in South Africa's constitutional framework (Shuping, 2021). The effectiveness of voluntary and self-regulated activities is uncertain. Enforceable legal measures, such as laws, regulations, policies, and binding processes, are crucial for addressing non-compliance. Therefore, it is crucial to have a set of laws in place that will create and enforce a system for managing, being responsible for, and overseeing the financial aspects of local government.

South Africa is internationally recognised for its exemplary financial management standards and processes, even though the MFMA Act was implemented to encourage municipalities to practice sustainable financial management (Mle & Maclean, 2011). These policies have failed to successfully deter fraud or resolve non-compliance with municipal financial management requirements. Although attempts have been made, there is still a considerable amount of work required to guarantee that all 257 municipalities completely adhere to the statutes governing local administration (Roman, 2008; National Treasury, 2017b).

2.11.1 The Constitution of the Republic of South Africa 1996

According to Molepo *et al.* (2015), the definition of a constitution is the supreme legislation of a nation, which implies that the responsibilities specified in the constitution must be carried out or implemented in accordance with the law. Section 1(d) of the Constitution (1996) identifies accountability, transparency, and effective government as founding values. Section 41 (c) similarly requires that all government institutions maintain these founding values to carry out their public duties.

Municipalities, as per Section 152 of the Constitution (1996), are mainly liable for offering democratic and accountable governance to communities. Furthermore, they provide sustainable services, promote social and economic development, and ensure a safe environment. Municipalities must allocate resources and promptly report any deviation from the set targets to accomplish these objectives. The municipality must also endeavour to achieve these objectives by using its administrative competencies.

Sections 216 and 217 concerning compliances with financial management

Government entities must comply with control measures established by the National Treasury. These include accounting principles and spending classifications, as outlined in the MFMA, in accordance with Section 216 of the Constitution. Moreover, Section 217 of the Constitution (1996) notes that procurement processes involving state organs must be fair, just, clear, competitive, and efficient, and set criteria in line with the Treasury. This means that municipal authorities are required, under the Constitution, to manage the financial operations of the municipality in line with the norms and standards outlined in the MFMA. Furthermore, it is crucial to provide accountability for those who breach these norms and principles.

2.11.2 Municipal Financial Management Act 56 of 2003

Since 1994, the National Treasury has been working on strengthening financial management in all spheres of government (Motubatsane *et al.*, 2016). The objective is to modify the norms and standards for financial management in local government, with an emphasis on a consolidated governance framework for public funds that promotes effectiveness, transparency, and efficiency (National Treasury, 2004). Municipalities strive to attain responsible and enduring administration of their fiscal and financial affairs. The MFMA encourages the implementation of advanced budgeting, accounting, and financial management methods in local government (Shuping, 2021). This will assist municipal authorities in addressing diverse challenges and effectively managing public finances, while also ensuring adherence to these methods.

According to Ababio (2007), the Act addresses subjects including municipal debt, cooperative governance, municipal income, budgeting, and the responsibilities and obligations of municipal stakeholders. Moreover, it also permits the monitoring of municipal managers' compliance with their performance agreements, to guarantee responsibility for instances of underperformance or infractions. The latter enables local officials to have the authority to oversee and take responsibility for executing legislative orders, and they are accountable to the local council (National Treasury, 2004).

The South African Auditor General has solicited assistance from the National and Provincial governments to bolster financial administration in Local Government (AGSA, 2016). The National Treasury implemented a financial management grant intending to bolster financial skills and performance management. However, it has not achieved the desired outcome of improving financial management competence. The National Treasury identified financial vulnerabilities in municipalities, including deficiencies in skills and non-adherence to regulations, which exposed their limited financial and management capabilities (National Treasury, 2018b).

Implementing MFMA has been a persistent difficulty despite the National Treasury's praise for its success. In the 2021-22 audit report, the AGSA disclosed that more than 53% of municipalities failed to examine unusual expenditures from the previous year, resulting in non-compliance with regulations (AGSA, 2023a). Although municipalities often failed to comply with crucial regulations, there were rare cases when non-compliance was slightly reduced.

During the 2021-2022 audit outcomes in Gauteng, irregular expenditure decreased slightly, from R6.59 billion to R6.46 billion (AGSA, 2023a). The final balance remained a concern due to its large amount of 24 billion. The municipal public accounts committee failed to swiftly examine the non-compliance to rectify irregular expenditure, as required by statute. Midvaal Local Municipality is an example of the effective MFMA in a municipality, achieving clean audits in four consecutive years (Seleka, 2019). This is due to best practices such as timely monitoring of action plans, and effective consequences.

2.11.2.1 Municipal Financial Management Act Shortcomings

According to Brown (2014), there appear to be shortcomings between requirements and the actual implementation of the Act. This section will identify and explain the loopholes in the MFMA that municipalities can take advantage of.

2.11.2.1.1 Absence of Disciplinary Action

According to Mathebula (2014), the MFMA offers good principles to safeguard public finances from misbehaviour and corruption, which might affect service delivery. MFMA, however, has not established processes to prevent corruption or impose

sanctions for those involved in theft. During the AGSA 2021-22 audit, it was shown that 59% of municipalities were not complying with legislation while also not enforcing repercussions (AGSA, 2023a). The AGSA has proposed that municipalities lacked tools to report and hold individuals accountable for corrupt and fraudulent conduct. As previously indicated, 43% of municipalities did not carry out investigations into all incidents. During the 2020-21 financial year, the AGSA claimed that 51% did not undertake investigations (AGSA, 2022).

The National Treasury (2017d) recognises that any measures taken against local authorities for financial malfeasance must be based on a solid foundation. Meanwhile, Omarjee (2017) claims that the local administration has shown a consistent pattern of lacking responsibility and facing penalties. Information derived from the 2020-21 AGSA report on municipal performance showed that irregular expenditure amounted to R21 billion (31%) (AGSA, 2022a).

The lack of disciplinary procedures for inappropriate spending permits municipal officials to flout regulations (Montsho, 2019). This shows that the leadership is taking insufficient measures to develop a zero-tolerance approach for municipal officials who fail to comply with regulations. Montsho (2019) contends that paying municipal officials' salaries while they are suspended or under investigation demonstrates that the municipal sector lacks rigorous methods to address misbehaviour.

2.11.2.1.2 The Effect of Vacant Positions on the MFMA

The non-compliance could be centred on the lack of human resources in key roles in municipalities. AGSA (2018a) laments the need to fill key posts to provide efficient system management in municipalities. This suggests that corruption and lack of accountability will persist if the relevant positions remain unfilled.

Mothibedi (2017) acknowledges that failure to fill vacancies at the management level may lead to a period of mismanagement, corruption, and non-compliance. This implies that there is no leadership overseeing individuals to ensure accountability. During the 2016-17 financial year, the CFO posts in the Ekurhuleni Metro and the City of Tshwane Metro were not occupied (AGSA, 2018). Moreover, Emfuleni Local Municipality had a stable municipal manager during the financial year. The AGSA discovered fraudulent operations and instances of improper expenditure in these

municipalities owing to management instability. According to the information provided, the requirements of the MFMA do not take into consideration that roles filled on an acting basis usually lack the necessary commitment and responsibility that are essential for effective governance (AGSA, 2017). As a result of the legislation's failure to address this issue, authorities are free to violate the MFMA without facing any consequences.

2.11.2.1.3 Delegation of Power to Municipal Management

Chapter 8 of the MFMA highlights the financial and administrative responsibilities within a municipality who have direct access to municipal finance when carrying out the SCM strategy and the MFMA (Surty, 2010). Media and AGSA reports, however, have emphasised charges and allegations implicating municipal managers in the abuse of power and authority (Shuping, 2021). The MFMA mandates that the municipal manager must carry out all rights, duties, and obligations assigned by the council.

Nzo (2020) argues that municipal managers who utilise bureaucratic authorities to enable fraudulent operations and approve irregular spending compel public officials to circumvent procedures. Nzo (2020) supported this firm opinion by citing a discovery in the AGSA's 2018-19 audit report on Metsimaholo Local Municipality's performance, which disclosed that a senior official at the municipality pressured other workers to document R27 million for a sports complex construction project that was never carried out. Section 116 of the MFMA suggests that any changes to a contract, which the municipality did not fully implement, must be advised by the Accounting Officer. Section 33 further specifies that the municipal management has the option to create a new contract, share it publicly, and seek feedback from community members.

2.12 Importance of the Municipal Financial Management Act in Financial Management

According to Craythorne (2006), the framework was created to modernise budget, accounting, and financial management methods, and maximise the municipality's ability to provide services to communities. However, Brown (2014) alludes that there seems to be a disconnect between what the Act requires and how it is put into

practice. Due to this, the Act's ability to enhance local government financial management is constrained.

As opposed to this, Farvacques-Vitkovic and Kopanyi (2014) noted that great progress has been achieved in implementing the financial management arrangements outlined in the MFMA and its laws, compared to where local government stood in 2003. Farvacques-Vitkovic and Kopanyi (2014) explain that in the past, budgets were incremental and backward-looking, as they were based on the previous year's budget. The budgeting and planning processes were not integrated, often operating completely separately.

2.13 The Role of Municipalities in the Municipal Financial Management Act

MFMA (Act 56 of 2003) provides counsel to municipal officials on affairs relating to compliance. This applies to elected officials and other representatives of the political structures, as well as any municipal entity that a municipality has control over. The municipal manager is responsible for making sure that the following requirements are fulfilled, among other obligations.

2.13.1 Financial Management Obligations

According to Section 62 of MFMA (56 of 2003), Financial Management entails acting in a proficient, impactful, and cost-effective manner. Furthermore, it encompasses the task of preserving the documentation of financial matters and averting unnecessary, unlawful, and irregular spending. It also guarantees the enforcement of policies on tariffs, rates, revenue and debt collection, and supply chain management.

2.13.2 Liability and Asset Management

According to Section 63 of the MFMA (56 of 2003), a municipality is required to oversee and protect its assets as well as maintain its accounting and information systems. This includes accurately tracking and valuing these assets and liabilities, while ensuring that the municipality follows the recognised accounting practices and implements necessary measures.

2.13.3 Revenue Management

Section 64 of the MFMA (56 of 2003) is concerned with building a system to collect effective revenue, the accuracy of customer billing, and preparing rates and tax accounts. It also mandates frequent comparison of revenue and debts - at least once a week - and assures that funds received are accounted for by the municipality.

2.13.4 Expenditure Management

According to Section 65 of MFMA (56 of 2003), expenditure management encompasses the management and regulation of the withdrawal, and costs of funds, while providing efficient systems that accurately record payments. The municipality must fulfil its financial obligations, such as levies and taxes. The SCM policy adheres to principles of fairness, equity, transparency, competitiveness, and cost-effectiveness.

2.13.5 Transfer of funds

This involves evaluating the municipality's financial capacity to engage in an agreement, by implementing robust internal control systems to prevent fraud, theft, and corruption in municipal financial matters, ensuring compliance with contractual terms and conditions, and ensuring that funds allocated are effectively used by the intended beneficiaries.

2.13.6 Monthly Budget Reporting

The mayor must receive a monthly budget report detailing how the municipal revenue will be used. He must also report to the MEC and the National Treasury on the municipality's mid-year performance, council's failure to adopt budget-related policies and compliance with requirements of the Act (MFMA, 2003). MFMA places significant responsibility on municipal managers and mayors, sometimes to the detriment of each other (Surty, 2010). The mayor oversees general political guidance over the municipality's financial affairs. Section 103 forbids the mayor from carrying out certain financial obligations (MFMA. 2003).

2.14 Impact of Failing to Comply with the Municipal Financial Management Act

Mahlangu (2020) reports that AGSA audit reports reveal the mismanagement of millions of Rands assigned to the municipalities, despite the agency's guidance since 2013. The performance reports continue to highlight the dismal state of municipal finances. The AGSA reports that the year-end balance of irregular expenditure had reached R119,07 billion, unauthorised expenditure stood at R86,46 billion, and fruitless and wasteful expenditure amounted to R11,04 billion (AGSA, 2022b). These financial losses suggest inadequate measures to prevent, or to condone such expenditures.

The AGSA raised the alarm that only 2% of the municipalities complied with requirements during the 2018-19 financial year (Shuping, 2021). Inadequate management and non-competitive procurement were prevalent. Ntlhane (2020) argues that the simple fact that the AGSA consistently finds violations of the law reinforces the view that nothing has been done to hold officials accountable. This is clear from the fact that the municipality suffered a loss of almost R32 billion in the 2018–19 fiscal year, as opposed to the R25 billion that was recorded as unauthorised spending in the year prior (AGSA, 2020a).

2.15 The Different Role Players Guiding Financial Management and Compliance with the Municipal Financial Management Act

Municipalities have implemented structural reforms by assigning role players to manage financial matters to ensure compliance with MFMA (Shuping, 2020). MFMA's objectives include accountability, transparency, and proper management of revenues, expenditure, and assets. The effectiveness of these roles relies on the commitment of officials to perform their duties (MFMA, 2003).

