

**ANALYSIS OF MUNICIPALITIES' FINANCIAL REPORTING FOR
INTERNAL DECISION-MAKING IN MAHIKENG LOCAL MUNICIPALITY,
NORTH WEST PROVINCE**

BY

TSWAILE I. J.

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SUPERVISOR:

Dr. Odongo Kodongo

DECLARATION

I, **ITUMELENG J. TSWAILE**, do hereby declare that this dissertation is the result of my own investigation and research and that this has not been submitted in part or full for any degree or examination to this or any other University.

Signature

Date

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ABSTRACT

Accounting information is the language of business as it is the basic tool for recording, reporting and evaluating economic events and transactions that affect business enterprises to assist in decision-making. This study therefore analysed the Municipality's financial reporting for internal decision-making in Mahikeng Local Municipality of the North West Province.

Both Quantitative and Qualitative method approaches were used. Data were collected using a questionnaire instrument developed through review of literature along with focus group findings. Out of 60 responses received, 85.0% of the respondents indicated that experience of political and administrative actors in utilising accounting information for budgeting processes was influential in the Mahikeng Local Municipality; 83.3% of the respondents highlighted that knowledge will enhance the decision-making processes for budgeting purposes; 74.7% of the respondents indicated that legal and technical requirements of the budget cycle will tremendously influence the budget decision-making processes at Mahikeng Local Municipality; 73.3% of the respondents were in consensus that the organisation performance is key to budgeting decision, as it will influence how accounting information will be used to budget adequately.

It has been recommended that leadership, whether political or not, should use organisational culture which is driven by regulations. Budget Efficiency is indicated as efficiency in Budget preparation, efficiency in Budget Approval and efficiency in Budget Implementation. Management capacity would add value and influence municipal budget efficiency through the use of accounting information.

Key words: Financial Reporting; Decision-Making

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CHAPTER 1: INTRODUCTION AND OVERVIEW OF THE STUDY

1. INTRODUCTION

The reforms in public sector accounting systems as a consequence of New Public Management (NPM) initiatives, has led to the preparation and presentation of a new internal financial reporting model. The accounting systems in public sector accounting in general, and in the Municipalities in particular, have become more informative. The present concern is to provide more and better information, and to try to satisfy users' needs through the dissemination of useful and opportune information that would enable them to assess and make decisions in a more rational and logical way (Nogueira and Jorge, 2012:.74)

Accountability is no longer conceived as merely reporting about complying with norms and procedures, but as the need to report on the allocation and use of public resources and the results attained, in order to allow assessing public officials' responsibilities (Brusca, 2010:175; Hookana, 2008:309; Mir and Rahaman, 2007:327; Ter Bogt, 2008:31). Consequently, the leaders of public sector organizations, namely in Local Administration, now need useful information to be able to make better decisions.

The introduction of an accrual basis regime complementing the cash basis regime, the integration of three accounting subsystems (budgetary, financial and cost accounting) and modifications in municipalities' financial reporting model, are some of the main changes that have occurred in the Local Government accounting system (Nogueira and Jorge, 2012:.74).

Decision-making is one of the most important functions of managers in any kind of organization. Among different manager's decisions, strategic decision-making is a complex process that must be understood completely before it can be practiced effectively. Those responsible for strategic decision-making face a task of extreme complexity and ambiguity. For these reasons, over the past decades, numerous studies

have been conducted on the construction of models to aid managers and executives in making better decisions concerning the complex and highly uncertain business environment (Nooraie, 2012:405).

This study therefore intends to analyse the perception of the internal users regarding the usefulness of the municipal financial reporting in the context of decision-making in the Mahikeng Local Municipality in the North West Province. It additionally examines to what extent internal control and financial reporting information opportunity are important for municipalities' internal decision-making.

1.2 BACKGROUND OF THE STUDY

The Revised South African Auditing Practice Statement (SAAPS 2), now titled Financial Reporting Frameworks and the Auditor's Report ("SAAPS 2"), Independent Regulatory Board for Auditors (2011:2) has been revised in response to changes to the International Standards on Auditing (ISAs) and incorporates the following significant changes:

- Implementation guidelines for auditors in determining the acceptability of the financial reporting framework applied by an entity as regards general and special purpose financial statements, general and special purpose frameworks, and fair presentation and compliance frameworks in both the private and public sectors in South Africa;
- For the first time, SAAPS 2 deals with public sector financial reporting frameworks and reporting as contributed by the Auditor-General South Africa, and thus provides more comprehensive guidance than previously.

South Africa embarked in these reforms to modernize the financial and accounting reporting in the public sector, in particular in Municipalities. The developed countries were the forerunners in making the financial and accounting reporting more useful through bringing in increased sophistications in their accounting practices (Mir and Sutyono, 2013:97).

The Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practice (GRAP) accounting standards (referred to as GAMAP/GRAP) originated from section 216(1) (a) of the Constitution of South Africa (Act No. 108 of 1996). This section requires national legislation to prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications and uniform Treasury norms and standards (Scott, 2008:2).

GAMAP was originally introduced to overcome shortcomings experienced with municipal accounting practices of the Institute of Municipal Finance Officers (IMFO), which were based on the 'double accounting system' as inherited from the British rule. These IMFO practices were complex and were based on the different provincial ordinances. They did not promote transparency and encouraged taxation in advance of need, which adversely affected the accurate costing of services. The financial statements of municipalities based on the IMFO practices suffered from shortcomings and did not disclose the financial position of municipalities correctly (Fourie, Opperman and Scott 2007: 416). GRAP was subsequently introduced, and GRAP standards are being systematically developed to replace the GAMAP standards. Eventually, GRAP will be the only standard applicable in municipalities (ASB 2007a).

In terms of section 87(1) of the Public Finance Management Act (PFMA) (No. 1 of 1999), the Minister of Finance established the public sector Accounting Standards Board (ASB), which came into operation in 2002. A primary objective of the ASB is to set standards of generally recognised accounting practice (GRAP) for, *inter alia*, municipalities and other entities under the ownership control of a municipality (ASB 2007b).

The ASB is reviewing GAMAP with a view to amending or withdrawing individual statements in accordance with International Public Sector Accounting Standards (IPSASs). Where a new statement of GRAP is issued, the relevant GAMAP is withdrawn. The list of statements currently applicable to municipalities therefore includes Generally

Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP). For items that were not covered in the scope of GAMAP or GRAP, the ASB listed a number of International Public Sector Accounting Standards (IPSAS) as guidance for practitioners (Fourie et al. 2007: 417).

1.3 Problem statement

The broader reforms have been underpinned by the need for appropriate planning, quality budgeting, the execution and monitoring of plans and budgets, understandable reporting and information that will assist decision makers and the public to measure performance and service delivery (MFMA Circular 18, 2005). However, there are still signs that Municipalities have to rise to the challenges of financial irregularities emanating from proper decision on appropriate planning, quality budgeting, and the execution and monitoring of plans and budgets

There are serious issues of deficiency in accountability and transparency in governmental accounting and financial reporting and these problems have provided strong evidence that most of the developing countries such as South Africa face major problems. Some of the international organisations like the World Bank (WB) and Transparency International (TI), which provide advice and support, are worried about the lack of progress as well as the concern that these problems are not only real but also continuing, (Abdullah, 2014:70).

The major concern revolves around the usefulness of applying a commercially based accrual accounting system to the municipalities in pursuance of 'sector neutrality' (Kober, Lee, and Ng, 2010:267). Although prior literature has considered the usefulness of accrual accounting in municipalities in different countries, little of this work has been focused on examining the usefulness of the new Local Government reporting for management purposes, especially for decision-making and internal control (Cohen, 2009:19; Grossi and Reichard, 2009:100; Yamamoto, 2008:11). Ball and Pflugrath (2012:9) said the problem with poor Government Accounting practice is that it does not

assist the decision maker to make appropriate decisions, such as how to allocate resources and handle revenue and expenditure. Poor accounting and financial management reporting could lead to a financial crisis.

The introduction of good Government *Accounting and Financial Management Reporting* (GAFMR) to contain all of the public sector's revenue and expenditure, along with analysing the financial position will drive the country forward as well as help decision makers to have a better, clearer view of planning for the future. They are responsible for formulating financial and economic policies, effective coordination of Government financial operations and management of budget control. Accounting and financial reporting standards also help the Treasury to make better decisions about future planning to ensure public money that is invested generates a positive impact on the population.

This study therefore focuses on the reasons and challenges of financial irregularities emanating from proper decisions on appropriate planning, quality budgeting, the execution and monitoring of plans and budgets in the Mahikeng Local Municipality.

1.4 Research aim of the study

The aim of this study is to analyse the municipal financial reporting of internal decision-making in the Mahikeng Local Municipality.

1.4.1 Research Questions

The study seeks to answer the following questions:

- How do political and administrative actors within Mahikeng Local Municipality use accounting information in budget decision-making processes?
- What factors influence the use of accounting information by administrative and political actors in Mahikeng Local Municipality's budget decision-making processes?

- How does the use of accounting information influence the Mahikeng Local Municipality's budget efficiency?
- How will the suggested model improve financial reporting as an internal decision support system?

1.4.2 Research objectives

The study has the following specific research objectives:

- To assess usage of accounting information in budget decision-making processes by the political and administrative actors within Mahikeng Local Municipality;
- To identify and describe factors influencing the use of accounting information by political and administrative actors in the Mahikeng Local Municipality's budget decision-making processes.
- To explore ways by which the use of accounting information is influencing the Mahikeng Local Municipality.
- To suggest the best model that can improve financial reporting as an internal decision support system.

1.5 Significance of the study

The analysis of financial reporting for internal decision making Mahikeng Local Municipality would be significant to the following:

- Municipalities: The study would be helpful to the financial sectors as through this study, they can have knowledge about what field of finance they should give more focus and attention to, according to the demands of legislation, in order to solve the problems of inefficiency and ineffectiveness when making decisions.
- This study will give a clear view of what happens when municipalities make right or wrong decisions with regard to finance.

1.6 Research Methodology and design

1.6.1 Methodology

The study adopts a mixed-method research approach. Mixed-method studies are those that combine the qualitative and quantitative approaches into the research methodology of a single study or multiphase study. Most mixed-method studies use triangulation as a way of combining the quantitative and quantitative approaches (De Vos, Strydom, Fouche and Delport, 2010:360). Open-ended and semi-structured questions were used in this regard. The theoretical base and intervention models were used to construct the instrument in order to effectively address the effective and efficient management of financial reporting for decision-making in the Mahikeng Local Municipality.

1.6.1.2 Sample population

For this study, with the population of 200 employees, random sampling was used. In this case the sample was, $n = 64$. The following sections were used as a focus group based on the type of functions they are employed for: Twenty two staff (22) members from Supply Chain, Twenty (20) from Corporative and Twenty two (22) from Budget.

1.6.1.3 Sample size

A sample is a small representation of a whole. The most basic considerations in sampling are size and representativeness. The sample size must be adequate to allow estimates about the characteristics of phenomena with reasonable precision (Gravetter and Forzano 2009:138). Different strategies can be utilised to obtain the best possible sample, and a final decision in this regard must be taken (De Vos, Strydom, Fouché and Delport, 2010:82). Each sample is randomly drawn from the population. In addition, when it is possible to do so, relevant characteristics of the sample such as age, race, gender and social class are compared to the population to provide evidence of similarity for inferring representativeness (Welman, Kruger, and Mitchell, 2010:55).