Mantzaris (2014) suggests that the root cause of declining financial health in municipalities is due to weak leadership. This failure results in a decrease in audit results, a lack of responsibility, and a failure to comply with regulations. The AGSA (2019b) highlights that unethical executives have the potential to foster a culture characterized by inadequate discipline, impunity, and failure to achieve objectives, which can eventually result in the organization's downfall. Local government officials

must assume responsibility for the declining state of affairs, and strive to improve the prospects of their communities (AGSA, 2019b; Mailovich, 2019b).

Based on the conclusions, there are two types of leadership in the municipal sector: those who match their municipal activities with the essential legal frameworks, and those who break or disrespect regulations. To facilitate and ensure compliance with the MFMA's requirements, the numerous elected and appointed role-players are discussed in the following section, along with their respective functions and responsibilities.

2.15.1 Municipal Council

A municipality's governing body, the municipal council, needs legislative and executive power. By outlining its duties and authority, the MFMA and Municipal Structures Act (MSA) further impose this recognition (Egner, Sweeting & Klok, 2013). Council members are required, according to Schedule 2 of the Municipal Systems Act (32 of 2000) to operate in good faith, honesty, and openness.

According to the MFMA, municipal council members must conduct the following:

- Section 16 mandates the council to approve the budget and any related policies.
- Section 23 requires the council to request feedback relating to municipal initiatives from the local community.
- Section 70 requires a review of municipal spending.
- Sections 111 and 112 mandate the council to review municipal policies relating to the SCM. They are also required to ensure fairness and transparency, as well as compliance.

According to the 2016-17 audit report from the AGSA, the municipal councils were criticised for their inefficiency and non-compliance with municipal finance laws. In 61% of municipalities, municipal councils have been unsuccessful in investigating instances of non-compliance, indicating their oversight roles are ineffective in

ensuring resources are used in accordance with the MFMA's requirements, and any violations should result in accountability.

2.15.2 Mayor / Executive Mayor

A mayor leads the executive committee and is an elected municipal council member (Khalo, 2013). They are also in charge of executing the council's municipal executive power. According to SALGA (2011), a mayor is an elected council member who leads the municipality politically.

According to the MFMA, the mayor must conduct the following:

- Section 21 proposes the drafted budget to the council,
- Section 53(1)(c) mandates the mayor to propose an IDP, establish an annual budget, and provide control over the implementation phase (Mehlape, 2018),
- Section 53(2)(c) states the mayor is responsible for approving and implementing the annual budget within 28 days of its approval, as well as adhering to performance agreements established by officials and linked with the municipal objectives,

2.15.3 Municipal Manager

As head of the administration, they advise officials at the municipal level on policy orientations, financial operations, adherence to laws, and personnel control (Mathenjwa, 2013; Thornhill, 2008). They also provide administrative and political assistance, oversee fiscally viable, effective, and accountable administration, and exercise control over various aspects.

According to the MFMA, the municipal manager must conduct the following:

- Ensuring the efficient use of resources, adhering to prescribed norms and standards, and maintaining transparency in its financial affairs.
- Preventing any acts of unnecessary expenditure (Section 62(1)(d));
- Taking responsibility for the municipal's assets and liabilities (Section 63);

2.15.4 Chief Financial Officer

Every municipality must have a CFO appointed, according to Section 80 of the MFMA. A CFO is a senior manager in charge of the financial and record-keeping duties of a municipality, according to Mathiba (2011). A CFO, according to CIPFA (2016), is a senior manager responsible for overseeing a municipality's financial operations and strategy. CFOs are important in the creation and application of plans for achieving objectives in a way that advances the public good. Additionally, they must actively engage in municipal decision-making to take financial risks into account, match resources with organisational plans, and guard against corruption.

MFMA also provides the following responsibilities to the CFO:

- The CFO and support officials manage the budget and treasury office, which includes revenue and expenditure management, sound financial governance, risk management, consistent monitoring and reporting, payroll system management, and annual budget planning, serving as financial functions at the local government level (National Treasury, 2019).
- The CFO is responsible for assisting the accounting officer in managing the municipality's bank account and preparing and implementing the budget, ensuring compliance with the MFMA's prescripts during the preparation and implementation process.

2.15.5 Ward Committees

Financial or other irregularities in a municipality should be reported to ward committees, which are chaired by the local councillor (Donaldson, 2019). These committees aim to improve and bridge the communication gap between councillors and citizens. A ward committee comprises of ward councillor (Donaldson, 2019; Naidoo & Ramphal, 2018; Struurman, 2019). The committee assists with the administrative mandate, and the community needs, encouraging public participation while improving transparency and accountability.

2.16 Factors Leading to Non-Compliance with Financial Legislation

Shuping (2021) notes that, despite existing legislation that defines the criteria for handling municipal financial issues, municipalities continue to fail to comply with key legislation. In areas where municipalities are responsible, such as the creation of financial statements, the avoidance of wasteful spending, strategic management, and human resource management, non-compliance is frequently observed (Thornhill, 2014). The biggest non-compliance is frequently seen in areas including preventing irregular expenditure, managing contracts and purchases, and enacting penalties. According to Tsheletsane and Fourie (2014), the inability to execute audit committee recommendations, significant turnover rates in top posts, and a lack of political will, all play a role in public institutions' non-compliance with important laws. Political meddling in municipal administrative affairs is another deterrent to compliance.

2.16.1 The Absence of Consequence Management

Dlomo (2017) defines consequence management as a procedure in which organisations handle undesirable conduct, which includes acting against officials who have broken the law. Mathebula (2016) argues that it is a tool designed to deter bad financial management in municipalities. It enhances accountability, combating corruption, and promoting clean administration, through steps to ensure that misuse of money has implications. The AGSA (2017a) stresses that consequence management is essential for establishing a less permissive atmosphere towards non-compliance with legislation and ensuring that officials are held responsible.

The AGSA (2021a) asserts that local government continues to lack repercussions for financial mismanagement, notwithstanding prior suggestions. Councils frequently neglect to examine unlawful, irregular, pointless, or wasteful spending. The 2019-20 audit revealed that municipalities failed to address improper expenditures amounting to R79.22 billion, owing to a lack of inquiry and consequence management (AGSA, 2021a).

Mathe (2018) notes that the lack of political determination to hold public officials accountable has resulted in a decrease in clean audits. Whistleblowers often face unemployment or retaliation, resulting in a lack of accountability. In 2019, the

Minister of Police faced criticism for the failure to protect the whistleblowers who exposed fraudulent practices at uMzimkhulu Municipality (Maphanga, 2019). Municipalities exhibit a culture where there are no repercussions; consequently, this leads to officials frequently breaking the law.

2.16.2 Budget Limitation

The non-compliance among local governments reflects the challenge of limited resources and strict budgets. In research conducted by Draai and Oshoniyi (2013), it was observed that local municipalities often do not hire individuals for important senior management roles, due to budgetary limitations that prevent them from offering competitive compensation, as a result of budget limits. In 2018, 23% of municipalities nationwide were unable to recruit permanent municipal administrators, while 14% could not afford permanent chief financial officers.

Basdeo (2012) highlighted duties carried out by local government that legitimately belong to another level of government, known as "unfunded mandates," which contribute to non-compliance with legislation. Moreover, services without financial support hinder service delivery, and lead to compromised compliance owing to inadequate cash in the municipality's bank account (Khumalo & Mokate, 2007).

Municipalities consistently fail to comply with regulations, leading to unnecessary and unproductive spending, such as that resulting from interest payments to significant creditors such as Eskom and Rand Water, which are not settled within 30 days owing to financial limitations. The municipality account is interest-free, as long as the municipality adheres to the payment terms and conditions agreed upon with the creditors. Interest and penalties led to futile and inefficient spending of R20 million in municipalities nationwide (AGSA, 2017). The non-compliance concerns pose risks to the municipalities in terms of their ongoing operations, finances, and capacity to fulfil their urgent obligations to serve their populations. Municipalities' credit-control strategies are undervalued, because persistent debtors fail to pay on time, causing a strain on cash inflow, and leading to the municipalities' creditors only being paid beyond the 30 days interest-free period.

2.16.3 Poor Implementation of Legislation and Compliance

The municipal manager, according to section 60 of the MFMA (56 of 2003) is liable for ensuring that there is compliance with legislation in a municipality. Siddle and Koelbe (2016), however, state that the AGSA annual reports on municipalities have consistently shown that there is a lack of compliance with the requirements of the local government system across municipalities. Ndevu and Muller (2017) observe that a significant reason for the decline of municipalities is their failure to adhere to important statutory frameworks.

The 2020-21 audit by the AGSA has revealed that 51% of the municipalities have failed concerning compliance with key legislation (AGSA, 2022b). 97% of municipalities had irregular expenditure was 97% which amounted to R18 billion. Despite 31% of municipalities receiving a qualified outcome, R21 billion in irregular expenditure was incurred due to non-compliance with SCM legislation (AGSA, 2021; AGSA, 2022b).

2.16.4 Poor Levels of Competencies

Macanda (2014) emphasises the need for professional and competent municipal officials to achieve strategic goals and manage budgets in South African local government. South African municipalities are facing challenges due to a lack of appropriate skills, insufficient knowledge of municipal regulatory frameworks, skills that do not match job requirements, and undergoing irrelevant training (Ndevu & Muller, 2018). 32%, 46%, and 68% of municipal officials had less than five, one, and two years of work experience.

The AGSA reported that at the municipal level, there are shortcomings relating to financial management expertise, which stood at 60% (AGSA, 2017a). Municipalities depend on consultants for tasks such as preparation of financial statements, compilation of reports, and ensuring legal compliance (AGSA, 2017a). Cloete (2017) notes that, compared to the Netherlands, half of the South African municipal workforce do not have the skills needed to perform their duties. The indifference towards enhancing officials' skills, and the belief that training is not needed, lead to an inadequately skilled workforce (Cloete, 2017).

2.17 Institutions Advocating for Compliance with Financial Management Legislation in Municipalities

2.17.1 The South African Auditor General

According to the Constitution (1996), the AGSA is a Chapter 9 institution, which is an autonomous entity tasked with evaluating and reporting on accountability within all branches of the government. The AGSA's mandate is to enhance democracy by ensuring compliance with statutory frameworks. The AGSA helps improve constitutional democracy in line with the legislative demands of MFMA and PFMA (Ogochukwu & Prosper, 2014). The AGSA ensures that financial operations are reported following the correct method and standards, emphasising transparency and responsible financial management. The AGSA presents an annual report to different legislatures containing an audit opinion and recommendations (Dhansay, 2019).

The AG serves as the supreme audit institution and plays a vital role in enhancing financial accountability in government (Musokeru & Nzewi, 2014). AGSA, as outlined in Section 188 (1) of the Constitution, is responsible for auditing and reporting on the accountability levels and financial accounts of all government sectors and institutions in South Africa (Mathiba & Lefenya, 2019). Sibanda (2017) states that AGSA is responsible for conducting audits in a fair and unbiased manner.

The AGSA conducts audits on municipalities and municipal entities to verify their performance reports, as well as their adherence to important regulations (AGSA, 2018a). The audit strives to make sure that financial statements are accurate, free from significant mistakes, fraud, or misstatements, and that they comply with relevant regulations. The audit attempts to ensure that an institution's performance reports are filed accurately, without significant errors, in accordance with the appropriate processes and standards (Independent Regulatory Board for Auditors, 2019).

2.17.2 National Treasury

The financial affairs of municipalities are overseen and supervised by the National Treasury (Khaile 2018). According to Section 132 of the MFMA, the municipal manager is required to submit reports and any adopted supervision report to the

National Treasury. The National Treasury has the authority to assess whether municipal operations were carried out in accordance with set standards, financial constraints, and the legal framework (Van Niekerk & Dalton-Brits, 2016). According to Section 216 of the 1996 Constitution, the National Treasury can halt any financial transfers that do not adhere to the local government treasury regulations outlined in the MFMA (Khaile, 2018).

National Treasury observed that, despite financial management reforms, 165 out of 257 municipalities are experiencing financial difficulties, and 106 out of 257 have implemented budgets without adequate funding. The results suggest that municipalities in South Africa are faced with the issue of poor effective financial management and adherence to regulations. The 2020-21 Audit by the AGSA revealed that irregular spending remained high, at R21.9 billion, and municipalities are still struggling to resolve this issue in line with Section 32 of the MFMA (National Treasury, 2022c). The AG expresses concern that municipalities face these expenses due to a lack of repercussions for wrongdoing, inadequate oversight, lack of accountability, weak internal control systems, and non-compliance with laws (Merten, 2019).