1.6.1.4 Data Collection

The advantages of using a questionnaire are:

- Firstly, that it is the least expensive means of gathering data (Pramlal, 2004:102).
- Secondly, the questionnaire offers the respondents a greater sense of anonymity and, at the same time, the opportunity to collect their thoughts and facts and to give greater consideration to their replies (Pramlal, 2004:102-103).
- Thirdly, with the questionnaire there is less pressure for immediate response on the subject (Pramlal, 2004:103).

However, there are also disadvantages when using the questionnaire method. They are:

- Firstly, organisations often are not able or willing to take up company time to complete questionnaires (Pramlal, 2004:103).
- Secondly, according to Pramlal (2004:103) the least educated respondents will be unable to respond to questionnaires because of difficulties in reading and writing.
- Thirdly, questionnaires do not allow the researcher to correct misunderstanding or to answer questions that the respondents may have (Pramlal, 2004:103).

To deal with these challenges the respondents were requested not to hesitate; should they need any further clarification, they were free to contact the researcher.

1.6.1.5 Data analysis methods

Regarding the quantitative dimension of the study, a questionnaire was given to selected members of the Mahikeng Local Municipality, directed to internal decision-makers (politicians – member of the Executive responsible for the finance department) and officials – head of the local financial department. The questionnaire was drawn up using evidence from the literature review. Therefore, questions were intended to ascertain the usefulness for internal decision making of obligatory budgetary and financial statements presented in municipalities' financial reporting, according to what is established in the

Local Government accounting regulation currently in practice in South Africa, as well as other economic and financial information voluntarily reported.

According to Hanuman (2006:63) data obtained through questionnaires, interviews and observation or through secondary sources need to be analysed for deductions to be made. Data analysis can refer to the conversion of raw data into useful information that will provide the most value to the organisation (Brassington and Pettit, 2003:10). The responses were therefore coded to facilitate entry into a computer. All questionnaires received for this study were coded before inputting into an SPSS software package. SPSS data is a sphere into which data are entered and subsequently edited and defined. The results from the data analysis were summarised into graphs, tables and figures.

1.7 Ethical considerations

Ethics is described as norms or standards of behaviour that guide moral choices about behaviour and relationship with others. The ethics of the research design has important implications for the negotiation of access to people and organisations and the collection of data (Saunders, Lewis, and Thornhill, 2007:104). According to Tshuma (2010:45), the goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. The researcher obtained written permission to conduct this study from the head of department. Participants were assured of the confidentiality of process.

1.8 Scope of the study

The study was conducted in the Mahikeng Local Municipality, in the North West Province.

1.9.1 Chapter Outline

Chapter 1: Introduction

Chapter one outlines the introduction to the study and consists of the Introduction, problem statement, the aim of the study, research objectives, research questions, significance and scope of the study.

Chapter 2: Literature Review

In chapter two a literature review on the research is detailed. The review consists of theoretical framework of different theories to demonstrate the importance of financial reporting for decision-making.

Chapter 3: Research Methodology

Chapter three describes the research design which includes the Research methodology and design, Research Strategy, Target Population, Sampling Strategy, Sample Design, Research Instrument, Questionnaire Construction, The Administration of the Questionnaire, Collection of the Questionnaires, Data Collection Instruments, Data Analysis, format of the study and chapter summary.

Chapter 4: Statement of Results and Discussion

In chapter four, the research findings are presented, analysed, interpreted and discussed. The findings are split into four sections. The results from the analysis are checked to see whether the primary research objective is met by the secondary research objectives.

Chapter 5: Summary, Conclusions and Recommendations

Chapter 5 discusses the conclusions and recommendations. The results from the research are listed and discussed. This section determines whether the primary and secondary research objectives are in agreement. The research questions are listed and the results discuss whether the questions have been answered.

1.10 Conclusion

The aim and objective of a research design is to ensure that the evidence obtained enables the researcher to answer the initial questions as unambiguously as possible. Having been provided with a theory the researcher needs to establish the evidence to test the theory in a convincing way. In research design, the issue of sampling method, of data collection using questionnaire, document analysis, and data analysis are all subsidiary evidence to what needs to be established at the logical conclusion of the entire research study. The chapter ended with the eliminations of bias and ethical considerations. The next chapter presents literature review.

CHAPTER 2 LITERATURE REVIEW

2. INTRODUCTION

The literature review is an important part of the study process and makes a vital and meaningful contribution to almost every operational step (Naidoo, 2010:8). The literature review analysed, examined and addressed the objectives of the study in determining the extent to which financial reporting is done in decision-making for the Mahikeng Local Municipality in the North West Province. Naidoo (2010:8) argues that unless the impact of management style is analysed there will not be a successful organisational outcome. A summary of the various sources consulted is provided to demonstrate a number of theories that the Mahikeng Local Municipality could follow in making decisions for the reporting to be effective.

A number of books and articles with regard to financial reporting that always results in job dissatisfaction and insecurity of staff members in an organisation have been consulted. Further to the above, this review is useful for organisational managers to decide which approaches best suit their organisations to promote satisfaction and security. The current discussion focuses on the importance of understanding the critical determinants and components of the financial reporting management paradigm. The process of employee turnover is highlighted to make managers aware of the recognition of the value of human capital by providing supportive interventions so that numbers of employees in the workplace can be retained.

2. 1 DEFINITION OF CONCEPTS

For the purpose of this study the concepts are defined to make the discussion simpler and easier to understand.

2.1.1 Financial reporting

Krishnan, Wen, and Zhao, (2011: 2099) define financial reporting as the “process of producing statements that disclose an organization's financial status to management, investors and the government”. In this study, financial reporting refers to the process used by internal managers in municipalities for financial decision-making.

2.1.2 Decision-making

Elwyn and Miron-Shatz (2009:139) define decision-making as “identification and choosing alternatives based on the values and preferences of the decision maker”. This study focusses on municipality’s decision-making support system and should provide an assurance of the achievement of the organisational objectives. When choosing the best option for a desired objective, decision-makers have to assess the effectiveness and efficiency of various options generated by the organisational decision support system. Therefore decision-makers need some guidance that is usually provided in the form of data and information. The decision-making support system has to provide adequate, reliable and timeous data and information to facilitate decision-making.

2.1.3 Municipality

The Municipal Structures Act 2000, Act No. 32, (2000) defines a municipality as “the structures, political office bearers and administration of the municipality; a geographic area; and the community of the municipality”. In other words, a municipality consists of a municipal institution (political and administrative structures), and the people who live in the local area. The term can also be used to refer to a local area which falls within a municipal boundary. The municipal institution is an organ of state, and has a separate legal personality.

2.2 THEORETICAL FRAMEWORK

According to Swanson, (2013:12), theories are initiated and formulated to give a clear explanation, understanding and forecast of a situation, and often try to challenge and extend existing knowledge within the limits of critical bounding assumptions. The theoretical framework is the structure that can hold or support the theory behind a research study. The theoretical framework comes up with the way the research problem under study exists. For this reason, Accounting theory; Finance theory; Decision usefulness theory; Economic theory; Contingency theory and Institutional theory in organisations will be the main theories discussed to clarify the perspectives.

2.2.1 Accounting theory

Accounting theory plays an important role in making rules for accounting (Wolk, Dodd, and Rozycki, 2008:6). Accounting theory, according to Coetzee, (2010:1), may also be used to make sure that those dealing with accounting have a better understanding. The most important aim of accounting theory should be to provide a coherent set of principles that form the general frame of reference for the evaluation and development of sound accounting practices. The principles of accounting are standards or tools that are measuring the effectiveness and efficient performance in real-world situations (Inanga and Schneider 2005:231). In broad terms, Haslam and Chow (2016) argue that all accounting can be understood in terms of decision-making and control roles where these encompass dimensions of accountability and stewardship.

The activities that are undertaken in an organisation's environment provide information produced by accounting practices. The result is best represented by what is called the information spectrum, through the decision-usefulness orientation (Coetzee, 2010:3). The standard-setting process of accounting is meant to improve and develop accounting principles, and this is obtained by both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (IASB 2008: para. P4) (Bullen and Crook 2005:1). However, one question is whether the underlying principles

of accounting are enough to develop and to create appropriate accounting standards. The other question is whether the principles of accounting are sufficiently developed in accounting theory. According to Wolk, Dodd and Rozycki (2008:5), research assists in investigating and analyzing this process. Hence an appropriate question would be to consider whether the principles of accounting are sufficiently developed and refined in the process of research. However, it should be acknowledged that accounting principles are not solely developed through accounting research.

Financial reporting is therefore governed by statutory and common law as well as institutional and ethical standards. Unfortunately, Financial reporting sometimes falls short of both legal and ethical standards, which makes the reports useful to some of the target users (like Inland Revenue Board) as they take informed decisions (Dandago and Hassan, 2013:772). The internal and external users, such as managers, investors and entrepreneurs use accounting as a tool in recording, reporting and evaluating economic events and transactions that affect business enterprises. All documents of business financial performance such as those of payroll, cost, capital expenditure and owners' equity are processed through accounting systems (Handayani, 2011:50).

These users make effective communications (Chiappetta, Shaw and Wild, 2009). Such communications are carried in general purpose financial statements such as the balance sheet, income statements, equity reports, cash flow statements, and notes to the financial statements. However experience shows that this not easy as it is a difficult task to make the final decision (Buys, 2008:489). In most cases, indecision is as disastrous as making the wrong one, therefore a plan of action is indispensable. Management is faced with the problem of alternative decision-making especially knowing that financial resources are always scarce and limited. It is therefore important that good accounting information be made available for proper and accurate decision-making, maximization of profitability and optimal utilization of scarce resources. Accounting information is not only necessary for evaluation of the past and keeping the present on course; it is useful in planning the future of the enterprise. According to Coetzee, (2010:6), planning strategically may

conventionally be called budget/budgeting targets, which give meaning and serve as the financial part of an operational plan, a plan of action, a process and instrument to promote financial co-ordination and order, determining which services should be rendered with the available funds, as a statement of the financial implications of the policy, as an instruction document and as a source of financial information to the community; it becomes a public document and is therefore available to everyone. After the budget period the external results are compared with budgeted performance and discrepancies (variance) are analyzed for purposes of exposing the causes so as to prevent re-occurrence (Wild, 2008). The challenges faced by Mahikeng local municipality can be solved by using the above mentioned accounting principles.

2.2.2 Finance theory

According to Alghalith, Floros and Dukharan, (2012:262), pricing model created the theory of finance which, in turn produces capability, ability and knowledge, which postulates decision-making of desired outcomes and assists in facing and overcoming risks. Duxbury, Hudson, Keasey, Yang, and Yao, (2013:611) state that finance theory has resulted in a very fruitful experiment when well tested by research. Financial reports not only result in monetary issues but also in their value in the organization and in society. Non-financial information disclosed in the corporate social responsibility (CSR) report could make up for this shortfall. The CSR report in conjunction with the financial statements can better reflect the future financial position, thereby providing decision-making information for the benefit of corporate stakeholders (Ghoul, Guedhami, Kwok, and Mishra, 2011:2388). CSR report can help investors further understand a company's social responsibility performance and development strategies which can reduce investment risks and avoid wrong investment decisions (Dhaliwal, Li, Tsang, and Yang, 2011:59).