2.17.3 Fiscal and Financial Commission

The establishment of the Fiscal and Financial Commission (FFC) is based on Section 220 of the Constitution (Merten, 2019). The Constitution mandates the FFC to establish the fair distribution of revenues for each province, including any additional grants from the national government. The FCC advises on the fair revenue allocation among the spheres of government. According to Merten (2019), South African municipalities continue to underperform and show levels of non-compliance. The FFC noted that although remedies have been proposed, there is little evidence of improvement in the operations of municipalities (FFC, 2019). The 2020-21 Municipal Audit Conclusion Report showed that only 38 out of 257 municipalities had clean audit findings.

The AGSA's 2017-18 report on municipalities' performance contends that they require further financial assistance from the national government to operate effectively and address their debt issue (Ensor, 2019b). The national government

retains 25% of the national revenue budget, while municipalities receive only 9%, pushing them to acquire 75% of the funds through taxation. The FFC, however, argues that the government should not require municipalities to contribute 75% when they are experiencing income shortages (FFC, 2019). For example, rural towns are only able to collect 40%–56% of their planned property rate revenue, whereas metropolitan municipalities collect 62%–84%.

2.17.4 Municipal Public Accounts Committee (MPAC)

MPACs were established under the MFMA to monitor the roles of the municipal administration, ensure effective resource use, and support the council's oversight function (Khalo, 2013). MPACs promote transparency and accountability, review municipal annual reports, provide recommendations, expose fraudulent activities, and ensure the division of powers in resource management (Van Niekerk & Dalton-Brits, 2016). They also ensure the financial statements and audit reports are audited, and necessary improvements are made. The MPAC's role is to enhance the council's oversight function over the finances and performance of a municipality (Khalo, 2013).

In 2014, there were noted cases of financial misconduct by the officials in Wolmaranstaad Municipality, amounting to R9 million (Moore 2014). Due to the manager's mutually beneficial relationships with high-ranking ANC officials, the committee did not pursue the case of the manager (Shuping, 2021). In 2020, the AGSA reported that the Madibeng Local Municipality's municipal manager and CFO unlawfully invested R31.5 million in the VBS Mutual Bank and authorised the use of municipal funds to pay individuals' accounts.

2.18 Summary

This chapter provided a brief and clear summary of public financial management within the framework of municipal financial management. Initially, an analysis of systems theory was conducted, specifically focusing on its applicability to the administration of municipal finance. The chapter also examined the concepts of financial management in municipalities. It explored techniques that were useful to municipalities in the given context. The chapter delved deeper into the financial management methods and practices used by municipalities. Ultimately, the chapter

examined how the inability to adhere to the MFMA affected the organisation's ability to effectively handle its financial matters.

CHAPTER 3: RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

This chapter provides a detailed explanation of the research methodology and design, focusing on the qualitative approach. The chapter begins by discussing the research paradigm used for the study. The chapter discusses the methods used for the study. The qualitative approach, as described by Miles and Huberman (1994), highlights the significance of examining phenomena within their authentic environment. The chapter also details techniques, methods, and strategies utilised for data collection and analysis. The chapter explores the fundamental concepts of reliability and trustworthiness in qualitative investigations, which are vital for generating dependable research findings and conclusions. Lastly, the chapter presents the ethical considerations of the study. The chapter ends with a summary of the subjects discussed.

3.2 Research Paradigm

According to Lincoln and Guba (1994), a research paradigm is a researcher's fundamental belief system used to guide a study. The system gives a framework that guides theory and research by rigorously assessing key issues, methodologies used to answer research questions, and underlying assumptions (Leedy & Ormrod, 2013; Neuman, 2014). In a particular discipline, a paradigm in a field of study expresses widely accepted ideas, methods, traditions, models, and procedures. Interpretivism, positivism, constructivism, transformative thinking, and pragmatism, are the most dominant research paradigms in scientific research (Neuman, 2014).

This study has employed an **interpretivist paradigm**. According to Deetz (1996), interpretivism involves comparing different pieces of evidence related to a certain phenomenon by considering the interpretations that individuals give to them. The research prioritises interpreting ordinary events to ascribe significance, explaining why this occurs (Reeves & Hedberg, 2003). This study employed the interpretative paradigm, utilising the qualitative research approach, to help the analytical framework investigate financial management procedures inside the Emfuleni Local

Municipality. Through the application of interpretive analysis, researchers can reveal the subjective interpretations embedded within textual sources.

This approach allows for a comprehensive understanding of the contextual factors that influence financial management processes and enables the generation of detailed descriptions that contribute to a more profound comprehension of the intricate nature of local government finance. Moreover, it delves into an analysis of personal interpretations, contextual understanding, various viewpoints, self-awareness, and a detailed depiction of financial management procedures. This technique enables a detailed examination that surpasses quantitative indicators to reveal the fundamental dynamics and intricacies of financial governance inside a municipality. According to Reeves and Hedberg (2003), the interpretivist paradigm prioritises the critical contextualisation of research analysis. Moreover, it focuses on comprehending the universe using individual subjective experiences.

3.3 Research Methodology

There is a standard definition of research methodology that is widely accepted, despite that interpretations may differ. Jansen and Warren (2020) describe research methodology as the practical technique used for the study to explain, describe and forecast phenomena. In simple terms, it is the study of how information is acquired to provide the study's research design. As aforementioned, Anon (2018) offers another meaning of research methodology, stating that it is a process or approach used to find, choose, process, and analyse information regarding a certain topic under investigation. Jansen and Warren (2020) elaborate on the research methodology in their article, including specific information that enables readers to evaluate the study's reliability and coherence. The section is to address two primary inquiries: What methods were used to acquire or create the data? By what means was it evaluated?

This study applied a qualitative research methodology for data collection, concentrating on examining financial policies, auditor general reports, and government gazettes. By using the qualitative approach, the study will analyse financial legislation, policies, and existing literature. Qualitative research

methodology is suited, as it seeks to understand the meaning of people's experiences and the context in which those experiences occur (Gray, 2004).

3.3.1 Qualitative Method

Kumar (2014) states that the qualitative method is characterised by an open, adaptive, and unstructured approach to inquiry, and is grounded on the empiricism principle. Rather than focusing on measurement, it prioritises the depiction and storytelling of emotions, perceptions, and experiences. Kumar (2014) states that the findings are communicated descriptively and narratively, with less focus on generalisation. Creswell (1998) agrees that qualitative research uses several methods and takes an interpretive naturalistic approach to its subject matter. The study includes qualitative methods based on the methodologies outlined by Leedy and Ormrod (2010), which involve providing a detailed description to uncover the essence of certain circumstances, locations, processes, relationships, systems, or individuals.

The financial management of the ELM is assessed using a qualitative method, as outlined by the MFMA. This consists of a thorough review of data sources, including document analysis. The study aims to obtain a thorough comprehension of the aspects that impact financial management practices and compliance with the MFMA by utilising this strategy. By scrutinising financial documents and procedures, researchers can identify the root causes for the municipality's non-compliance with the MFMA, and inability to comply with budgetary limitations. This method enables the identification of systemic difficulties, governance concerns, and organisational culture variables that contribute to financial mismanagement. The main goal of using qualitative approaches is to obtain valuable insights that can be used to develop specific interventions and suggestions aimed at improving financial governance, strengthening accountability, and ensuring compliance with the budgetary restrictions specified in the MFMA.

3.4 Research Design

Jogbo (2016) emphasises the significance of a thorough understanding of the study to grasp the appropriate approaches and procedures that align with the research methodology. To achieve the objectives of a study, it is essential to employ the

appropriate research design. Kumar (2011) explains research design is a structured framework, method, and plan used to investigate specific research issues. Kumar (2014) further states that the road map is the guide that a researcher must adhere to, to discover answers to problems.

Kumar (2014) indicated that the study design serves as a guiding framework for researchers, outlining the research's focus, data collection processes, and the process of answering research questions and goals. Finally, it provides instructions on how to carry out the study. By serving as a roadmap, the research design also guarantees that the data obtained enables the researcher to answer the research questions accurately.

The study employed a case study technique to perform this investigation. The researcher carried a case study on ELM. Robson (1993) and Yin (2014) state that the case study method is highly effective in providing explanations to questions related to the reasons, content, and processes involved. This study employed a case study methodology to investigate financial management practices in South African municipalities. Specifically, it examined the governance structures, budgeting procedures, income production, expenditure patterns, and compliance with legislative frameworks such as the MFMA. This initiative aims to give valuable insights into the financial management challenges encountered by local governments, and provide practical suggestions for enhancing their performance.

3.5 Data Collection Method

The primary data used for the study was secondary data, as gathered by the researcher. Secondary data refers to existing information collected from different sources, such as ELM financial records, government gazettes, articles, journals, and past Masters and Doctoral dissertations. The researcher employed document analysis as the principal method of gathering data.

To collect data, a list of documents needing to be examined had to be compiled, and the papers needed to be accessed for analysis. The data-collecting method is illustrated in figure 3-1 below.

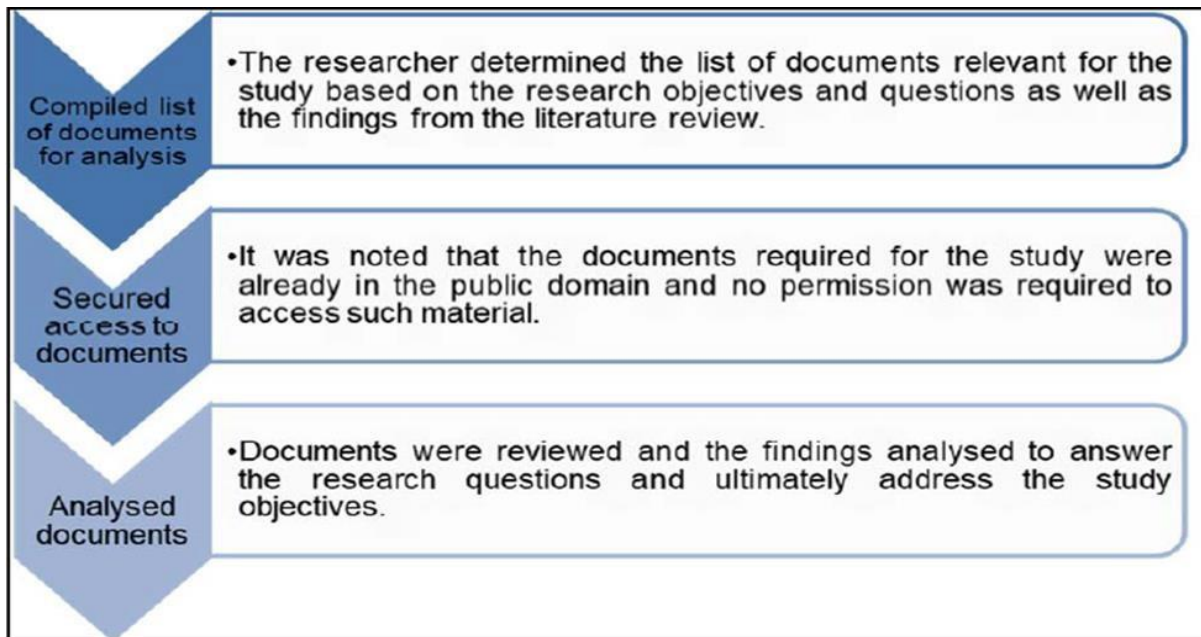


Figure 3-1: Data collecting process

Source: Kolisang (2019)

3.5.1 Document Analysis

Document analysis, according to Bowen (2009), involves systematically studying documents to identify meaningful patterns, understand the context of their creation, and gather empirical information about the subject under investigation. Interpreting these patterns to align with the study's goals and aims will make the data significant (Saunders *et al.*, 2012). Researchers can analyse prevalent patterns on a subject by employing data triangulation, a method that involves using many credible sources to explore alternative perspectives on a problem (Heale & Forbes, 2013).

Documents, according to Noor (2008), permit researchers to cross-validate data collected by applying different qualitative methods. This emphasises the significance of assessing the quality of documents as evidence, to avoid conflict between any discrepancies between the participant's claims and what is said. Documents must contain accurate information to be considered reliable. Therefore, when analysing documents, researchers need to ensure that the meaning(s) conveyed by the source are preserved (Mogalakwe, 2006).

The research seeks to analyse these papers to reveal the consequences of the municipality's non-compliance with the MFMA and financial management practices,

and to offer focused solutions to alleviate budgetary limitations within ELM. Moreover, papers provide broader coverage and easier access to information because of the increased number of individuals sharing information online. Documents offer stability by providing information independently of the researcher's influence, which might affect answers during data collection (Marshall & Rossman, 2006).