Besides outstanding standard setting activities, a number of current reports indicate that there are still financial problems. The current financial reporting practices are said to be giving both information overload and information inadequacy, and insufficient disclosure

(CFA Institute 2013). Other actors such as FRC (2011) have reported that financial reports have become too voluminous with the effect that key messages are obscured by clutter. The pricing model can solve the challenges faced by Mahikeng local municipality if well practiced.

2.2.3 Decision usefulness theory

For decisions to be useful the environmental information must be relevant and reliable. The theories demonstrate accounting as a way of giving the relevant information to the relevant decision makers and enhance such information that will be comparable, understandable, timely and verifiable (Wolk, Dodd, and Rozycki, 2008:6; GRI, 2013:17; FASB, 2010:16).

Decision usefulness is a way in which financial reporting prepares financial accounting information that emphasis the theory of investor decision-making in order to infer the nature and types of information that investors need (Dandago and Hassan,2013:22). It is used to encourage satisfaction to the primary users of the financial reports of the reporting entities i.e. investors and creditors.

For the Public sector to come up with budget appropriations, a concrete decision must have been made and this approach is the way revenue is projected (Chan, 2009:120). The decision that is made by a Public sector organization is a process has always been complex and subject to competitive pressures (Tundjungsari, Istiyanto, Winarko, and Wardoyo, 2011:53). Complexity in the budget decision-making process in democratically-elected governments is deemed to be caused by the existence of actors who have different roles and inconsistent preferences, interests as well as motives (Gomes, Fernandes, and Silva, 2011:20). Public sector actors have always had a problem of conflicting interests when it comes to meeting their own needs instead of achieving any budget efficiency targets set by the government (Pilcher, 2005:451). The public sector actors include politicians and bureaucrats or administrators (Chalu, 2010:10). Politicians represent citizens in the budget decision-making processes, whereas bureaucrats or

administrators have the responsibilities of preparing and implementing budget decisions made by politicians (Gomes, Fernandes, and Silva, 2011:20). The public choice theory is there to assist in the performance of political and administrative for better security, better jobs with higher salaries, and the entrenchment of power, by maximising budget appropriations, which tend to de-emphasise the operating efficiency (Pina, Torres, and Yutan, 2009:765). Therefore, the budget decision-making processes is seen to be led by individual self-interest of, rather than by, organisational efficiency considerations as posited under the Public Choice Theory (Pina, Torres, and Yetano, 2009:765).

In the Public sector, budget decision-making of appropriation is seen as value judgments which allow the public funds to be properly used (Moynihan, and Pandey, 2010:849). Distribution of funds to the citizens is determined by values, preferences and priorities (Moynihan, and Pandey, 2010:849). This provides room for the public sector budget decision-making processes to be political, and bargaining processes with self-interest of actors tends to undermine organisational efficiency. Therefore, inefficiency in budget decisions can result from inefficiency in resource allocation and redistribution of wealth, and can lead to poor co-ordination and integration of government activities towards redistribution of wealth (Barton, 2011:411).

The use of accounting information is to influence a decision, to make predictions, and confirm or correct prior predictions (FASB, 2010:25). Such information involves stakeholders being part of discussions through debates. Some of these stakeholders are municipalities, where they should work together guided by the Decision-Making Framework for Municipalities to solve problems of capital, operating and maintenance costs, and socio-economic, institutional and geographic requirements. It also provides information on payment options and technologies (Holden, Harris, McDowell, Ravenscroft, Small, Swanepoel, Terreblanche, and Zawada, 2004:3).

Holden, Harris, McDowell, Ravenscroft, Small, Swanepoel, Terreblanche, and Zawada, (2004:3) further explain that if the Framework indicates that the requirements for the level

of service such as water resources cannot be satisfied then it guides the user to more appropriate solutions. It focuses on three areas. The Framework is designed to be used by:

- Ward committees who discuss and find solution and make decisions.
- Municipal officials and councillors who make decision on how services should be given to residents.
- Provincial and national officials who are able to make decisions on environmental assessments.

Municipalities can therefore, make use of budget decision-making of appropriation and see it as value judgments which allow the public funds to be properly used.

2.2.4 Economic theory

The Economy is to be measured by the relationship between quantity and quality of resources inputs and their related cost. Economic theory therefore measures economic information on communication to permit informed judgments and decisions by users of information. Users of information need to communicate with others to make decisions. Users need that communication for the purpose of the basic balance sheet and financial statement (Wolk et al., 2008:160). For municipalities to make good decisions communication is important to contribute to economic growth.

2.2.5 Contingency theory

Size, environmental uncertainties, technology and environmental pressures affect organizations' development and functioning. Contingency theory is trying to identify these, and the behaviour that emphasizes the way contingencies or restrictions act (Brusca, 2010:175). The theory also identifies the relationships between an organization's internal and external characteristics and its management capacity (Woods, 2009:69). Regarding accounting and financial reporting systems, the contingency theory is "based on the

premise that there is no universally appropriate accounting system which applies equally to all organizations in all circumstances” (Bastida and Muñoz, 2010:413). Organisations are not the same; as a result there is no universal model that can include all accounting systems (Benito, Bastida, and Muñoz, 2010:239). Organizations are therefore using their own accounting practices in order to conduct their administrative systems and contingency factors (Anessi-Pessina et al., 2008:113; Woods, 2009:69).

The accounting systems employed by the organisation will be determined by the knowledge and capacity the organisation has in designing and adopting changes that may occur. Contingency approach has been used in the private sector, but the public sector is striving to use it as well (Anessi-Pessina et al., 2008:113). According to Cohen, Kaimenakis, and Zorgios, (2007:10); Grossi and Reichard, (2009:100); Mack and Ryan, (2006:592), the usefulness of the financial reporting information for the purpose of decision-making depends on a number of factors such as the lack of appropriate knowledge and training regarding the accounting and reporting system (Grossi and Reichard, 2009; 100). These factors are used to reform parts of the public sector, namely municipalities. This theory encourages all municipalities to overcome the challenges and problems faced, by embarking on technology to develop the functioning.

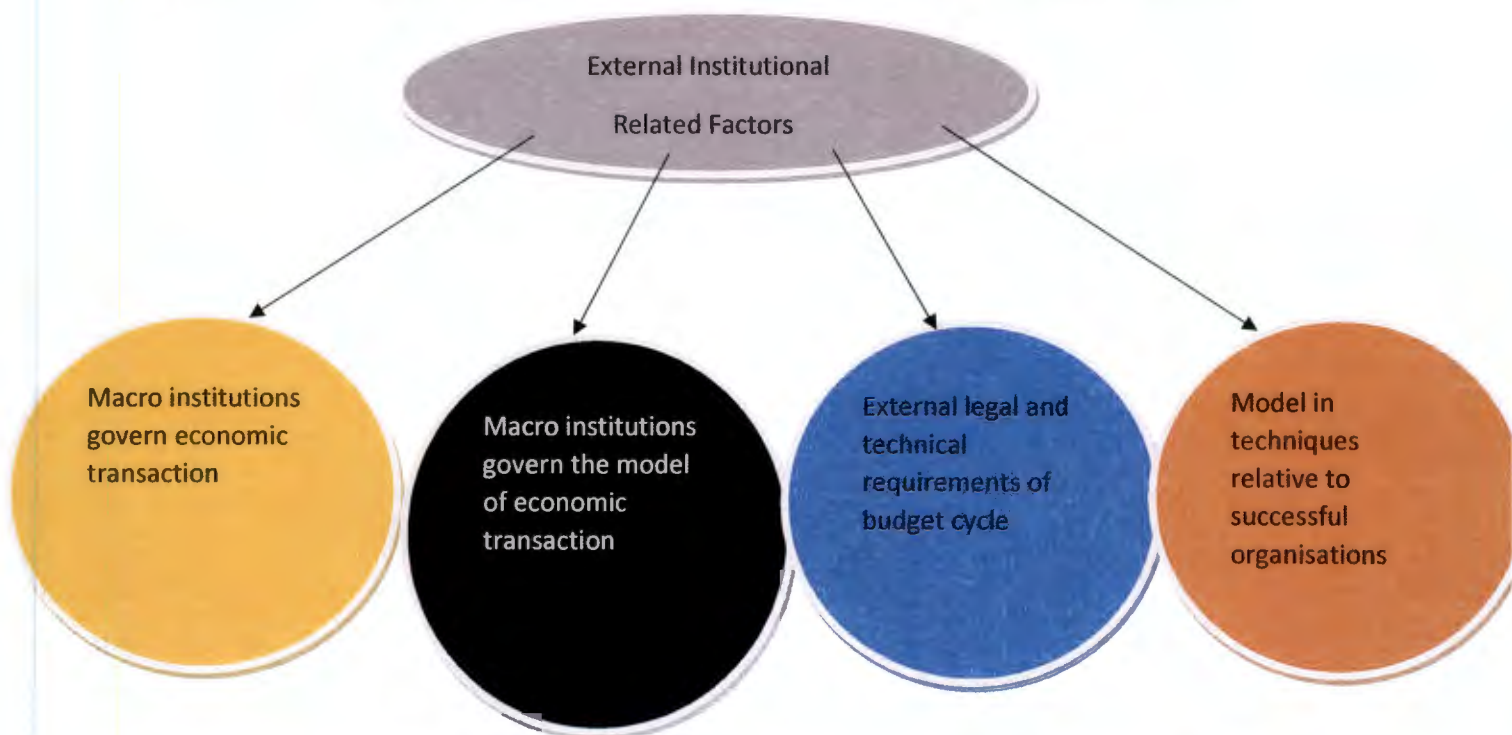
2.2.6 Institutional theory

The institutional theory is used to demonstrate how organizations respond to the pressures of their institutional environments (Chapman, Cooper and Miller, 2009). It seeks to identify a series of external factors that can pressurize or induce the process of internal change in order to gain external law. The institutional theory considers how those expectations and values, both inside and outside organizations, as well as the rules and values of society, can also play a role in the decision to introduce organizational changes, such as the accounting system. It supports that organizations acquire legitimacy if they adapt to external expectations, i.e., there is pressure to introduce certain accounting practices without due consideration of whether these will bring benefit (Chapman,

Cooper, and Miller, 2009:10). This institutional approach differs from other theories of a rationalist nature, by understanding that economic, social, political and cultural phenomena make up the institutional environment, forming the meaning of concepts such as individual, social action, state and society (Carpenter, Cheng, and Feroz, 2007:30).

The New Institutional Economics (NIE) explains macro- and the micro- institutional environment within an organisation's transactions that influence accounting information use in budget decision-making for organisational efficiency. The organisation exists if its benefits outweigh its costs (Christensen, Newberry, and Potter, 2010:18). This study therefore discusses the internal factors, but cannot ignore the fact that external factors also contribute to the decisions made internally. Mbelwa (2014:50) explains how these factors influence decision-making on financial reporting.

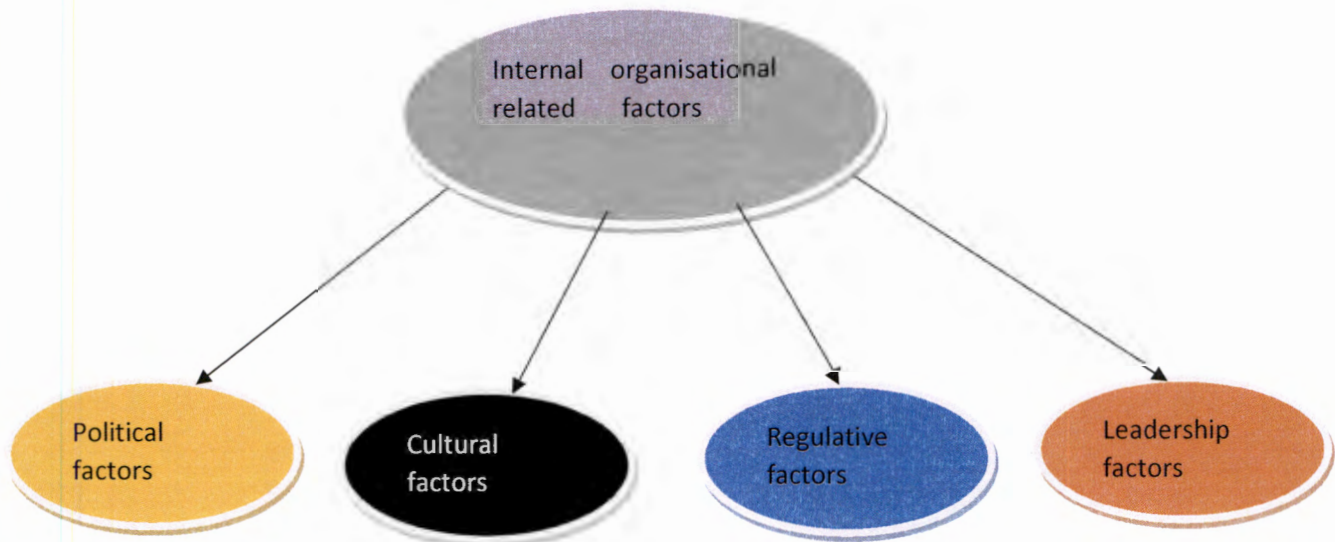
Figure 1: Orientation of the External Institutional Pressure related Factors



Source: (Mbelwa 2014:48) from New Institutional Economics (NIE) and NIS branches of institutional theory

These factors demonstrate how economic growth could be recognised in using the requirements of budget and its techniques in successful organisations. In this case the response is from the external institutions.

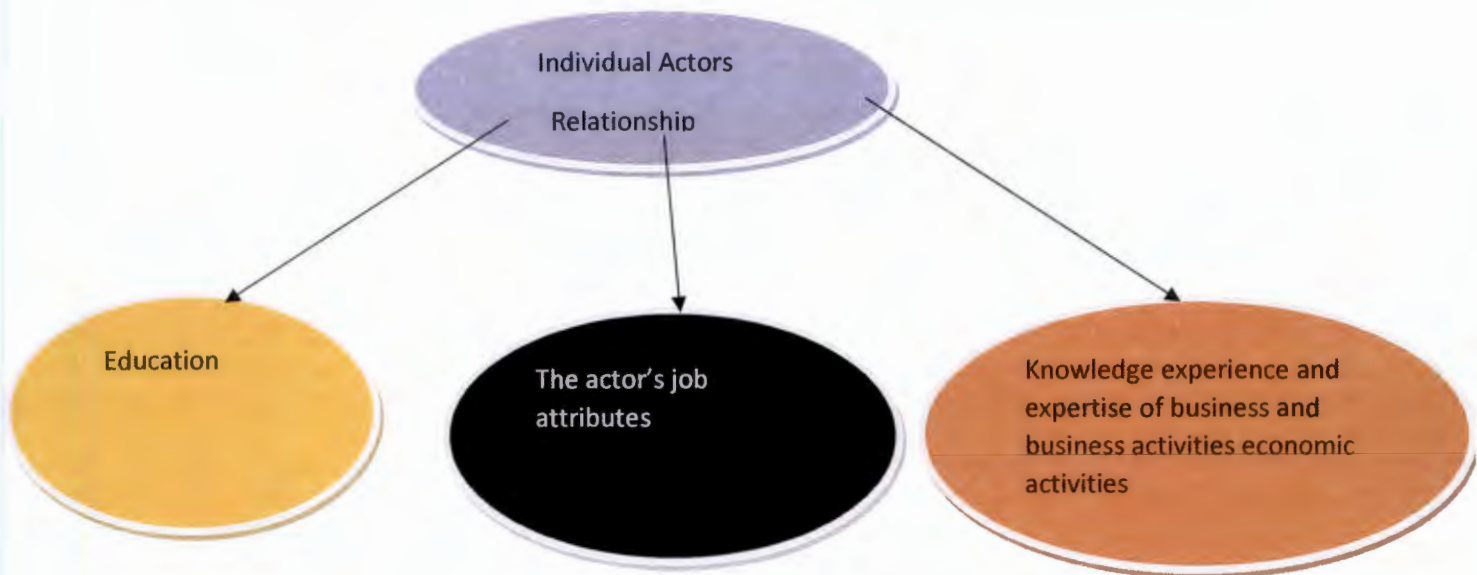
Figure 2: Orientation of Internal organisational related factors



Source: Mbelwa (2014:50) from OIE branches of institutional theory; Contingency theory and The Contingency model of Government Accounting Innovation

Figure 2 determines the use of accounting information in budget decision-making processes. Internal organisational related factors are analysed at internal institutions and contingency structures. Here the leadership, whether political or not, will use organisational culture which is driven by regulations. The theories are utilised to support the study to interpret the organisational routines within internal institutions and structures such as habit, culture, political, legal and social that influence the use of accounting information in budget decision-making processes. This is because institutions can come up with important processes of actors within organisations over the organisation's budget decision-making processes through the use of accounting information (Mohamed and Farooq, 2008:472).

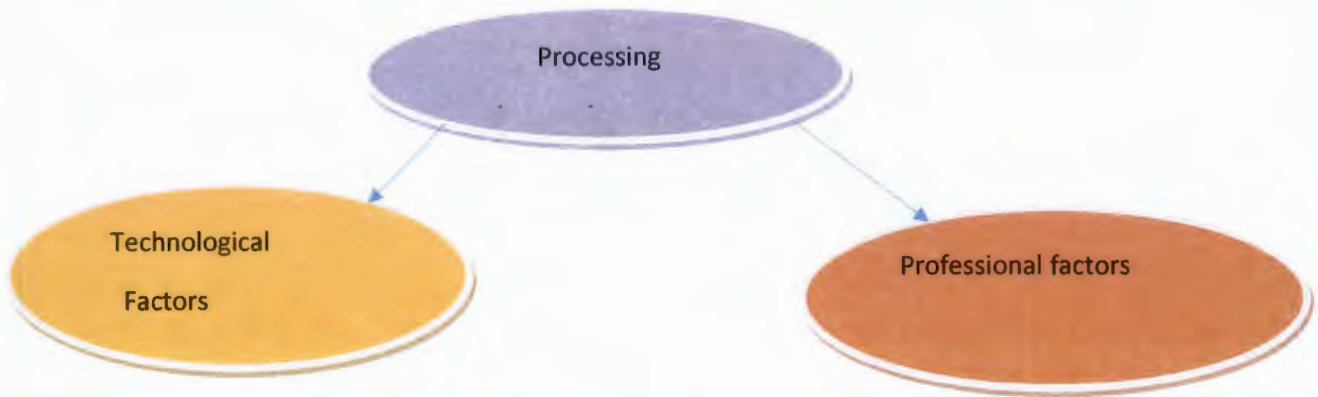
Figure 3: Orientation of Individual Actors Characteristics Related Factors



Source: Mbelwa (2014:51) from the Contingency model of Government Accounting Innovation and Decision usefulness concept

The individual here is responsible and accountable for the education, the career, knowledge experience and expertise which influence the use of accounting information in an organisation (Suddaby, 2010:14). This means that actors need to have a reasonable knowledge of business and economic activities together with accounting, as well as a willingness to study the information with reasonable diligence. For good decision making internal and external factors must not be ignored.

Figure 4: Orientation of the Processing of Accounting Information Related Factors



Source; Mbelwa (2014:52) from the Contingency theory; Contingency model of Government Accounting Innovation and Decision usefulness concept

The combination of External Institutional Related Factors, the Internal organisational related factors and Individual Actors Relationship contribute to the way in which accounting, technology and professionalism should be handled, which are instrumental-conceptual and symbolic use of information (Mbelwa (2014:52).

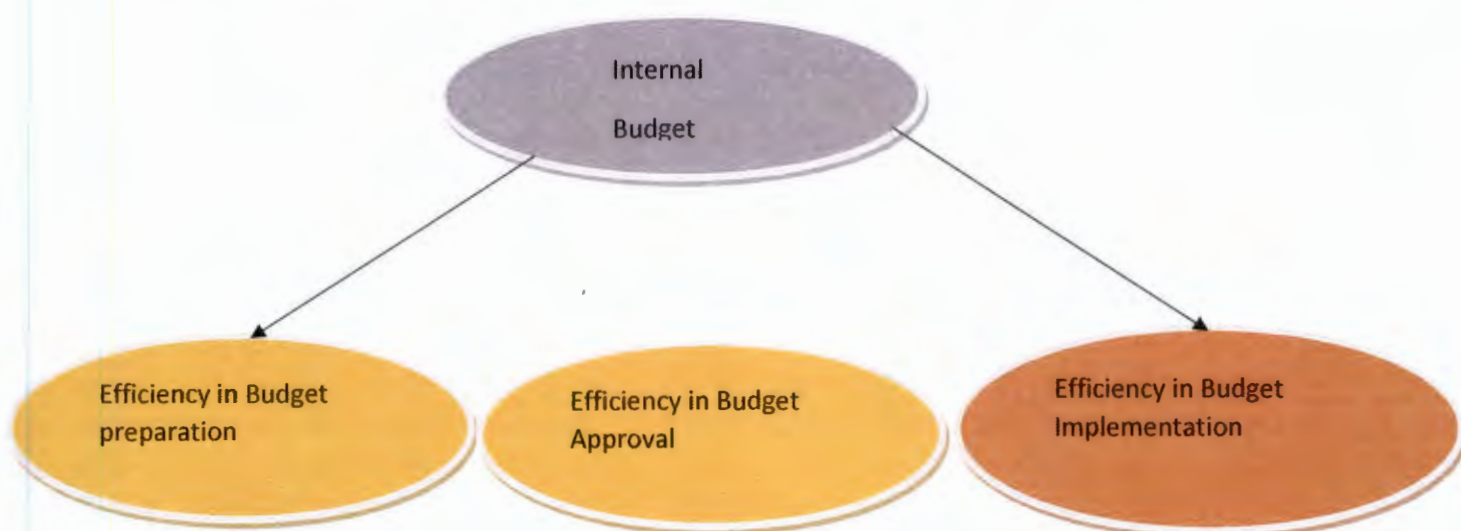
Figure 5: Orientation of the Use of Accounting Information



Source: Mbelwa (2014:52) from the theoretical framework of information use by Vyas and Souchon, (2003:67); Amara, Ouimet, and Landry, (2004:75); Philemon, (2010.)