The documents studied suggested the following sources for data collecting and analysis:

- Auditor General Reports
- ELM Annual Financial Statements
- ELM auditors' report from the Auditor General's Office
- ELM Budget Reports
- Internal audit reports

3.6 Data Analysis

Maropo (2014) defines data analysis as a process of organising and reducing data to generate a report that needs interpretation regarding a research problem. Liba (2008, as cited by Maropo, 2014) describes data analysis as examining and explaining data while arranging it for practical purposes. Patton (2002, quoted in Matlala, 2018) expands the concept of data analysis as transforming raw data into patterns and frameworks that convey the core meaning of the data. Kawulich (2004) defines data analysis as summarising a substantial quantity of data through interpretations to improve understanding.

Data analysis is normally conveyed through summarising structured patterns and topics within the data. It is beneficial because it allows for establishing connections and identifying patterns within the obtained data. The data analysis step often starts with summarising and explaining the obtained data, as stated by Auriacombe and Lutabingwa (2007).

Data analysis is useful only once the data have been thoroughly evaluated, explained, and integrated into the research context (Scarbrick-Hauser, 2007). For this study, the data to be analysed were collected from documents. Data from various sources were categorised based on the consistency of the information, the significance of their general replies, and the alignment of their arguments with the study factors. The study examined audit reports from AGSA on ELM performances from the fiscal years 2017 to 2021 by analysing, surveying, scrutinising, and synthesising the data. The data was carefully analysed through detailed observation to extract valuable insights and provide a structure for conveying the findings about ELM's non-compliance with the MFMA.

3.6.1 Content Analysis

According to Hsieh and Shannon (2005), content analysis is a versatile method for interpreting written, spoken, and visual data. Auriacombe (2016) describes content analysis as a research method used to create an unbiased and methodical description of communicative information. This approach classifies responses into distinct sorts and tallies the quantity or category of each type. Since this study requires content analysis, it will help the researcher to put context into the concepts with an in-depth understanding, by giving several perspectives. Content analysis was done using data from various forms, including reports, papers, books, newspaper stories, and any other source of secondary data. The material would then be studied, and a written explanation of financial performance reported.

3.7 Data Processing and Interpretation

Data analysis is the process of compiling, modelling, and converting data to generalise meaning from it (Marshall & Rossman, 2006). The researcher performed the following basic steps of data analysis. The data available on ELM's financial management were the audit reports which contained expenditure numbers. Data pertaining to the integrity of financial management procedures and ELM performance in each financial period was also included in the narratives.

Firstly, the research assessed the data collected to ensure that it is complete and consistent. The researcher reviewed the data to identify common themes. The researcher connected these themes to the research problem being investigated.

Burns (2004) argues that the purpose of content analysis is to assist researchers in building context from emergent themes. Content analysis enables researchers to identify patterns and themes in data that they did not originally anticipate. In this study, the researcher maintained the reliability and trustworthiness of the research results during the analysis phase by explicitly articulating and consistently adhering to them, and to methodical document analysis processes.

The researcher selected significant difficulties directly related to the research topic and the breadth of the research questions to convert the data into usable knowledge. Detailed accounts of these matters were created, as suggested by Ibrahim (2012). The accounts offer insights into the present understanding of the subject and emphasise areas for more investigation.

3.8 Reliability and Validity

Some of the major considerations relevant during research include reliability and validity, ensuring the research process is truthful and consistent. While dealing with the appropriateness and accuracy perspective of the research, validity represents the quality of the procedure; the reliability is, on the other hand, based on the test of repeatability. Bolstering the arguments presented earlier with that of Sarantakos (2005), validity is the degree to which a research study has truthfully measured its intended objectives in checking the correctness of representing the world under investigation. Gray (2004) underlines that checks and balances of research must be included to maintain the authenticity of data so that, during analysis, proper interpretation of information is made to avoid fabrication and misrepresentation.

According to Sarantakos (2005), reliability means producing consistent outcomes whenever research is replicated. Research findings are reliable if when given a repetition of the study, consistent findings are arrived at. There should be reliability with the consistency and dependability of the research findings, expresses Gray (2004). Validity will be based on the audit reports of ELM, audited financial statements, recognised accounting standards, and principles based on the best practices in the industry. Consequently, research findings will be backed by data that has had its integrity tested and regulated, underpinned with information officially published by ELM and AGSA.

3.9 Ethical Considerations

Researchers must adhere to a strict ethical code of conduct when carrying out their investigations. The researcher is morally obligated to investigate by seeking the truth without fabricating or falsifying the obtained facts (Goddard & Mel, 2001; Kumar, 1999; Sarantakos, 2005). The following measures were taken to ensure that ethics were adhered to.

3.9.1 Ethical Practice and the Researcher

The researcher was governed by principles of truth, honesty, integrity, and transparency to ensure objectivity. Data management involves presenting accurate and dependable findings to achieve the study's goals. Prior to the commencing of data collection, the researcher attended ethics training which was conducted by the Basic and Social Science Research Ethics Committee (BaSSREC), and an ethics certificate was obtained. The research then applied and obtained ethical clearance from NWU BaSSREC. The study was classified as no risk as all data which will be collected is in the public domain.

High ethical standards have to be maintained in academic writing, using a reliable referencing system. The researcher also avoided plagiarism by properly acknowledging and citing all sources utilised in the study. The researcher is dedicated to investigating with honesty and professionalism to prevent any legal consequences, both now and in the future.

3.10 Summary

The chapter provided insight into a structured framework for research design, guiding the researcher in selecting the most effective research approach for the topic. To achieve the desired outcome, the study employed a qualitative method for data collecting, include the utilisation of secondary data. The secondary data utilised was sourced from reliable academic websites including the NWU webpage and Google Scholar. The researcher examined the data using content analysis and adhered to rigorous ethical protocols to ensure the seamless and reliable conduct of the research.

CHAPTER 4: RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter is centred on presenting and analysing the results collected. The objective is to assess the extent to which ELM did not comply with the financial management practices and MFMA, by spending the public funds beyond the budgetary imposed limitations. The data analysed entails a content analysis of the AG audit reports for the financial years of 2017-18 to 2020-21, ELM's budget reports, financial statements, and annual reports. Through this process, general themes related to the research problem have been identified and will be examined.

4.2 An Overview of Emfuleni Local Municipality

4.2.1 Historical Background of Emfuleni Local Municipality

Previously known as Lekoa, the Emfuleni Local Municipality is located in the Sedibeng District, in Gauteng Province, Vanderbijlpark (ELM, 2010). ELM, a category B municipality as per the Municipal Structure Act, is flanked by the Vaal River to the south, which provides major opportunities for economic growth and tourism.



Figure 4-1: A Map of Municipalities in the Sedibeng District

Source: www.municipalities.co.za

The municipality is strategically located close to the national highway that passes through Emfuleni and connects Johannesburg and Bloemfontein. The ELM is home to two key urban hubs: Vereeniging and Vanderbijlpark. Sasolburg is located roughly 10 kilometres to the south, across the provincial line. Historically, the area was called the Vaal Triangle and was important in the South African steel industry.

The region consists of residential zones, which require a significant investment in infrastructural and environmental upgrades. Emfuleni is made up of sizable peri-urban townships. These townships do not possess the facilities typically found in towns of their magnitude. Likewise, there are an additional ten minor communities, that are suburban settlements located within a six-kilometre radius of the municipalities, which are Bonanne, Steel Park, Duncanville, Unitas Park, Arckonpark, Sonlandpark, Waldrift, Rust-Ter-Vaal, Roshnee, and Debonair Park.

4.2.2 Emfuleni Local Municipality's Administrative Structure

In conjunction with performing administrative duties, the municipal manager functions as an interaction point for the municipality's administration and the political office holders. Through ELM's management, the municipal manager executes council decisions passed and delegated by the Executive Mayor (ELM, 2014b). In addition, they are primarily responsible for developing and carrying out performance scorecards within the municipality. Upon completion of the IDP, the municipal manager partners with the Executive Mayor, to develop a performance plan with a clear and measurable target (ELM, 2016b).

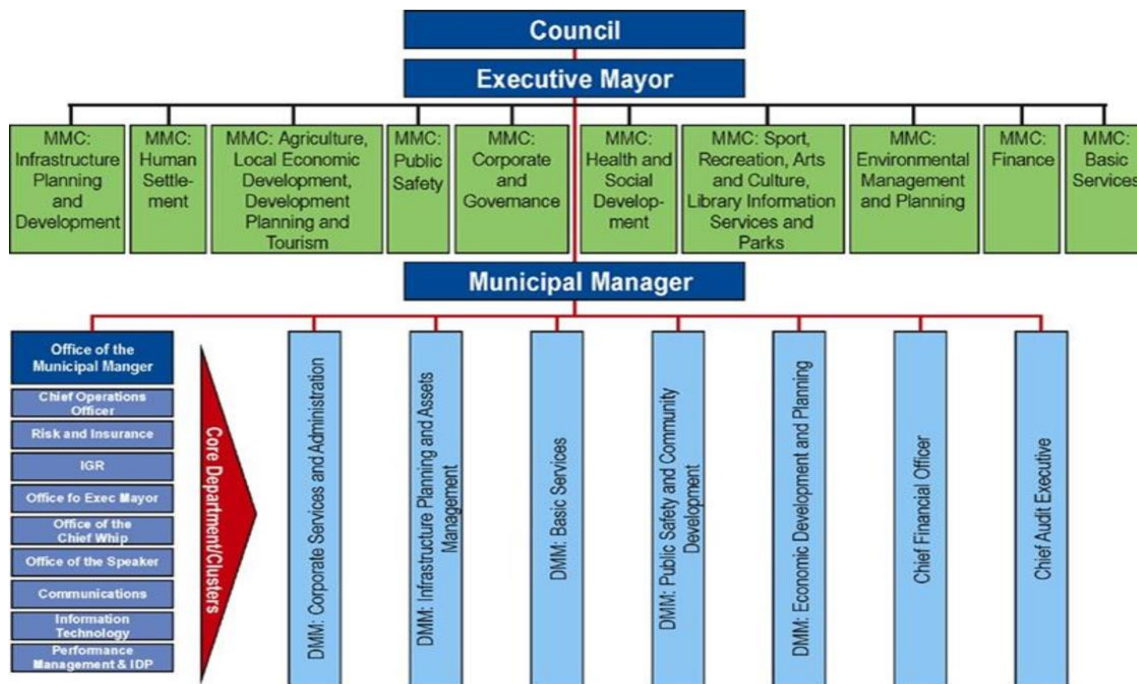


Figure 4-2: Administrative Structure of Emfuleni Local Municipality

Source: (ELM, 2014b)

The ELM is separated into nine Administrative Clusters, each designated with a distinct purpose and thorough responsibilities. Each cluster's role is to help manage and guarantee effective services to the community. These clusters are accountable for their budget and planning, which must align with the municipality's strategic plan. To make sure that there is accountability, the performance requirements of each cluster are evaluated by SDBIP based on and aligned with the IDP.

The Senior Management Team (SMT) consists of 12 experts for daily operations and shaping the strategic direction of the municipality (MSA 32 of 2000). They are also responsible for strategy reports for approval by the council and making sure there is compliance. Meetings are held weekly as needed to review reports proposed for approval by the Mayoral Committee and Council (ELM, 2014b).

4.3 A Presentation of the Research Findings

This will assess to what extent ELM's failure to comply with the financial management practices and MFMA resulting in funds being spent above their designated budgetary constraints. The collected data will be analysed in the section below.

4.3.1 Theme 1: Evaluating the Effectiveness of Financial Management in Emfuleni Local Municipality

4.3.1.1 Internal Control

Internal control is successful when it comes to giving assurance through a municipality's management and administration to secure the intended performance outcomes and satisfy the community's demands through spending. Figure 4-3 presents the yearly auditor general dashboard for the financial year 2020-21. The audit cluster of ELM created this dashboard which offers a concise overview of the current state of the primary factors influencing internal control.