Accounting uses symbols such as Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP) as instruments based on the prior recommendations, due to general quality as reflected by overall satisfaction with the process of producing such information (Philemon, 2010:5).

Figure 6: Orientation of Organisational Internal Budget Efficiency



Source: **Mbelwa (2014:54) Internal Budget Efficiency**

Efficiency in Budget preparation and implementation support the usefulness of financial reporting for the decision-making process of internal users/decision-makers inside and outside public sector organizations, including local authorities (Askim, 2008:11; Cohen, 2009:100; Grossi and Reichard, 2009; Lee, 2008:117; Mack and Ryan, 2006:592; Taylor, 2009:111; Yamamoto, 2008:10).

2.3 Summary

The models provided an overview of different descriptive theories of financial accounting. Internal and external factors demonstrate the importance of using the budget as a plan, and an instrument to assist in decision-making. The suggestion is that accounting portrays that materialist profit making is the only important aspect of a business organisation.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this chapter is to clarify the methodology employed in the study. The chapter explains the methodologies used to answer the research questions including research design, the target population of the study, the research sample size, the sampling technique employed and data collection methods. Data analysis procedures and technique are also explained.

3.2 Research Methodology and Design

3.2.1 Methodology

Two major issues were analysed:

- How do political and administrative actors within Mahikeng Local Municipality use accounting information in budget decision-making processes?
- What factors influence the use of accounting information by administrative and political actors in Mahikeng Local Municipality's budget decision-making processes?
- How does the use of accounting information influence the Mahikeng Local Municipality's budget efficiency?
- How will the suggested model improve financial reporting as an internal decision support system?

The study used qualitative data gathering and analysis techniques. Open-ended and semi-structured questions were used in this regard. Quantitative approaches, according to De Vos, et al., (2010:93), are used with the view to explore relatively under-researched topics. The theoretical base and intervention models were used to construct the

instrument in order to effectively address the effective and efficient management of financial reporting for decision-making in the Mahikeng Local Municipality.

The instrument (questionnaire) was divided into three sections (see attached annexure A). The questionnaire was presented in a Likert - type scale with Strongly Disagree forming one end of the continuum and Strongly Agree the other end. According to Maree (2008:167), the Likert scale is the most widely used scale in research and is convenient when the researcher wants to measure a construct.

3.2.2 Sample population

All political decision makers and those mainly responsible for the Finance function of the Mahikeng Local Municipality were involved and defined as the target population. The respondents were selected by taking into consideration their predominant role as internal municipal decision makers and, subsequently, as the principal users of the municipal financial information.

3.2.3. Sample size

To obtain some level of sample representation, a stratified sampling method was used, which means sampling on the basis of different section of the department as strata (De Vos et al., 2010:55). For this study, with the population of 200 employees, random sampling was used. The table below is used to determine the percentage suggested as well as the number of respondents. In this case the sample was, $n = 64$. The following sections were used as a focus group based on the type of functions they are employed for: Twenty two staff (22) members from Supply Chain, Twenty (20) from Corporative and Twenty two (22) from Budget.

The following guideline for sampling was used as a guide in determining the size of the sample for this study.

Table 1: Guidelines in selecting the size of the sample

Population	Percentage suggested	Number of respondents
20	100%	20
30	80%	24
50	64%	32
100	45%	45
200	32%	64
1 000	14%	140 to 300
10 000	4,5%	450
100 000	2%	2000
200 000	1%	2000

Source: (De Vos, Strydom, Fouché and Delpont, 2010: 196).

3.2.4 Data Collection

A questionnaire as provided in Annexure A was developed. The questionnaire was divided into three sections and was presented in a Likert - type scale with Strongly Disagree forming one end of the continuum and Strongly Agree the other end. Data was collected with a structured questionnaire of closed- and open-ended questions on personal characteristics, and knowledge on financial reporting for internal decision-making

The researcher administered the questionnaire to the focus group as indicated in the sample size. Respondents were requested to contact the researcher if assistance was needed.

3.2.5 Data analysis

According to Sekaran (2003:306) there are three primary objectives in data analysis, namely:

- Getting a feel for the data;
- Testing the goodness of the data; and
- Testing the hypothesis for the research.

3.5.1 Getting Data Ready for Analysis

Below are some issues researchers need to consider when getting collected data ready for further analysis: (It adds value to provide a brief introduction – this makes it less probable that the reader makes his own deductions).

- **Editing Data:** Data has to be edited especially when they relate to responses to open-ended questions of interviews or questionnaires (Hanuman, 2006:65). The researcher should ensure that all relevant questions have been answered and where possible, a follow-up should be done with respondents (Hanuman, 2006:65).
- **Handling Blank Responses:** Not all respondents will answer all items in the questionnaire (Hanuman, 2006:65). If 25% of items are not answered, then the questionnaire should be thrown out and not included in the data set (Sekaran, 2003:302).

Sekaran (2003:303) also suggests that blank responses can be handled in the following ways:

- assign the midpoint in the scale;
- ignore the blank responses, although this reduces the sample size;
- assign the mean value of all the responses to the blank; and
- give the items the mean of the respondent's own responses for other questions measuring this variable.

- **Coding:** The responses have to be coded to facilitate entry into the computer. All questionnaires received for this study were coded before inputting into an SPSS software package.
- **Categorisation:** Variables were categorised so as to facilitate several items measuring a particular concept being grouped together.
- **Entering of Data:** Data from this research was entered manually onto a computer.

All questionnaires received for this study were coded before inputting into an SPSS software package. SPSS data is a sphere into which data are entered and subsequently edited and defined. Variables were categorised so as to facilitate several items measuring a particular concept being grouped together. The results from the data analysis were summarised into graphs, tables and figures. In this study, Microsoft Office Excel and SPSS (Statistical Package for the Social Sciences) were utilized as tools for interpreting data, in order to facilitate an in-depth analysis of the problem under investigation. In examining the problem under investigation, the researcher used primary and secondary sources (Dawson, 2002), since the researcher gathered data through the use of questionnaires. The data was therefore summarized on a statistical spread sheet, analysed and then interpreted.

3.6 Validity and reliability

The validity and reliability of the variables were assessed using the item reliability, construct reliability, and average variance extract, together with Cronbach's coefficient alpha. The results of the reliability testing highlights that the instrument utilised and the questions were reliable, valid and trustworthy. At .746, Cronbach's coefficient alpha, according to the internal consistency, is a good measure.

3.7 Summary

Chapter three described the research design which includes the research Method of investigation, Research design, Exploratory Research, Descriptive Research, Research Strategy, Target Population, Sampling Strategy, Sample Design, Research Instrument,

Questionnaire Construction, The Administration of the Questionnaire, Collection of the Questionnaires, Data Collection Instruments, Data Analysis, format of the study and chapter conclusion. The next chapter focuses on the Statement of Results and Discussion.

CHAPTER 4: RESULTS AND DISCUSSION

4.1 Introduction

Chapter four analyses various outcomes from the statistical analysis of data collected. The results obtained by a questionnaire administered to employees of the Mahikeng Local Municipality were presented. The findings from the questionnaire was organised and analysed in the order of the research objectives presented earlier in chapter one. The questionnaire was divided into the following three sections namely; Section A, B, and C.

4.2 Section A: Demographic Information

Demographic section consists of response rate and demographic analysis. Demographic analysis is further subdivided into gender, age group, job status, highest qualification, number of years employed at the organisation and sections employees are working in.

4.2.1 Response rate

A total number of 64 questionnaires were distributed to the respondents at the Mahikeng Local Municipality, in the North West Province. Out of the total of 64 questionnaires distributed, 60 were completed and returned which is a 94% response rate by employees of the Independent Development Trust.

4.2.2 Demographic information

This section is depicting the personal data of the respondents. Figure 4.1 illustrates the gender of respondents from the Mahikeng Local Municipality. The figure shows that of the respondents, 75% were males and 25% were females. This implies that the Mahikeng Local Municipality is male-dominated because of the types of jobs involved, which implies that there is lack of gender equality in the organisation.

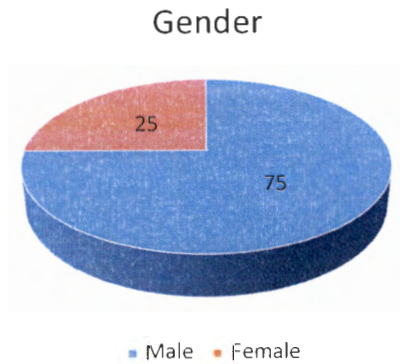


Figure 4.1 Gender distribution of respondents

Figure 4.2 illustrates the age groups of the respondents from the Mahikeng Local Municipality. The figure shows that the majority of respondents were in the age groups of more than 51 years, with 35%, also in the age groups 46 – 50 years with 21.6% and in the 41 – 45 years with 20%, and the minority were in the age group of 31 – 35 years with 6.7%. This implies that most of the employees at the Mahikeng Local Municipality are older, because the majority of 56.6% are over the age of 46; this implies that the majority are reaching their retirement age, which can be a limiting factor for the municipality in terms of growth and service delivery.

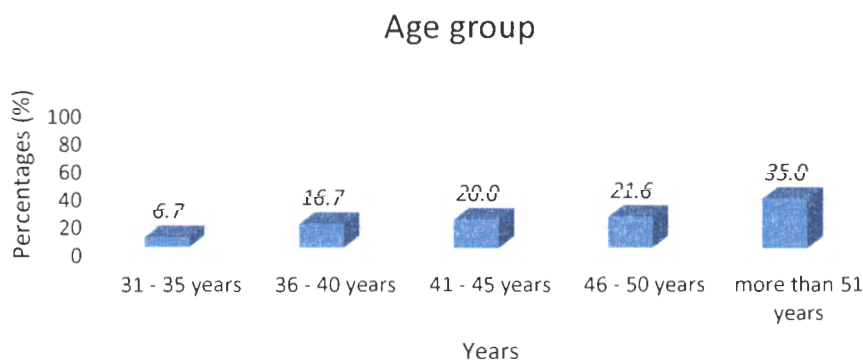


Figure 4.2 Age groups of respondents

Figure 4.3 highlights the job status of the respondents from the Mahikeng Local Municipality.



4.3 Job status of employees at the Mahikeng Local Municipality

As shown in figure 4.3, a majority of the respondents are Managers with 56.7%; 20.0% of the respondents are Line Managers and the minority (6.7%) are in other positions, which were not highlighted in the questionnaire, but some mentioned that they are operational staff.

Figure 4.4 highlights the highest qualifications of the respondents from the Mahikeng Local Municipality. As illustrated from Fig 4.4, the majority of the respondents in the municipality are graduates from tertiary institutions. From the 60 responses received, 50.0% are respondents holding a Bachelor's Degree; 23.3% have Certificates, 16.7% of the respondents are holding Honours Degrees and the minority, which is 10.0%, have

Masters Degrees. This implies that the majority of the respondents are educated and this enables them to carry out any function at the municipality adequately.