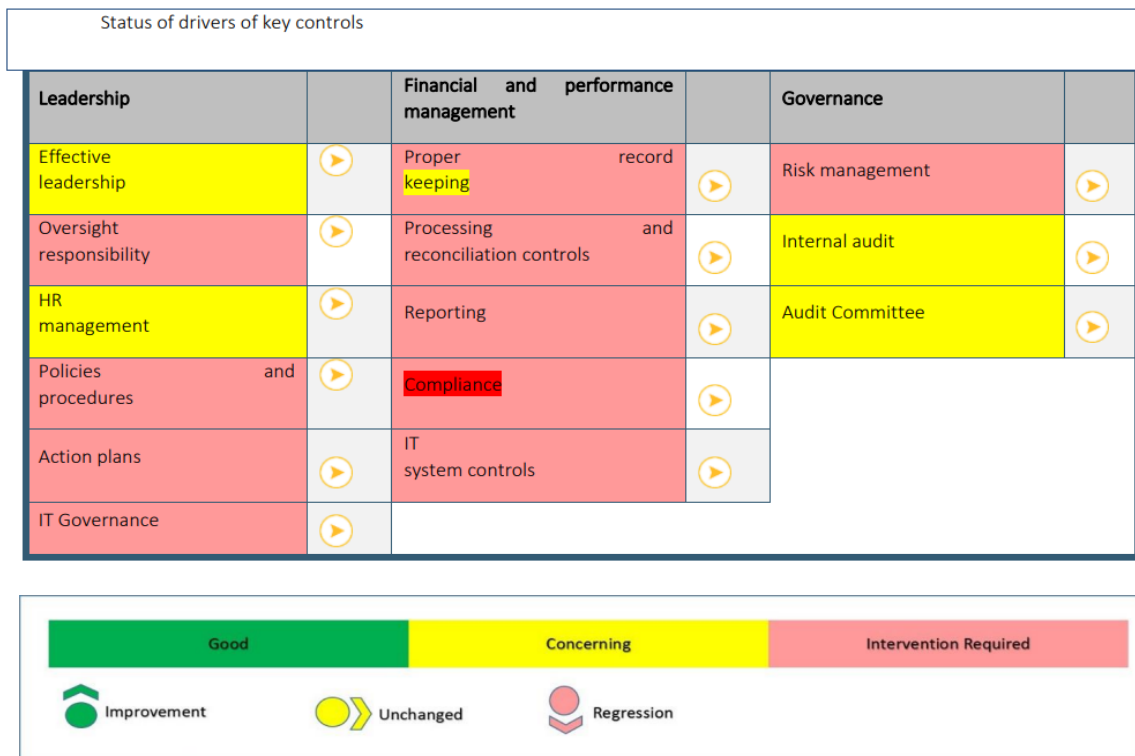


Figure 4-3: Auditor General Annual Dashboard for the Financial Year 2020-21

Source (ELM, 2021b)

The dashboard indicates that there have been no significant changes in areas of internal control, such as leadership, performance, and financial management. The functions that are in these categories are designated as requiring intervention or attention. The absence of efficient internal control in the municipality creates, as a result, unfavourable institutional circumstances that limit the municipality's ability to manage its resources in a manner consistent with its objectives and attain the

anticipated performance outcomes. If not addressed, these issues will result in a complete breakdown of internal control, making the municipality unable to operate autonomously without help.

The internal control difficulties at ELM, as pointed out by the AGSA, can be reviewed through the lens of the systems theory, which highlights the interconnectedness and interdependence of components within an organisation. The ELM report by the AGSA points to the constant weakness in the annual performance report, and ongoing non-compliance with regulations as the core issues (ELM, 2019b; ELM, 2020b). The theory implies that these problems are not unique cases but rather indications of broader systemic inefficiencies (Friedman & Allen, 2011). The internal audit cluster's identification of significant systems vulnerabilities further supports this, highlighting the interrelated gaps in process, communication, and culture (ELM, 2020b). These shortfalls signal that organisational subsystems, such as leadership and decision-making, are not functioning harmoniously, leading to recurring control issues.

The delayed response to audit findings and lack of commitment to implementing necessary change indicate a breakdown in the feedback mechanisms essential for system improvement (Friedman & Allen, 2011). In well-functioning systems, challenges and deviations are addressed through timely interventions and self-regulation (Friedman & Allen, 2011). At ELM, however, the resistance to change and ineffective management responses reflect deeper systemic failure that hinders progress. Addressing these challenges requires a holistic approach that integrates all elements of the organisation – people, process and culture – towards continuous improvement and better overall performance.

The findings highlight that while the internal audit cluster of ELM identifies systems weaknesses and submits recommendations, the effectiveness of these controls is undermined by poor implementation, integration, and monitoring, leading to ineffective financial management and decision-making (Micheni, 2017). The literature supports the necessity of robust internal controls for municipalities, emphasising that they ensure regulatory compliance, and promote transparency and efficiency (Fourie *et al.*, 2011; Banerjee, 2015). However, the findings suggest a disconnect between theory and practice, as ELM's slow response to audit action

plans and proper execution render the remedial efforts ineffective, risking financial losses and poor governance. This highlights that strong internal systems require not only the identification of weaknesses but also rigorous follow-through and integration into the institutional framework.

Using Buffalo City Metropolitan Municipality (BCMM) as a case study, similar challenges with internal controls were observed (Shuping, 2021). Despite having an internal audit function that identifies weaknesses and makes recommendations, BCMM has struggled with the effective implementation and monitoring of these recommendations. The Auditor-General's report highlighted recurring issues such as poor asset management, inadequate oversight, and non-compliance with the MFMA (AGSA, 2019). Similar to ELM, BCMM's internal controls failed to prevent financial mismanagement and irregular expenditure, primarily due to a lack of integration and follow-up on audit findings. This resulted in financial losses and undermined service delivery. The case study of BCMM reinforces the point that while internal controls are critical for sound financial management, they are only effective if properly implemented, monitored, and continuously improved. Without this, municipalities remain vulnerable to inefficiencies and financial risks, leading to persistent governance issues despite the presence of audit functions.

4.3.1.2 Leadership

Leadership is crucial for communicating and ensuring that municipal goals are achieved. The mayoral committee at ELM acts as the governing body of the municipality (Libate, 2019). The Mayor oversees the preparation of the development plan and works closely with the council and other municipal officials (ELM, 2020b). A well-designed leadership system looks to enhance the alignment of municipal policies and budget performance. Furthermore, robust leadership support reinforces the importance of productivity for employees in attaining the intended outcomes.

The AGSA emphasised the crucial role of leadership in ensuring successful governance and financial management of a municipality. Based on the ELM reports, the AGSA notes that throughout the 2017–18 and 2020-21 financial years, the municipality had issues with the accounting officer's lack of monitoring, notably in financial and performance reporting, as well as regulatory compliance (ELM, 2019b;

ELM, 2021b). Furthermore, this lack of monitoring is made worse by the lack of ability to execute the action plan that addresses findings on performance reporting (ELM, 2019b; ELM, 2020b).

The issues reflect the larger knowledge of municipal leadership problems. According to Eglin and Ngamalana (2015), municipalities operate in a politically charged environment in which the delicate balance between political intent and administrative leadership frequently results in the politicisation of power and resource allocation. Lack of leadership causes poor contract administration, creating irregular expenditure, and a weaker budgetary process, in addition to financial mismanagement. AGSA (2019) noted that unresolved shortcomings and a culture of no repercussions impede municipalities' capacity to handle risk areas, and also reduce the significance of management's duty.

The resignation of ELM's former Mayor has left instability in its leadership structure, and the 2017–18 financial term proved to be a genuine test for ELM (Shuping, 2021). It shed light on the unfavourable crisis within the organisation, which was tarnished by poor financial management. The Premier of Gauteng since 2015 has stated that the municipality has been receiving assistance from the Provincial Treasury (Outa, 2019). Nevertheless, due to the absence of any significant improvements at ELM, a resolution was reached to subject ELM to administration.

Based on the system theory, a municipality, such as ELM, works as an integrated system with financial leadership, proper governance and resource management all being interrelated. Poor leadership hinders effective resource allocation, affecting the ability of municipalities to deliver services. Flaws in a subsystem such as governance have affected the organisation's total performance. ELM's growing municipal debt and bad management form a negative feedback loop, in which ineffective leadership raises financial risk and operational inefficiency, hence worsening service delivery. This demonstrates the vital necessity for good leadership to stabilise and improve the overall system.

4.3.1.3 Accountability

Using public resources is contingent upon the mandatory demonstration of responsibility. Libate (2019) notes that accountability in a municipality should

consider the governance risk associated with using financial resources to achieve performance objectives. Hence, a municipality must maintain a comprehensive record of all its financial transactions and inquiries into instances of fraud and misconduct, including the measures or resolutions implemented to resolve these matters. The following issues with consequence management at ELM were brought up by the AGSA during the 2019–20 audit review (ELM, 2021b):

“based on investigations completed during the 2019-20 financial year, it was found that no disciplinary or, when appropriate, criminal proceedings were instituted against officials of the municipality who have allegedly committed an act of financial misconduct or an offence in terms of Chapter 15”.

ELM has documented other ongoing investigations during the 2017-18 financial year. These investigations included instances of contractor overpayment, allegations of bribery against a municipal official, and anomalies in the procurement process (ELM, 2019b). This may be seen through the perspective of systems theory, which views the organisation as a linked system in which dysfunction in one element impacts the whole entity. These challenges point to the weakness in the crucial subsystem, notably financial management, implying that when accountability mechanisms fail, negative feedback loops are formed, impacting the municipality’s operation.

It is worth noting that evaluating the value of any loss is crucial when examining the influence of unfavourable outcomes on ELM’s governance and administration. Hence, the openness of ELM's internal monitoring and reporting culture is crucial, as it determines the thoroughness of the investigation and appropriate handling of any financial wrongdoing. The literature on financial accountability supports this viewpoint. Khalo (2013) and Fourie (2007) characterise financial responsibility as an essential component of PFM. When the financial subsystem is weak or corrupted, it can weaken the whole governance framework.

By contrast, the Ekurhuleni Metropolitan Municipality (EMM) has demonstrated stronger governance and accountability practices (Shuping, 2021). EMM has a consistent record of investigating financial irregularities and ensuring that responsible parties are held accountable, as shown by its performance in AGSA audits. Unlike ELM, EMM’s internal monitoring and financial controls allow for timely and transparent investigations into unauthorised, irregular, and fruitless expenditures

(AGSA, 2019a). This proactive stance reflects the EMM's commitment to aligning with MFMA principles and maintaining financial integrity, serving as a model of good governance.

The comparison between ELM and EMM highlights the critical role governance and consequence management play in municipal financial management. While both municipalities operate under the same legal framework, their approaches to accountability and transparency differ significantly. EMM's strong commitment to thorough investigations and public reporting contrasts sharply with ELM's failure to address financial misconduct effectively (Kraai, Holtzhausen & Malan, 2017).

This emphasises the importance of a municipality's ability to enforce governance standards, protect public resources, and foster trust through transparency and accountability.

According to the systems theory approach, ELM's financial accountability difficulties are not isolated events but rather reflect a larger systemic failure (Friedman & Allen, 2011). Addressing these issues needs not simply ethical accountability, as proposed by the literature, but also a comprehensive understanding of how the many components of ELM's governance and finance systems interact. Effective governance entails developing robust, transparent, and interrelated subsystems that maintain organisational integrity and performance.

4.3.2 Theme 2: The obstacles faced by ELM in ensuring compliance with the MFMA

4.3.2.1 Performance Management

The budget serves as a means of ensuring collective financial discipline and prioritising the Municipality's financial viability within the scope of ELM's financial governance (Libate, 2020). The key management functions that are connected include performance and financial management. The analysis of these responsibilities examines the extent to which decision-making within a municipality has successfully met its performance criteria while also ensuring the municipality's financial viability (Visser & Erasmus, 2018). In order to effectively fulfil the tasks of a municipality, municipal authorities must have proficient financial management

abilities, and employ efficient performance evaluation tools to document and track their accomplishments precisely.

Precise and dependable information is crucial for governance reporting, particularly in financial management. According to ELM's audit reports, the AGSA has continuously taken a firm position regarding the existence of substantial inaccuracies in financial records. This has been a recurring feature in his findings, wherein is stated (ELM, 2020b):

“The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.”

The audit findings at ELM reveal systemic issues within the organisation's financial reporting and performance management processes. Significant errors in non-current assets, current assets, and disclosure items in the financial statements, along with deficiencies in supporting documentation, resulted in a qualified opinion. Despite improvements, the ELM information management system has not effectively optimised its monitoring control for collecting, documenting, processing, and reporting financial and performance data (ELM, 2019b; ELM, 2020b). Systems theory suggests that these issues stem from weak feedback loops and inadequate internal controls that fail to identify and correct errors consistently. Moreover, gaps in skills capacity, poor internal communication and limited data management capabilities contribute to the discrepancies between reported performance and actual results, reflecting a broader systemic weakness.

These issues indicate that ELM's challenges are not isolated but are part of a larger organisational dysfunction. The municipality's subsystems – ranging from human resources and information management to communication channels – are not functioning cohesively, leading to breakdowns in accurate performance reporting. The ripple effect of these inefficiencies undermines the credibility of ELM's reporting, affecting stakeholders' trust and organisational accountability. Addressing these deficiencies requires a holistic approach that improves not only individual components but also the interaction and coordination between them.

The analysis of ELM's budget performance reveals that the leadership's lack of robust planning, monitoring, and evaluation mechanisms has led to poor financial

outcomes. The operational budget consistently exceeds planned expenditures due to weak internal controls, indicating that ELM's financial management system is deficient (ELM, 2019). This misalignment between expected results and actual performance points to ineffective operational controls, which, if unaddressed, could lead to cash deficits, unfulfilled objectives, and overall financial instability. The gaps in expenditure management demonstrate a failure to capitalise on financial management policies and highlight the need for more rigorous monitoring and reporting tools that link financial outcomes to performance objectives.