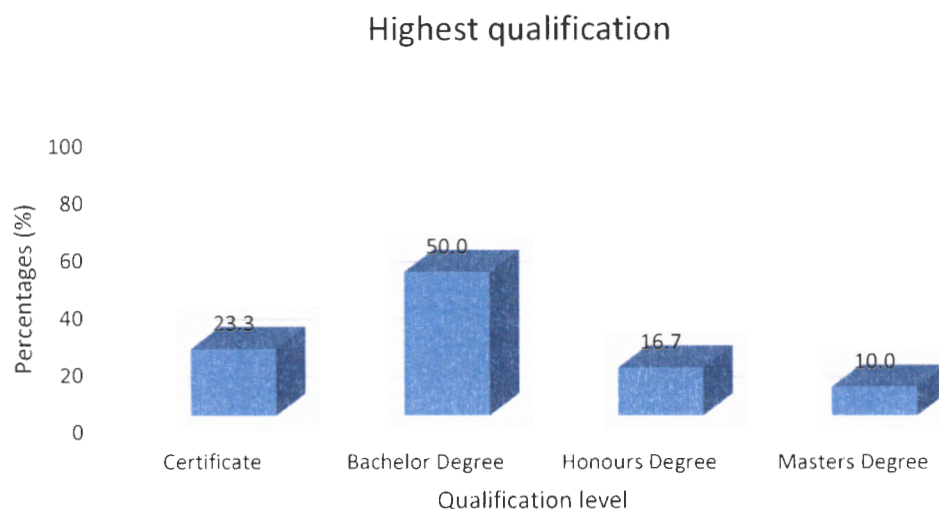


Figure 4.4 Highest qualifications of employees at Mahikeng Local Municipality

Figure 4.5 highlights the number of years the respondents have worked at the Mahikeng Local Municipality. Figure 4.5 reflects that the majority of the respondents (36.7%) have worked at the municipality for more than 21 years, some 26.6% of the respondents worked in the municipality between 6 – 10 years and the least number of respondents with 6.7% of the respondents worked at the organisation between 11 – 15 years and 16 - 20 years respectively. This implies that the majority of employees have vast experience in municipal processes and procedures, which enables the municipality to provide quality services to the communities being served by the municipality.

Number of years employed at the municipality

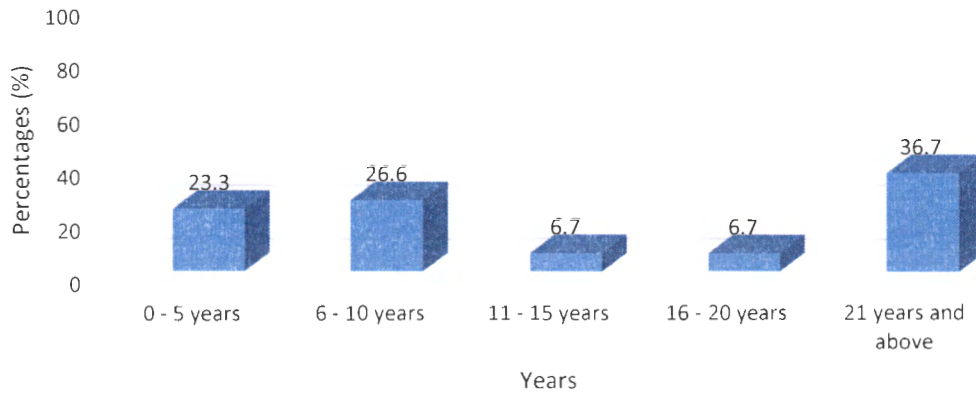
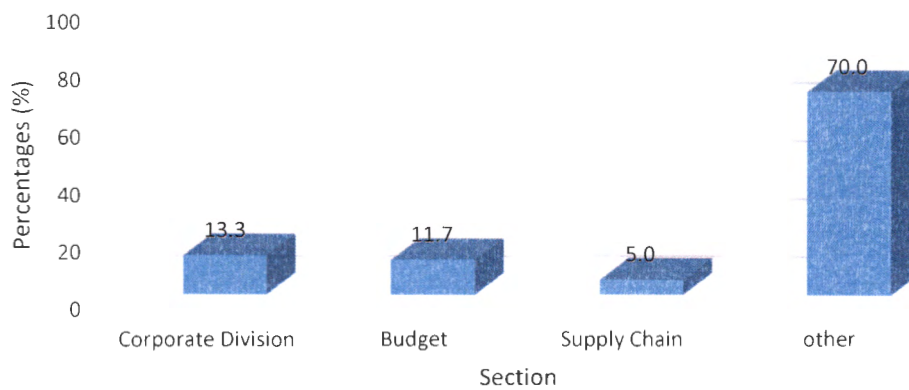


Figure 4.5 Number of years employed at Mahikeng Local Municipality

Figure 4.6 highlights the sections employees are working in, at Mahikeng Local Municipality

Section employed in at the municipality



4.6 Sections respondents are working in at the Mahikeng Local Municipality

Figure 4.6 reflects that the majority of the respondents (70.0%) work in other departments not listed in the questionnaire e.g. finance, etc.; 13.3% of the respondents work in Corporate Services and the minority of the respondents, at 5.0%, are from the Supply Chain section.

4.4 Section B: Municipal financial reporting for internal decision making.

This section mainly analyses the municipality's financial reporting for internal decision-making at Mahikeng Local Municipality.

Table 4.1 How political and administrative actors in Mahikeng Local Municipality use accounting information in budget decision-making processes (n=60).

STATEMENTS	STRONGLY	AGREE	UNCERTAI	DISAGREE	STRONGLY
	AGREE		N		DISAGREE
	1	2	3	4	5
In order to assist users to make decisions	(14) 23.3%	(34) 56.7%	(8) 13.3%	(4) 6.7%	(0) 0%
Use Framework guides	(6) 10.0%	(34) 56.7%	(20) 33.3%	(0) 0%	(0) 0%
Through ward committees into municipal decision making processes.	(4) 6.7%	(24) 40.0%	(20) 33.3%	(10) 16.7%	(2) 3.3%
Municipal officials and councillors	(8) 13.3%	(32) 53.3%	(14) 23.3%	(4) 6.7%	(2) 3.3%
Through capital predictions	(6) 10.0%	(24) 40.0%	(26) 43.3%	(4) 6.7%	(0) 0%
Payment options and technologies.	(3) 5.0%	(32) 53.3%	(24) 40.0%	(1) 1.7%	(0) 0%
Confirm or correct prior predictions	(2) 3.3%	(30) 50.0%	(25) 41.7%	(3) 5.0%	(0) 0%
According to value judgments	(2) 3.3%	(26) 43.3%	(28) 46.7%	(4) 6.7%	(0) 0%
For political and bargaining processes with self-interest behaviour	(6) 10.0%	(16) 26.7%	(26) 43.3%	(6) 10.0%	(6) 10.0%

Table 4.1 presents the responses to the statements relating to how political and administrative actors within Mahikeng Local Municipality use accounting information in budget decision-making processes. The respondents were requested to respond to nine statements. They were asked to rate each item on a scale of 1 to 5 (1 = strongly agree; 2 = agree; 3 = uncertain, 4 = disagree and 5 = strongly disagree).

The study also investigated how political and administrative actors use accounting information in budget decision-making processes at Mahikeng Local Municipality. Out of 60 responses received, 80.0% of the respondents agreed that accounting information usage is vital in order to assist users to make decisions; 66.7% of the respondents indicated that the use of framework guides is key for municipal budget decision-making process; 66.6% of the respondents highlighted that municipal officials and councillors are important for budget decision-making processes; 58.3% of the respondents indicated that payment options and technologies are significant for proper budgeting processes at Mahikeng Local Municipality.

Decision-making is one of the most important functions of managers in any kind of organization. Among different manager's decisions, strategic decision-making is a complex process that must be understood completely before it can be practiced effectively. Those responsible for strategic decision-making face a task of extreme complexity and ambiguity. For these reasons, over the past decades, numerous studies have been conducted on the construction of models to aid managers and executives in making better decisions concerning the complex and highly uncertain business environment (Nooraie, 2012:405).

Some 46.7% of the respondents highlighted that they were uncertain whether according to value judgments was key to municipal budget processes; 43.3% of the respondents were not clear whether capital predictions and political and bargaining processes with self-interest behaviour were issues that influenced decision-making in budgeting processes; 41.7% of the respondents were not sure whether confirming or correcting prior

predictions had any influence on the municipal accounting information used for budgeting purposes.

A total of 20.0% of the respondents disagreed that for political and bargaining processes with self-interest behaviour and through ward committees into municipal decision-making processes did not have any impact on the accounting information used for budgeting processes utilised by Mahikeng Local Municipality; 10.0% of the respondents disagreed that municipal officials and councillors had no bearing on decision-making for budgeting processes at Mahikeng Local Municipality.

Tables 4.2. What factors influence the use of accounting information by administrative and political actors in Mahikeng Local Municipality's budget decision-making processes? (n=60)

STATEMENTS	STRONGLY	AGREE	UNCERTAIN	DISAGREE	STRONGLY
	AGREE				DISAGREE
	1	2	3	4	5
Individual self-interest	(4) 6.7%	(8) 13.3%	(13) 21.7%	(20) 33.3%	(15) 25.0%
Better jobs,	(2) 3.3%	(22) 36.7%	(20) 33.3%	(12) 20.0%	(4) 6.7%
Higher salaries	(2) 3.3%	(24) 40.0%	(16) 26.7%	(11) 18.3%	(7) 11.7%
Entrenchment of power	(3) 5.0%	(14) 23.3%	(22) 36.7%	(16) 26.7%	(5) 8.3%
Career security,	(8) 13.3%	(28) 46.7%	(11) 18.3%	(8) 13.3%	(5) 8.3%
Organisation performance	(8) 13.3%	(36) 60.0%	(8) 13.3%	(8) 13.3%	(0) 0%
Investors and creditors.	(2) 3.3%	(24) 40.0%	(26) 43.3%	(6) 10.0%	(2) 3.3%
Political factors	(6) 10.0%	(24) 40.0%	(24) 40.0%	(4) 6.7%	(2) 3.3%
Pressures of their institutional environments	(4) 6.7%	(30) 50.0%	(22) 36.7%	(3) 5.0%	(1) 1.6%
Legal and technical requirements of budget cycle	(5) 8.3%	(40) 66.7%	(8) 13.3%	(7) 11.7%	(0) 0%
Technological Factors	(6) 10.0%	(34) 56.7%	(15) 25.0%	(5) 8.3%	(0) 0%
Knowledge	(8) 13.3%	(42) 70.0%	(6) 10.0%	(4) 6.7%	(0) 0%
Experience	(5) 8.3%	(46) 76.7%	(4) 6.7%	(5) 8.3%	(0) 0%
Expertise of business and business activities	(7) 11.7%	(24) 40.0%	(20) 33.3%	(5) 8.3%	(4) 6.7%

Table 4.2 presents the responses to the statements relating to what factors influence the use of accounting information by administrative and political actors in Mahikeng Local Municipality's budget decision-making processes. The respondents were requested to respond to eleven statements. They were asked to rate each item on a scale of 1 to 5 (1 = strongly agree; 2 = agree; 3 = uncertain, 4 = disagree and 5 = strongly disagree).