When connected to existing literature, these issues underscore the importance of assessing budget performance. As noted by Van der Waldt (2004) and Prinsloo and Roos (2011), effective budget management relies on strong controls and accountability mechanisms to ensure resources are used optimally. ELM's challenges reflect a broader failure to maintain such controls, resulting in financial risks and missed targets. To improve its financial sustainability, ELM must strengthen its management practices by implementing more effective controls, fostering a culture of accountability, and ensuring alignment with regulatory frameworks such as the PFMA and MFMA. This will enable the municipality to leverage its resources better and achieve more consistent financial performance outcomes.

4.3.2.2 Consequence Management

The lack of consequence management at ELM is at the centre of the challenges faced; attacking them is crucial in rooting out misconduct. From what has been gathered from the findings of the study, there has been a high level of non-compliance by the municipality, and there is no sense of recovering from it (Molepo, 2020). The Auditor-General's media release statement in June 2017 addressed the need for the implementation of consequence management within municipalities. The AG hinted at the following:

“Without proper consequence management systems, the audit results of municipalities are unlikely to change towards desired results. We, however, believe that the implementation of requisite consequence management will significantly turn municipalities towards wholesome governance in the public sector.”

The municipality's struggles with consequence management were most apparent between the financial years 2017-18 to 2020-21. It has been proven that consequence management was non-existent in ELM, given the increase of unauthorised, irregular, fruitless and wasteful expenditure year-on-year. The AGSA brought up the following concerns with ELM's consequences management during the 2017-18 to 2020-21 financial years (ELM, 2019b; ELM, 2021b):

“Unauthorized expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA”.

“Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA”.

The financial years of ELM between 2017-18 and 2020-21 have received a disclaimer audit opinion from the AGSA, noting flaws with financial management, compliance and internal controls (AGSA, 2019; AGSA, 2022). The AGSA highlighted serious concerns regarding the municipality's lack of applying consequence management following MFMA. The municipality, during the 2017-18 financial year, recorded more than R1.3 billion in irregular expenditure, and R103 million in wasteful expenditure (AGSA, 2019). Amidst the concerns, no investigation or disciplinary action has been taken against the responsible officials.

During the 2020-21 financial year, the AGSA noted that the municipality's financial health had worsened, with AGSA raising the following concerns with ELM's consequence management during the financial year (ELM, 2022b; AGSA, 2022):

“Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA”.

The municipality had exceeded R1 billion in irregular expenditure, and wasteful expenditure reached R157 million (AGSA, 2022). The AG also noted that during 2020-21, no investigation or disciplinary action had been taken against the responsible officials. The impact of investigations covered multiple financial years before the 2020-21 financial year (AGSA, 2022). Understanding the detrimental impact on ELM governance and administration requires the valuing of any loss.

Transparency is crucial for the internal monitoring and reporting culture, and the nature of financial breaches should be thoroughly examined and addressed.

4.3.2.3 Revenue Management

The two primary components of a municipality's budget are its revenue and its debts. Section 95 of the Municipal Systems Act (32 of 2000) mandates a municipality to create an effective revenue management system that is aligned with its debt collection and credit control policy (Libate, 2019). For a municipality to finance its spending responsibilities in accordance with the Constitution, it must have a substantial source of revenue. Moreover, the system must be compliant with legal and regulatory standards. Table 4-1 presents ELM's financial performance statement. This table summarises how the Municipality concluded its financial year in terms of budget operations.

Table 4-1: ELM's statement of financial performance

	Financial Year			
	2017-18	2018-19	2019-20	2020-21
Total Revenue	6,088,940,211	6,554,174,254	6,653,011,159	7,963,187,949
Total Expenditure	6,766,221,854	7,189,421,786	8,050,067,096	7,854,603,378
Operating Deficits	-	-	-	-
Loss/gain on disposable assets	23,582,654	3,421,120	80,103,319	190,115,254
Fair value adjustments	29,842,266	32,892,178	41,702,229	40,402,403
Impairment losses/	1,161,360,330	1,329,362,660	1,925,122,120	1,080,096,708
Deficits/Surplus for the year	(677,281,643)	(617,107,179)	(1,393,318,314)	(108,584,571)

Amounts occur when there are changes made to the way things are presented or classified in the yearly financial statements. The disclosure of the nature and rationale for categorization is provided. When accounting mistakes are found in the current year, they are corrected retroactively to the extent possible, and the preceding year's comparisons are adjusted correspondingly.

The financial performance of Emfuleni Local Municipality throughout the period spanning from 2017-18 to 2020-21 exhibits many significant patterns and difficulties. The municipality's total revenue has consistently increased throughout the years, growing from R6,088,940,211 in 2017-18 to R7,963,187,949 in 2020-21, representing a substantial gain of nearly 30.7%. The expansion can be ascribed to several sources, including higher property taxes, service costs, and government grants. Nevertheless, alongside the increase in revenue, the municipality has also observed a comparable escalation in total expenditure, which increased from R6,766,221,854 in 2017-18 to R7,854,603,378 in 2020-21. Additionally, it implies the necessity of thorough financial management to guarantee long-term viability, as effective delivery of essential services might be threatened by these budgetary circumstances.

Several factors contribute to ELM's inefficiency in generating money. The researcher identifies the following significant problems as contributing to ELM's high level of operating expenditure, which in turn limits its income generation:

- **The rise in consumer debt:** The practice of not paying for municipal services has led to consumer debt (such as water, garbage collection, and power), which is nothing new to ELM, nor is it unusual for other municipalities. The growing amount of consumer debt presents a financial hazard to ELM, and hampers the Municipality's ability to invest in enhancing service delivery.
- **Increased poverty rate:** The ability of the community of ELM's to afford things depends mostly on socioeconomic factors. The increasing prevalence of poverty in the region is mostly attributed to the elevated rates of unemployment. This places the responsibility of covering the expenses for providing essential services on the Municipality.
- **Organizational structures:** the increased levels of operational spending are linked to operational activities and contracted services in the municipality's management in connection with the institutional structures within ELM. Therefore, the pricing of services does not directly correspond to the price of delivering the service. One instance of this is the monetary expense of hiring experts or outside organizations for legal disputes and/or forensic inquiries at ELM.

The financial challenges encountered by ELM, including balancing operational expenses and income, can be analysed through systems theory. It emphasises that various components within a system, such as revenue management and financial performance, are independent (Luhmann, 1995). The difficulty in striking this balance suggests that the inefficiencies in one area may cascade into broader financial issues. For instance, fluctuations in income from assets and fair value adjustments in 2020-21 highlight how adjustments in one component, such as assets management, can lead to emergent outcomes such as increased profits (ELM, 2021b).

The significant impairment losses reported each year reflect deeper systemic challenges within the municipality. From the systems theory perspective, these persistent losses indicate potential issues in assessment or management practices that need to be addressed to avoid further financial burdens (Jones & Smith, 2022).

Furthermore, the concept of feedback loops implies that if these losses are not corrected, they will continue to strain the municipality's overall financial systems, leading to recurring instability. Effective intervention and better asset management practices are crucial to restoring balance and preventing problems with long-term financial management.

Given these difficulties, the significant improvement in financial performance during 2020–21, which resulted in a surplus, suggests that the municipality has begun to adapt and implement corrective measures (ELM, 2022b). The theory suggests that this improvement could be seen as the ability of the system to learn from past deficits and adjust its strategies to regain stability (Von Bertalanffy, 1990). However, to ensure sustainable financial health and effective service delivery, the municipality must continuously refine its practices, maintain resilience, and address systemic weaknesses such as recurring impairment of losses. This holistic approach aligns with the systems theory's emphasis on maintaining the stability of an interconnected system over time. Nevertheless, further endeavours will be necessary to guarantee the ongoing financial stability and efficient provision of services to the residents of ELM.

4.3.3 Theme 3: The Impact of ELM's non-compliance with the MFMA on Financial Management Capacity

4.3.3.1 Contractual Management

Section 116 of the MFMA (56 of 2003) highlights the basis of contracts in municipalities, the process by which they are granted, and how they are implemented. Moreover, section 166 (2) notes conditions under which the accounting officer is to ensure the legality of contracts and the correct management of municipal records. Good contract management is important for the municipality to properly plan for its resources and achieve a complete supply chain process, ensuring compliance with MFMA. The AGSA brought up the following concerns with ELM's contract management during the 2017-18 and 2020-21 financial years (ELM, 2019b; ELM, 2022b):

“Contracts were awarded to service providers whose tax matters had not been declared by the South African Revenue Service (SARS) to be above board, thus proven to be in contravention with SCM regulations.”

“Contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.”

“The performance of some of the contractors or providers was not monitored on a monthly basis as required by Section 116 (2)(b) of MFMA. Similar non-compliance was reported a year prior.”

As in previous years, non-compliance was reported (AGSA, 2019a). Section 116(2) (c) of the MFMA requires performance and monitoring procedures to ensure proper contract management (ELM, 2020b). The emergence of such inconsistent regulatory compliance impairs the SCM unit's effectiveness while weakening ELM's SCM system. Due process was not followed at the earliest stages of the contractual arrangement, which served as the foundation for the supply chain process, and thus failed to reduce the likelihood of corruption at ELM. The procurement process was compromised once due process was not followed from the start, making ELM a municipality responsible for financial mismanagement.

Article 1: Article on Contract Management

Emfuleni Municipality Service Vehicles Withheld Due To Non-payment

The embattled Emfuleni Local Municipality has been brought to its knees after a fleet of 158 rented vehicles, including those from the waste, fire, and traffic departments were withheld by a service provider due to non-payment yesterday.

This brought the already slow service delivery to a complete halt in the municipality, which has in recent weeks been unable to fix burst sewerage pipes, or water leaks, or collect refuse in most areas.

Sowetan has established that the affected departments include parks, building control, finance, human resources, water and sanitation, roads and storm water, and the office of the mayor.

However, spokesperson Stanley Gaba said the service provider was paid R7million yesterday and that all vehicles now remain in possession of the municipality, which

has a month-to-month arrangement with the service provider, whose contract expired five months ago.

"The contract ended in March this year and the municipality has agreed to release the affected vehicles in batches back to the service provider over a period of three months, starting in September 2018," Gaba said.

Gaba said the municipality had "discovered that the contract had been irregular and has since begun a process to appoint a new fleet service provider."

An employee said: "All departments had no single vehicle available, we couldn't do anything whatsoever."

DA's Kingsol Chabalala said: "It's very worrying that this is happening in Emfuleni which the ANC has collapsed ... as it can't even fix potholes."

Source: Mahlangu (2018)

Based on the abovementioned article, the municipality is obligated to a costly contractual arrangement, both legally and financially, because of subpar contract reporting and internal communication. As a result of the provisions of an illegal agreement, ELM must pay an unnecessary expense. The implications of such an

arrangement highlight the considerable risk to service delivery as well as having legal repercussions for the Municipality (Mahlangu, 2018). The failure to exercise due diligence in contract management has led to the unintended financial consequences of both upholding the terms of an improper contract as well as the prospect of future financial consequences (such as litigation and penalties). The aforementioned instance not only violates regulations but is also bad financial practice.

It is important to take note that contractual signing does not remit a municipality's duty to provide services by delegating them. Based on the systems theory, both the service provider and the municipality are interdependent components of wider governing systems, reflecting distinct related interests (Van der Waldt, 2004). Contract management is important to the system's operation. Proper contract management protects, while establishing the municipality's interest and formalising the connection between the municipality and the service provider.

It is crucial to evaluate municipal officials' positions in this integrated system, notably their level of experience in contract management. Because each party's activities affect the overall system's performance and outcomes, officials' contract management skills and expertise are critical to ensuring the system's balance and efficiency.

4.3.3.2 Supply Chain Management

Libate (2019) notes SCM is responsible for ensuring a seamless operation across procurement control and expenditure. The procurement strategy of the supply chain management system is based on contractual agreements for the acquisition of items and services. The SCM system within municipalities plays a critical role in managing and controlling expenditures. The AGSA highlights the following findings pertaining to SCM during the audit outcomes of the 2017-18 and 2020-21 financial years (ELM, 2019b; ELM, 2022b):

“Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).”

“Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulations 17(a) and(c).”

In recent years, issues relating to non-compliance were also detailed. Equally, it can be noted that the culture of non-compliance exists in the limits of SCM legislation, putting the municipality at risk of failure. Non-compliance has caused problems in ELM’s system, as well as an impact on cost control in procurement. The table below depicts the deviation amounts incurred during the 2017-18 to 2020-21 financial years:

Table 4-2: ELM’s amounts for deviations incurred from the 2017-18 to 2020-21 Financial years:

Financial Year				
Amounts obtained through deviations.	2017-18	2018-19	2019-20	2020-21
	52,691,201	76,948,772	19,434,067	96,790,295

Source: (Author, 2023)

The table above relating to the amount obtained through deviation has indicated a significant increase over the financial years reviewed, even though there was a regression during the 2019-20 financial year. The AGSA notes that the main reason is due to the failure to meet the requirements of SCM legislation. Regulation 36 of Supply Chain Management states that deviations should only occur in extraordinary circumstances if the cause(s) cannot be prevented (ELM, 2019b). The issue of disregarding the prerequisites of competitive bidding is further highlighted by the unsatisfactory situation of ELM's compliance shortcomings. Furthermore, the effectiveness of appropriate planning and transparency in the supply chain process will continue to be compromised by ELM's inability to stop the incidence of procurement deviations. The AGSA has identified the following irregularities in ELM’s procurement processes (ELM, 2019b):

“No procurement process was followed in procuring goods and services at ELM, due to the failure of obtaining three (3) quotations”.

“There were no written or approved reasons for the deviation from obtaining quotations.”

“Invoices do not provide details (cost breakdown) in terms of how amounts were paid to service provider.”

“There was no record of an agenda, attendance register, or minutes from the meeting held.”

“There was no evidence provided to the AGSA to support or demonstrate that approval was granted to deviate from the procurement process for quotations.”

The institutional culture of ELM indicates a past of avoiding following legal procurement procedures, disregarding following the correct process, a lack of openness, and improper record keeping. These violations go against both the intent of the SCM system, which is to make sure that budgeted monies are handled and managed efficiently, and the legal obligations of Sections 32, 116, and 121 of the MFMA. Additionally, the source of non-compliance inside ELM will continue to be a point of controversy, because policy violations involving the management of expenditures pose a threat to the municipality's capacity to survive financially.

These findings align with broader issues identified in the literature. The KwaZulu-Natal (KZN) report by the AG emphasises that sound financial management is crucial for improving service delivery (Mbatha, 2020). The 2020/21 AGSA report indicates that 89% of municipalities failed to implement adequate control measures over supply chain management, leading to a significant increase in irregular expenditure, from R7.19 billion in 2016/17 to R14.45 billion in 2020/21 (AGSA, 2022). According to Section 111 of the MFMA, every municipality must adopt and implement a supply chain management policy, guided by fairness, equity, transparency, and cost-effectiveness, as outlined in Section 217 of the Constitution (Fourie & Opperman, 2011). However, the lack of adherence to these guidelines, particularly in terms of transparency and the competitive bidding process, contributes to the financial mismanagement and non-compliance observed within ELM.

4.3.3.3 Expenditure Management

Masegare (2018) highlights that debt, management, expenditure management, and effective revenue are deemed fundamental for good governance within municipalities in South Africa. Furthermore, municipalities ought to comply with MFMA and recover funds owed to it.

Accounting officers are responsible for providing sound financial management, as per section 65(i) of MFMA (56 of 2003). Moreover, subsection (2) of the Act describes the actions that must be taken to make sure that there is an effective expenditure management system within municipalities. These steps create a practice for funds approval, authorisation, withdrawal, and payment. Furthermore, section 65 has mandated municipalities to settle outstanding balances within 30 days of receiving an invoice.

Creditors' Period of Payment

MFMA’s circular no 72 outlines the Creditors Payment Period, which is applied to measure the number of days it takes to settle a payment with creditors (National Treasury, 2014). The formula used to calculate the creditor payment is as follows:

- Trade creditors outstanding/ credit purchases (operating and capital) × 365.
- The normal duration is 30 days

Table 4-3: ELM creditor’s payment period rate from financial years 2017-18 to 2020-21

	Financial Year				
Creditors Period for Payment	Normal duration	2017-18	2018-19	2019-20	2020-21
	30 days	251	212	144	124

Source: (ELM, 2022b)

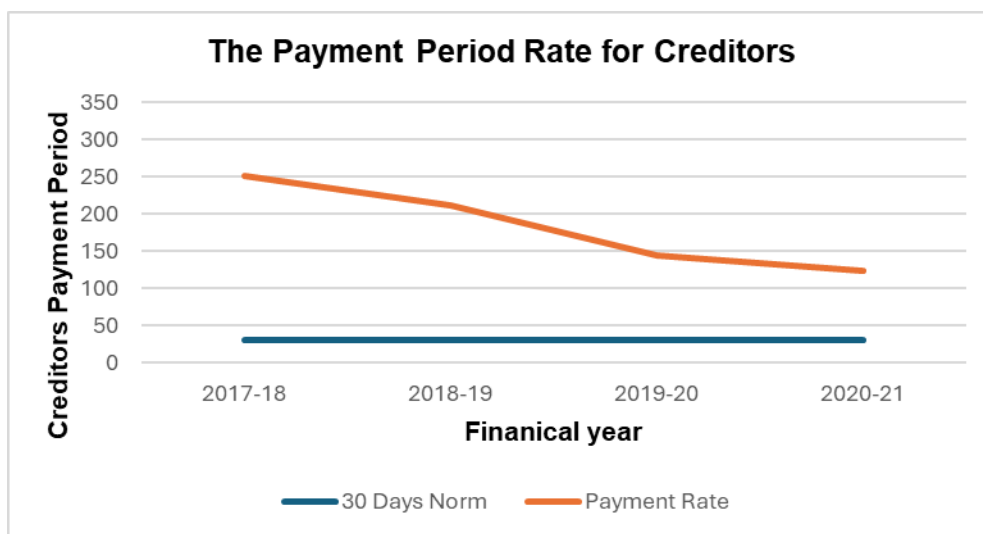


Chart 4-1: An illustration of the above table

(Compiled by Author)

The table and chart above indicate the inability of ELM to comply with the 30-day payment period to its creditors, with an average delay of payment of 131 days. ELM's creditor payment system is inefficient, even though there has been a decrease from the financial years 2017-18 to 2020-21.

The payment period has significantly decreased in the 2020-21 financial year, in comparison to the previous year. The decrease, nonetheless, has not been enough for internal inefficiencies in timely invoice processing, nor has it improved cash constraints at ELM. These problems continue to delay the invoice payment, creating concerns at the municipality. MFMA Circular No.71 notes that a ratio that exceeds the normal duration suggests the municipality may be struggling to manage working capital effectively (National Treasury, 2014).

During the 2017-18 audit outcomes, the AGSA noted that interest was added to outstanding accounts of fruitless and wasteful expenditure (ELM, 2019b). Consequently, the municipality's laissez-faire approach to correcting this problem has a negative impact. The continuous failure by ELM to avert unwanted expenses extends the municipality's financial problems.

Irregular, Unauthorised, and Fruitless Expenditure

A municipality takes its mandate from MFMA to, by any means, take all necessary measures to avoid irregular, unauthorised, fruitless, and wasteful expenditure. Even in cases where expenditure increases, MFMA provides guidelines on how to deal with it. The AGSA noted during the 2017-18 financial year audit report, that the ELM was among the top ten contributors of unauthorised, wasteful, and fruitless expenditure due to overspending of the budget (AGSA, 2019a).

The table below will illustrate the pattern in relation to irregular, unauthorized, and fruitless expenditures.

Table 4-4: ELM’s irregular, unauthorized, and fruitless expenditure

Types of expenditures	Financial Year			
	2017-18	2018-19	2019-20	2020-21
Irregular	367,634,122	358, 499,209	1,238,172,468	571,064,672
Unauthorised	209,455,131	*	1,653,150,950	1,152,484,853
Fruitless	79,679,029	357,567,696	486,097,380	711,280,742

Source (ELM’s audited financial statements)

Note: *The amounts for the 2018-19 financial year relating to irregular, unauthorized, and fruitless expenditures were not audited. Furthermore, it ought to be noted that the amount for unauthorized expenditure for the 2018-19 financial year was found under the 2019-20 financial year, for the total amount of R 1,001,894,687.*

The table above indicates the total figures of ELM’s irregular, unauthorised, and fruitless expenditures. The municipality faces the inability to avert unlawful expenditure. Although there might have been a regression in irregular expenditure during the 2018-19 financial year, an increase in the amount was reflected in the 2019-20 financial year.

Based on the ELM report, the common reasons for non-compliance with SCM regulations include unethical procurement procedures and poor contract management (AGSA, 2020; ELM, 2021b). These challenges suggest a lack of proper risk management to address deviations from established procedures and instruments for challenging corruption in municipal SCM policy, resulting in continued non-compliance.

Based on the systems theory perspective, municipalities function within interconnected structures, which alludes to inefficiencies in one part can lead to systemic failures (Bertalanffy, 1968). The lack of risk management measures, in the ELM context, is seen as a systemic problem. These issues promote non-compliance, resulting in irregular expenditure. The distinct shifts that were observed in irregular expenditure during the financial years can be associated with feedback loops within the system. Non-compliance with SCM legislation creates a reinforcing loop that leads to an increase in irregular expenditure (Senge, 1990).

The table above regarding unauthorised expenditure indicates that there was a threefold increase during the 2017-18 to the 2019-20 financial year (from R209,455,131 to R1,653,150,950). Based on the ELM report, the AGSA notes that for all reviewed periods, the reason for unauthorised expenditure was overspending (ELM, 2021b). The table regarding fruitless expenditure suggests that there has been a substantial increase over the reviewed financial years. The table also shows that the 2020-21 financial year recorded the highest expenditure incurred. According to the AGSA, the primary reason behind fruitless expenditure is the overdue accounts (ELM, 2022b).

The ELM, based on the analysis, indicates failure in ensuring that municipal resources are used as per Section 62(1)(a) of the MFMA and Section 195 of the Constitution of 1996. Furthermore, the above table demonstrates that chronic financial losses stem from irregular, unauthorised, fruitless, and wasteful expenditures incurred, which is due to often not taking reasonable measures to avoid losses. It might be claimed, as a result, that non-compliance with legislation should have consequences (Kariuki, 2020).

4.4 Summary

In this chapter, the primary objective was to give an explanation and interpretation of the data collected for the study. It outlines the problems relating to financial management and compliance with legislation in ELM. Despite the challenges, the ELM continues to remain above board with regard to managing its finances. However, the municipality has not taken any action to enhance its financial status. This chapter indicate that financial management at ELM is an enormous task to achieve, especially in correcting the existing financial situation. ELM's financial turnaround would require comprehensive support from the municipality's political and administrative structures.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

The previous chapter presented the research findings concerning the assessment of financial management in the local government of ELM, emphasising whether the research objectives were achieved. Drawing on that analysis, this chapter gives an in-depth summary of each chapter and revisits the research objectives, as stated in chapter one. In addition, the chapter discusses the research findings and provide practical recommendations for ELM to improve its financial management and compliance with the MFMA. Finally, the study provides concluding remarks.

5.2 The Realisation of the Study Objectives

- The primary objective was to assess the extent to which ELM did not comply with the financial management practices and MFMA, in spending the public funds beyond their budgetary imposed limitations. This objective was applied in Chapter 2, wherein the financial management practices and MFMA were discussed. According to the study, financial management and MFMA concerns extend beyond budget outcomes, to the governance issues, affecting a municipality's whole administration and management.
- The first objective was to assess the effectiveness of financial management in ELM. This objective applied to Chapters 2 and 4, wherein characteristics of measuring effective financial management in the municipality were discussed. Furthermore, the chapter also discussed components associated with financial management. The study assessment was carried out using ELM's annual reports and AGSA's financial performance reports, with Chapter 4 explicitly referencing the AGSA's opinions and evaluations of ELM's financial and performance operations.
- The second objective was to assess the impact of the ELM's failure to comply with the MFMA on its capacity to manage its finances efficiently. This objective applied to Chapters 2 and 4, wherein the impact of failing to comply with MFMA and factors leading to non-compliance were discussed. The study assessed

ELM's approach to requirements and compared them to the Municipality's current practices.

- The third objective was to examine the obstacles faced by ELM in compliance with the MFMA. This objective applied to Chapters 2 and 4, wherein factors leading to non-compliance were discussed. The consequences of non-compliance for ELM's administration and financial management were also carefully studied. Non-compliance was shown to have a negative impact on both ELM's current and future financial condition, which is substantiated by the research findings.
- The fourth objective was to make recommendations to ELM to improve compliance with MFMA in managing finances. This objective applied to Chapter 5, wherein recommendations for ELM were discussed, and factors leading to non-compliance were discussed.

5.3 Summary of the Findings

The study used a qualitative method approach. The researcher analysed documents which related to ELM. The study aimed to determine to what extent ELM did not comply with the financial management practices and MFMA, by spending public funds beyond their budgetary limitations. The researcher further attempted to investigate the implications of ignoring non-compliance. The summary of the findings aligns with the research objectives. The following section details the summary of the findings:

- The findings have revealed that weaknesses in internal communication have hindered the financial reporting function at ELM, impacting the preparation and dissemination of financial information, as required per Section 122 of the MFMA. The findings by AGSA's audits have highlighted ELM's failure to comply with reporting standards, leading to the municipality submitting financial statements with material misstatements. As a result, there is a lack of quality control measures in the management and processing of information. These inconsistencies undermine the quality of the information disclosed, reducing its relevance and value.