The study also investigated the factors that tend to influence the use of accounting information by administrative and political actors in budget decision-making processes. Out of 60 responses received, 85.0% of the respondents indicated that experience of political and administrative actors in utilising accounting information for budgeting processes was influential in the Mahikeng Local Municipality; 83.3% of the respondents highlighted that knowledge will enhance the decision-making processes for budgeting purposes; 74.7% of the respondents indicated that legal and technical requirements of the budget cycle will tremendously influence the budget decision-making processes at Mahikeng Local Municipality; 73.3% of the respondents were in consensus that the organisation performance is key to budgeting decision, it will influence how accounting information will be used to budget adequately.

Some 43.3% of the respondents highlighted that they were uncertain whether investors and creditors have any influence on budget decision-making process of the municipality; 40.0% of the respondents were not clear whether political factors impact on the use of accounting information for budget related decision-making purposes; 36.7% of the respondents were not sure whether pressures of their institutional environments and entrenchment of power were the main influencers of the accounting information usage by the political and administrative actors in their budget decision-making processes.

A total of 58.3% of the respondents disagreed that individual interest affects accounting information for budgeting decision-making processes; 35.0% of the respondents indicated that it is impossible for entrenchment of power to be regarded as a deterrent for accounting information used for budget decision-making processes at Mahikeng Local Municipality; 30.0% of the respondents disagreed that higher salaries can influence accounting information used for budgeting decision-making purposes in Mahikeng Local Municipality.

Tables 4.3 How does the use of accounting information influence the Mahikeng Local Municipality's budget efficiency? (n=60)

STATEMENTS	STRONGLY	AGREE	UNCERTAI	DISAGRE	STRONGLY
	AGREE		N	E	DISAGREE
	1	2	3	4	5
Constantly confronted with the problem of alternative decision making	(18) 30.0%	(32) 53.3%	(7) 11.7%	(3) 5.0%	(0) 0%
To use alternative scarce resources	(16) 26.7%	(30) 50.0%	(10) 16.6%	(4) 6.7%	(0) 0%
It tries to identify the relationships between an organization's internal and external characteristics and its management capacity	(11) 18.3%	(36) 60.0%	(9) 15.0%	(4) 6.7%	(0) 0%
Personal experience is a burdensome task	(4) 6.7%	(24) 40.0%	(22) 36.7%	(10) 16.6%	(0) 0%
Social responsibility performance	(3) 5.0%	(30) 50.0%	(22) 36.7%	(5) 8.3%	(0) 0%
Internal institutions structure such as habit, culture ,	(5) 8.3%	(30) 50.0%	(18) 30.0%	(4) 6.7%	(3) 5.0%

Table 4.3 presents the responses to the statements relating to how the use of accounting information influences the Mahikeng Local Municipality's budget efficiency. The respondents were requested to respond to six statements. They were asked to rate each item on a scale of 1 to 5 (1 = strongly agree; 2 = agree; 3 = uncertain, 4 = disagree and 5 = strongly disagree).

The study also investigated the influence of accounting information on the municipal budget efficiency. Out of the 60 responses received, 83.3% of the respondents agreed that they are constantly being confronted with the problem of alternative decision-making at Mahikeng Local Municipality; 78.3% of the respondents indicated that trying to identify the relationships between an organization's internal and external characteristics and its management capacity would add value and influence municipal budget efficiency through the use of accounting information; 76.7% of the respondents highlighted that using

alternative scarce resources would tremendously enable accounting information to influence Mahikeng Local Municipality's budget efficiency.

Some 36.7% of the respondents highlighted that they were uncertain whether personal experience is a burdensome task and social responsibility performance are enablers to influence municipal budget efficiency; 30.0% of the respondents were not clear whether internal institutions structure such as habit, or culture were key to accounting information influencing Mahikeng Local Municipality's budget efficiency.

A total of 16.6% of the respondents disagreed that personal experience is a burdensome task; 11.7% of the respondents indicated that internal institutions structure such as habit or culture at the Mahikeng Local Municipality are key to municipal budget efficiency.

Tables 4.4 How will the suggested model improve the financial reporting as an internal decision support system? (n=60)

STATEMENTS	STRONGLY	AGREE	UNCERTAIN	DISAGREE	STRONGLY
	AGREE				DISAGREE
	1	2	3	4	5
Attributes that increase competency	(28) 46.7%	(26) 43.3%	(4) 6.7%	(2) 3.3%	(0) 0%
Understand, interpret, usability	(21) 35.0%	(36) 60.0%	(2) 3.3%	(1) 1.7%	(4) 6.7%
Have cognitive ability,	(18) 30.0%	(34) 56.7%	(8) 13.3%	(0) 0%	(0) 0%
Reporting and evaluating economic events	(28) 46.7%	(26) 43.3%	(4) 6.7%	(2) 3.3%	(0) 0%
Experience and expertise	(16) 26.6%	(36) 60.0%	(4) 6.7%	(4) 6.7%	(0) 0%
Willingness to study the information with reasonable diligence.	(19) 31.7%	(38) 63.3%	(3) 5.0%	(0) 0%	(0) 0%
Committed to developing principle-based accounting standards	(20) 33.3%	(38) 63.3%	(2) 3.3%	(0) 0%	(0) 0%
Use transactions that affect business enterprises,	(16) 26.7%	(36) 60.0%	(6) 10.0%	(2) 3.3%	(0) 0%

Table 4.4 presents the responses to the statements relating to how the suggested model will improve the financial reporting as an internal decision support system at the Mahikeng Local Municipality. The respondents were requested to respond to eight statements. They were asked to rate each item on a scale of 1 to 5 (1 = strongly agree; 2 = agree; 3 = uncertain, 4 = disagree and 5 = strongly disagree).

Out of the 60 responses received; 96.6% of the respondents agreed that the municipality was committed to developing principle-based accounting standards; 95.0% of the respondents indicated that the municipality's willingness to study the information with reasonable diligence and the ability to understand, interpret, usability of information and models allows Mahikeng Local Municipality to make informed decisions on which models will be suitable for the municipality's financial internal decision support system; 90.0% of the respondents highlighted that attributes that increase competency and reporting and evaluating economic events was key for the municipality; 86.7% of the respondents agreed that having cognitive abilities and use transactions that affect business enterprises was key to suggest models that will tremendously improve financial reporting at the municipality and 86.6% of the respondents showed that experience and expertise are critical to ensure improvement of the municipality's financial reporting, which is utilised as an internal decision support system at Mahikeng Local Municipality.

Some 13.3% of the respondents were uncertain whether having cognitive abilities will enable the municipality to improve its financial reporting systems; 10.0% wondered whether using transactions that affect business enterprises were adequate to ensure the improvement of Mahikeng Local Municipality's financial reporting systems and a total of 6.7% of the respondents were not sure whether attributes that increase competency, reporting and evaluating economic events, as well as experience and expertise will enable the municipality to improve the financial reporting systems.

A total of 6.7% of the respondents disagreed that experience and expertise could not improve municipal financial reporting systems; 3.3% of the respondents clearly did not think that attributes that increase competency, reporting and evaluating economic events

and the use of transactions that affect business enterprises will allow improvement of financial reporting at the Mahikeng Local Municipality.

4.5 Section C: this section allows respondents to highlight whether there is induction on financial reporting systems at Mahikeng Local Municipality, whether they have adequate technological skills for a demanding job, there is enough training to improve performance of employees, do they contribute to annual reporting in the organisation, are they employed in their field of expertise or a different field altogether.

4.5.1 Induction in the institution

Most of the respondents indicated that they are not aware of any induction taking place at the municipality and they are not sure whether this is as a result of oversight from management. Furthermore they indicated that employees in operations are not given the opportunity to understand the procedures and processes of the municipality even though they play a very important role at Mahikeng Local Municipality. Moreover, it was clearly mentioned by the majority of employees that they have never been inducted at the municipality, though it seems to be oversight from management, because they think that Mahikeng Local Municipality does not deem induction as important and developmental to its employees.

The minority of the respondents highlighted that induction is conducted through workshops on SCOA, sometimes in the form of workshops or information sharing through e-mail communication. One of the respondents reiterated that he/she was trained to use the financial reporting system. Moreover, all senior managers and secretaries are taken on board through training or a three-day workshop on the implementation of MSCOA in the Mahikeng Local Municipality. Furthermore, through the National Treasury programme, the municipality sends its managers to attend CPDM, MFMA and PFMA course to enhance development in this regard. However, it is imperative that operational staff at supervisory level should be inducted to understand the processes of the municipality. Furthermore, HR and skills development ensures that new employees are

inducted to harness their knowledge with regard to the procedures and processes of Mahikeng Local Municipality.

4.5.2 Technological skills

The majority of the respondents highlighted that they had adequate and relevant technological skills that can aid them to carry out demanding jobs anywhere coupled with relevant qualification acquired from tertiary institutions. Nevertheless, one mentioned that one can always learn and because he is a leader, learning never ceases. Furthermore the municipality has been able to train managers in other softer skills such as IT, which amongst others includes ORACLE training and computer programmes, but the majority had other business management degrees and local government experience that enabled them to carry out their demanding jobs. In modern day management, individuals have to develop their technological skills in order to expedite the budgeting processes.

The least number of respondents indicated that they do not have the technological skills that are needed to carry out a more demanding job than their current employment work activities. Furthermore, as a result of lack of developmental training, they feel they are not adequately exposed to do more demanding work. I am not skilled in financial reporting systems

4.5.3 Adequate training within your section

95.0% however indicated that there is no adequate training at the municipality, highlighting many reasons such as:

- The skills and development section is not doing enough
- Insufficient budget for training
- No bursaries ever for students to be equipped and improve skills development
- Because training is given to the educated and skilled not unskilled or semi-skilled
- Skills development officer not doing his/her work

Furthermore, as a result of the municipality not having a performance policy in place, this incapacitates the employees. Despite some of the training carried out, this development is not linked to employee's current job or skills and the respondents feel that the municipality should invest more in monitoring and evaluation to ensure that there are adequate skills in the respective sections.

95.0% clearly indicated that there was adequate training on MSCOA and other financial reporting systems, which in most cases tends to be either accredited or non-accredited. Furthermore there are short courses which are attended, on-the-job training and support and audit development updates. In order to enhance these development initiatives, the municipality invites outside service providers to conduct training for its employees.

4.5.4 Contribution towards annual institutional reporting

80% indicated that through various mediums they contribute to the annual reporting of the municipality. Most of the respondents submit annual reports to the relevant authorities, others through monthly expenditure balance sheet transactions and monthly reporting, as well as progress reports and reports submitted to the auditors. Some sections in the municipality submit quarterly reports to the authorities to be incorporated in the annual municipal report.

Despite this positive feedback on annual reporting, there were those respondents who felt that they were not part of the annual reporting, because their units were not reflected in the municipal comprehensive annual report and some felt that it is because they are not senior managers.