- In order for a municipality to be operational and stay financially sound, it has to make sure its expenses do not exceed its revenue that its revenue does not exceed its expenses. The findings of the study note that ELM is presently not financially sound. At the time this study was conducted, ELM was under financial administration. As it stands, the municipality has continued to find it difficult to fulfil its financial duties, and with its current financial performance, attaining sustainability appears doubtful.
- The financial performance indicators demonstrate that ELM is failing to meet its day-to-day expenses using cash reserves. For the past five years, the municipality has ended each financial year with more current liabilities than current assets, showing a consistent cash flow shortfall. The data demonstrates that the municipality spends more than it makes. The cash flow problem will likely increase if the municipality does not undertake measures to cut costs. The financial state of ELM will keep declining, or remain unchanged, if necessary, action is not taken.

To be financially sustainable, a municipality must generate more revenue than it spends. This investigation, however, has found that ELM is not financially sustainable. The municipality consistently fails to meet its financial responsibilities, resulting in an operational budget deficit for the previous five financial years.

The study has found that there are common areas where ELM has failed to comply with legislation. The pattern can be traced back to the AGSA 2017-18 report on performance, which points to areas such as procurement management, and expenditure management. The study analysed how the municipality's disdain for legislation has allowed for a window of non-compliance.

- The MFMA specifies the need to restrict illicit spending. Due to financial difficulties, ELM cannot meet the creditors' 30-day payment deadline. As a result, the municipality spends money unnecessarily and wastefully, which could be prevented. According to the results, inefficient and unproductive spending is decreasing at ELM. Irregular and illegal expenditures have added to ELM's financial load, especially when they do not align with the approved budget. ELM's

failure to ensure compliance has strained the budget and had a detrimental impact on budget results. ELM has failed to maintain financial discipline by not adhering to the approved budget, not ensuring cost-effectiveness related to strategic priorities, and not optimising the use of budgeted resources within acceptable limits.

- A municipality's financial performance depends on its institutional capabilities, as this affects how the operations are structured and administered. The poor levels of compliance with financial management by ELM are a result of weak control implementation. This issue shows fundamental faults in the municipality's strategy, stressing the need to enforce governance and comply with internal regulations.

5.4 Areas for Future Research

The following areas are suggested for further research:

- The municipal council's efficacy as a political body is vital in a politically governed environment. The study could assess the leadership's decision-making quality based on the political system. The researcher recognises the importance of political will in improving financial performance, by highlighting the necessity for a thorough evaluation of municipal leadership performance in this context.
- The study could be conducted to identify other characteristics that influence MFMA compliance in the municipality. In addition, the municipality must develop, adopt, and implement new measures and strategic approaches to eliminate non-compliance with the implementation of MFMA regulations. They can also assess additional MFMA loopholes and provide ideas on how to close them so the provision cannot be exploited.

5.5 Recommendations from the Study

5.5.1 Improve Levels of Accountability and Oversight

In municipalities, accountability requires all stakeholders to take part in taking a stance to enforce consequences for poor performance (AGSA, 2018a). Hussein (1999), Fourie (2015), and Munzhedzi (2016) highlighted that non-compliance with

legislation may result in a lack of accountability. At local government level, MPACs must ensure that officials use public funds for their intended purpose and comply with relevant legal provisions regarding the use of funds. This is to act against the transgressors. However, oversight structures and prosecuting authorities have not satisfactorily enforced accountability in practice. Offenders against the MFMA have yet to be held accountable, despite the passage of several years (Munzhedzi, 2016).

The following practices could be implemented to enhance oversight and accountability:

- In local government, the AGSA must be more involved as an accountability enforcement agency.
- SALGA's effective workshops and training programmes will enhance investigating expertise and address the root cause of lack of accountability.
- Refuse the resignations of those who are in non-compliance with the MFMA and are under investigation until they have been tried in a court of law, and until the conclusion of their case.

5.5.2 Independent Compliance Units to be Introduced

After the international financial crisis, the banks pointed out the significance of having risk management and supervisory systems in place, to ensure financial compliance (Losiewicz-Dniestrzanska, 2015; European Securities and Markets Authority (ESMA), 2012). Deloitte (2016) alludes to the fact that a compliance officer assists management and organisations in meeting regulatory requirements, fostering ethical behaviour, monitoring transactions, establishing, and assessing risks, reporting non-compliance, integrating technology, and promoting compliance training and development. To manage and ensure the effectiveness of the compliance function, a compliance officer must have knowledge, experience, and expertise (ESMA, 2012).

The study holds the view, given the discussion above, that the establishment of a compliance unit that will be autonomously responsible for executing compliance

duties will be beneficial, as that will make sure that prescribed legislation is complied with. The officer or unit can monitor daily executions, access front-office systems, and provide corrective actions to authorities, such as the National Prosecuting Authority (NPA), and AGSA for additional punitive measures. As a result, this study makes the case that using a compliance officer or unit, as is done in the banking sector, would help to reduce municipalities' noncompliance.

5.5.3 Enhancing the implementation of the response to the AGSA's recommendations

The Auditor General has voiced his dissatisfaction with the deteriorating audit outcomes, which shows how municipalities have been slow in implementing recommendations and, in many cases, disregarded them (Mthethwa, 2019b). This was demonstrated during the 2017-18 audit results on the performance of municipalities for the 2017-18 fiscal year, which noted that only 18 out of 257 municipalities had clean audits and that the performance of 63 municipalities had declined (AGSA, 2017a). The AG nonetheless claims, without any evidence provided, that after 10-15 years of persistent disregard for the audit recommendations, the amendment of the Public Audit Act became the only plausible option (Ndaba, 2020).

The study has proposed measures for improving responsiveness to AG findings by administrative leaders

- Municipalities to establish an official progress register to monitor and ensure accountability from accounting officers in addressing concerns in audit findings.
- The local government should present the AG's binding recommendations, emphasising the consequences of non-compliance.
- In cooperation with the AGSA and COGTA, the treasury should help audit committees and municipal councils to ensure that local government accounting officers respond effectively to the reports.

5.5.4 Understanding the Implications of the Outcomes

Matolong (2015) states that the management of consequences is seen as a tool used to alter negative conduct that is against the organisation's ethical code. The lack of consequences is seen by the AG as a clear sign that management has failed to uphold their obligations to hold them accountable (National Treasury, 2015). The AG, furthermore, asserts that the absence of consequences against those who fail to comply, notably as mandated by the MFMA, are not held accountable, which encourages the idea of such behaviour.

The following are recommendations to improve consequence management

- CoGTA and the Municipal Council should take disciplinary action against officials who stray from the findings and recommendations of the AG, with the assistance of the South African Judiciary, which is an external and impartial representative.
- The AG, in collaboration with municipal councils, should pursue restitution from officials who are involved in financial mismanagement activities. As a preventative measure, the SAPS should issue arrest warrants to deter wrongdoing, and maintain regulatory compliance.

5.6 Concluding Remarks

Financial management is critical for achieving the municipality's goals. It entails the proper use of public funds, considering the municipal's priorities and needs. Sound financial management helps to comply with regulations. It also requires a strong code of ethics and the best financial practices. Management's commitment to effective use of resources should be evident in its decision-making.

The analysis reveals the inability of ELM to adhere to the regulations, which may be categorised into three distinct aspects. Firstly, the municipality often disregards or neglects the MFMA's regulations voluntarily. Furthermore, the municipality is deficient in the necessary discipline, and knowledge, to fulfil and comply with the terms of the MFMA. Furthermore, the deficiencies present possibilities for the municipality to deviate from the Act's regulations. In addition, the failure to take measures to hold those who violate the regulations of the MFMA responsible generates a view at ELM that such behaviour is accepted. Furthermore, the absence

of inquiries and disregard for suggestions promotes the evasion of legal procedures and other financial improprieties, thereby fostering an environment that facilitates the violation of the legislative provisions of the Act.

When non-compliance and mismanagement occur, they become visible within the municipality. The municipality must be diligent in the implementation of its budget, requiring management to maintain a concentrated approach to keep within the approved scope. Compliance is enforced through processes which include accountability, which is important for sound budget management. If a municipality is perceived to backtrack on compliance and accountability, it will not efficiently or effectively manage its budget.

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APPENDIX 1: ETHICAL CLEARANCE



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4 June 2024

ETHICS APPROVAL LETTER OF STUDY

Based on approval by the **Basic and Social Sciences Research Ethics Committee (BaSSREC)** on **03/06/2024**, the Basic and Social Sciences Research Ethics Committee hereby **approves** your study as indicated below. This implies that the North-West University Senate Committee for Research Ethics (NWU-SERC) grants its permission that, provided the special conditions specified below are met and pending any other authorisation that may be necessary, the study may be initiated, using the ethics number below.

Study title: An Assessment of Financial Management in South African Local Government: A Case Study of the Emfuleni Local Municipality.

Study Leader/Supervisor (Principal Investigator)/Researcher: Dr. M. Hofisi

Student/Research Team: L. Nkosi (29428807)

Ethics number:

N	W	U	-	0	0	9	6	3	-	2	4	-	A	7
Institution				Study Number					Year	Status				

Status: S = Submission; R = Re-Submission; P = Provisional Authorisation; A = Authorisation

Application Type: Single Study

Commencement date: 03/06/2024

Risk: No risk

Expiry date: 03/06/2025

Approval of the study is initially provided for a year, after which continuation of the study is dependent on receipt and review of the annual (or as otherwise stipulated) monitoring report and the concomitant issuing of a letter of continuation.

Special in process conditions of the research for approval (if applicable):

General conditions:

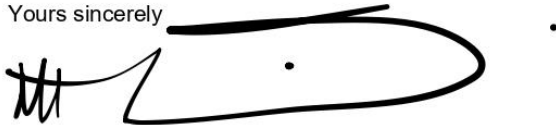
While this ethics approval is subject to all declarations, undertakings and agreements incorporated and signed in the application form, the following general terms and conditions will apply:

- *The study leader/supervisor (principal investigator)/researcher must report in the prescribed format to the BaSSREC:*
 - *annually (or as otherwise requested) on the monitoring of the study, whereby a letter of continuation will be provided, and upon completion of the study; and*
 - *without any delay in case of any adverse event or incident (or any matter that interrupts sound ethical principles) during the course of the study.*

- *The approval applies strictly to the proposal as stipulated in the application form. Should any amendments to the proposal be deemed necessary during the course of the study, the study leader/researcher must apply for approval of these amendments at the BaSSREC, prior to implementation. Should there be any deviations from the study proposal without the necessary approval of such amendments, the ethics approval is immediately and automatically forfeited.*
- *Annually a number of studies may be randomly selected for an external audit.*
- *The date of approval indicates the first date that the study may be started.*
- *In the interest of ethical responsibility, the NWU-SCRE and BaSSREC reserves the right to:*
 - *request access to any information or data at any time during the course or after completion of the study;*
 - *to ask further questions, seek additional information, require further modification or monitor the conduct of your research or the informed consent process;*
 - *withdraw or postpone approval if:*
 - *any unethical principles or practices of the study are revealed or suspected;*
 - *it becomes apparent that any relevant information was withheld from the BaSSREC or that information has been false or misrepresented;*
 - *submission of the annual (or otherwise stipulated) monitoring report, the required amendments, or reporting of adverse events or incidents was not done in a timely manner and accurately; and / or*
 - *new institutional rules, national legislation or international conventions deem it necessary.*
- *BaSSREC can be contacted for further information or any report templates via BaSSREC-Admin@nwu.ac.za.*

The BaSSREC would like to remain at your service as scientist and researcher, and wishes you well with your study. Please do not hesitate to contact the BaSSREC or the NWU-SCRE for any further enquiries or requests for assistance.

Yours sincerely



Prof. E. Idemudia

Chairperson NWU Basic and Social Sciences Research Ethics Committee

APPENDIX 2: LANGUAGE EDITOR CERTIFICATE

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12/11/2024

This is to certify that the dissertation entitled

**AN ASSESSMENT OF FINANCIAL MANAGEMENT IN SOUTH AFRICAN
LOCAL GOVERNMENT: A CASE STUDY OF THE EMFULENI LOCAL
MUNICIPALITY**

Submitted by **L. NKOSI**
orcid.org/0000-0001-9964-3791

For the degree of **MASTER OF ARTS IN
PUBLIC MANAGEMENT AND GOVERNANCE**
At the **NORTH-WEST UNIVERSITY**

Has been edited for language by
Mary Helen Thomas (B.Sc. Hons. PGCE)

M. Helen Thomas

Email: thomashelen212@gmail.com

Cell: 072 242 9066

APPENDIX 3: TURNITIN SUMMARY REPORT

ORIGINALITY REPORT			
16%	13%	8%	3%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS
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