4.5.5 Employed exclusively according your field

75% of the respondents felt that they are employed according to their field of study, because most of them have B. Com. degrees in finance and accounting. As a result of their qualifications, they were exclusively employed in their study fields, others are in land and water management as managers, because they studied for similar qualifications. This

signifies that there is no need for the municipality to fail in service delivery, because most of its employees are relevantly employed, so they can add value to the municipality.

There were a few respondents who felt that they were wrongly placed outside their field of study, which resulted in them highlighting that they are underutilised in their current positions.

4.5.6 Employed in a completely different field

75% of the respondents indicated that they have been employed completely in their field of expertise, they are doing what they have been trained for at the municipality. Moreover, others indicated that even though they have been employed, they wish to pursue further study in these fields, because they have limited experience in these fields. This implies that the majority of the respondents have been placed in the relevant fields in relation to their studies, which places the Mahikeng Local Municipality at an advantage when it comes to service delivery and efficiency. However, there were those who felt they were in a completely different field, even though they were just a minority.

4.7 Reliability, validity and trustworthiness

The validity and reliability of the variables were assessed using Cronbach's alpha coefficient. The results of the reliability testing highlights that the instrument utilised and the questions were reliable, valid and trustworthy. At .841, Cronbach's alpha coefficient, according to the internal consistency, is a good measure.

4.8 CONCLUSION

The chapter presented the findings on the demographics of the respondents, as well as key analyses looking at the political and administrative actors within Mahikeng Local Municipality who use accounting information in budget decision-making processes,

factors influence the use of accounting information by administrative and political actors in Mahikeng Local Municipality's budget decision-making processes, utilisation of accounting information influences the Mahikeng Local Municipality's budget efficiency and a suggested model improve the financial reporting as an internal decision support system.

It is evident that the majority of the respondents indicated that experience of political and administrative actors in utilising accounting information for budgeting processes was influential in the Mahikeng Local Municipality. Furthermore, the respondents agreed that accounting information usage is vital in order to assist users to make decisions. Also there were challenges or reasons why there was no adequate training in Mahikeng Local Municipality, which amongst others included the following:

- The skills and development section is not doing enough
- Insufficient budget for training
- No bursaries ever for students to be equipped and improve skills development
- Because training is given to the educated and skilled not unskilled or semi-skilled
- Skills development officer not doing his/her work

Chapter 5 will focus on summary, findings, recommendations and conclusion to the study.

CHAPTER 5: SUMMARY, FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

The focus of this study is on the reforms in municipal accounting systems and analysing the financial reporting models obtained from primary and secondary sources. The information obtained will assist in making effective and efficient decisions in handling budgets. The key findings that stand out are that political and administrative actors are utilising accounting information for budgeting processes and are influential in the Mahikeng Local Municipality. The respondents indicated that the reason there needs to be adequate training in Mahikeng Local Municipality, is because accounting information usage is vital in order to assist users to make decisions. This chapter therefore focuses on the following: a brief summary of the study, major findings of the study, as well as major recommendations.

5.2 Summary

The study was conducted in the Mahikeng Local Municipality in the North West Province, South Africa. The following are outlined; the background, problem statement, the aim of the study, research objectives, research questions, significance and scope of the study. A literature review was discussed in detail in chapter 2. The review consisted of sections that provided insight and detail on financial reporting for internal decision-making in Mahikeng Local Municipality. Research methodology described the research design which included the method of investigation, sample procedure and sample size, data collection, where a questionnaire was developed for the Municipal officials and administered by the researcher. The validity and reliability of the variables were examined using reliability, construct reliability, and average variance extract, together with Cronbach's alpha coefficient. Data was obtained through a questionnaire made up of sections: A, B: and C.

For the purpose of research compliance the researcher completed forms of ethics from the North West University. Questionnaires were then distributed to the Mahikeng Local Municipality. All questionnaires received for this study were coded before inputting data into an SPSS soft package. The responses were coded to facilitate entry into a computer. Data were described with frequency counts. The response and results were treated with confidentiality. The research findings were presented, analysed, interpreted and discussed. The findings were split into four sections. The results from the analysis were checked whether the primary research objectives were met by the secondary research objectives. The results from the research were listed and discussed.

5.3 Major findings of the study

The **first objective** is to assess usage of accounting information in the budget decision-making processes by the political and administrative actors within Mahikeng Local Municipality; the concern of municipal officials is to see the process as a serious matter.

The findings of this objective is that, out of 60 responses received, 85.0% of the respondents indicated that experience of political and administrative actors in utilising accounting information for budgeting processes was influential in Mahikeng Local Municipality and that Seventy four percent (74.7%) of the respondents indicated that legal and technical requirements of the budget cycle will tremendously influence the budget decision-making processes in Mahikeng Local Municipality. This is in consistent with Mohamed and Farooq, (2008:472), that political, legal requirements influence the use of accounting information in budget decision-making processes. However experience shows that this is not easy as it is a difficult task to make the final decision (Buys, 2008:489).

The **second objective** is to identify and describe factors influencing the use of accounting information by political and administrative actors in Mahikeng Local Municipality's budget decision-making processes.

Seventy eight percent (78.3%) of the respondents indicated that trying to identify the relationships between an organization's internal and external characteristics and its management capacity would add value and influence municipal budget efficiency through the use of accounting information. This is confirmed by Mbelwa (2014:50) from OIE branches of institutional theory; Contingency theory and The Contingency model that the combination of External Institutional Related Factors, the Internal organisational related factors and Individual Actors Relationship contribute to the way in which accounting, technology and professionalism should be handled, which are instrumental-conceptual and symbolic use of information.

The **third objective** is to explore ways by which the use of accounting information is influencing Mahikeng Local Municipality.

The finding of this objective is that, out of the 60 responses received, 83.3% of the respondents agreed that they are constantly being confronted with the problem of alternative decision-making at Mahikeng Local Municipality;

Coetzee, (2010:6), suggests that in most cases, indecision is as disastrous as making the wrong one, therefore a plan of action is indispensable. Management is faced with the problem of alternative decision-making especially knowing that financial resources are always scarce and limited. It is therefore important that good accounting information be made available for proper and accurate decision-making, maximization of profitability and optimal utilization of scarce resources.

The **fourth objective** here is to suggest the best model that can improve financial reporting as an internal decision support system.

Out of the 60 responses received; 96.6% of the respondents agreed that the municipality was committed to developing principle-based accounting standards; 95.0% of the respondents indicated that the municipality's willingness to study the information with

reasonable diligence and the ability to understand, interpret, usability of information and models allows Mahikeng Local Municipality to make informed decisions on which models will be suitable for the municipality's financial internal decision support system; 90.0% of the respondents highlighted that attributes that increase competency and reporting and evaluating economic events was key for the municipality; 86.7% of the respondents agreed that having cognitive abilities and use transactions that affect business enterprises was key to suggest models that will tremendously improve financial reporting at the municipality and 86.6% of the respondents showed that experience and expertise are critical to ensure improvement of the municipality's financial reporting, which is utilised

Suddaby, (2010:14) confirmed these finding, that the individual here is responsible and accountable for the education, the career, knowledge experience and expertise which influence the use of accounting information in an organisation This means that actors need to have a reasonable knowledge of business and economic activities together with accounting, as well as a willingness to study the information with reasonable diligence,

5.4 Recommendations

Recommendations are based on the objectives of the study:

The **first objective** is to assess usage of accounting information in the budget decision-making processes by the political and administrative actors within Mahikeng Local Municipality; the concern of municipal officials is to see the process as a serious matter.

The recommendation to this objective is to make sure that internal organisational factors are analysed. The leadership, whether political or not, should use organisational culture which is driven by regulations.

The **second objective** is to identify and describe factors influencing the use of accounting information by political and administrative actors in Mahikeng Local Municipality's budget decision-making processes.

It is important to take external institutional related factors into consideration, such as macro-institutions that govern economic transactions and the external legal and technical requirements of budget cycle model techniques relevant to successful organisations.

The recommendation here is that individuals are responsible and accountable for the education, the career, knowledge, experience and expertise which influence the use of accounting information in an organisation and should take cognisance of external influence.

The **third objective** is to explore ways by which the use of accounting information is influencing Mahikeng Local Municipality.

The recommendation here is, to explore the model on Budget Efficiency, indicating efficiency in Budget preparation, efficiency in Budget Approval and efficiency in Budget Implementation. Management capacity would add value and influence municipal budget efficiency through the use of accounting information

The **fourth objective** here is to suggest the best model that can improve financial reporting as an internal decision support system.

The recommendation here is to use the information on:

- Figure 1: Orientation of the External Institutional Pressure related Factors
- Figure 2: Orientation of Internal organisational related factors
- Figure 3: Orientation of Individual Actors Characteristics Related Factors
- Figure 4: Orientation of the Processing of Accounting Information Related Factors
- Figure 5: Orientation of the Use of Accounting Information
- Figure 6 Orientation of Organisational Internal Budget Efficiency

5.5 Suggestions for further research

Although this research is based only in Mahikeng Local Municipality, it raises the question of whether the models indicated in the study could be enough to develop all municipalities including metropolitan ones. Further cross-sector research is needed to explore this. It also suggests that there may be a need for greater government intervention through training providers to ensure that training meets skills needs.

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APPENDIX A

QUESTIONNAIRE: TO THE MAHIKENG LOCAL MUNICIPALITY, NORTH WEST PROVINCE

I am **Itumeleng Tswaile**, an (MBA) Master's student at the North West University (MAFIKENG CAMPUS) and I am conducting a research study on the topic below:

ANALYSIS OF MUNICIPALITIES' FINANCIAL REPORTING FOR INTERNAL DECISION-MAKING IN MAHIKENG LOCAL MUNICIPALITY, NORTH WEST PROVINCE

Kindly assist in the completion of this study by furnishing the information as requested in the questionnaire. Your honest response will contribute to addressing the challenges encountered by the Mahikeng Local Municipality in the North West Province. Responses will be treated with the utmost confidentiality.

Please read the statements carefully and mark with a cross (X) in the appropriate block.

SECTION A

1. Demographic Information

1.1 Gender

Male	
Female	

1.2 Age group

Less than 25 years	
25 – 30 years	
31 – 35 years	
36 – 40 years	
41 – 45 years	
46 – 50 years	
More than 51	

1.3 Job status

Manager	
Line manager	
Operational manager	

1.4 Highest qualification

Below Matric	
Matric	
Certificate	
Bachelor Degree	
Honours Degree	
Master's Degree	
Doctorate Degree	

1.5 Number of years employed at the Independent Development Trust

0 – 5 years	
6 – 10 years	
11 – 15 years	
16 – 20 years	
21 years and above	

1.6 Which Section are you employed in?

Supply Chain	
Corporate Division	
Budget	

SECTION B

This section analyses the municipalitys' financial reporting for internal decision-making. Please put a cross (X) or tick (√) in the applicable box to rate your level of agreement or disagreement. Mark one box only per statement:

How do political and administrative actors within Mahikeng Local Municipality use accounting information in budget decision-making processes?

No	Item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
2.1	In order to assist users to make decisions					
2.2	Use Framework guides					
2.3	Through ward committees into municipal decision making processes.					
2.4	Municipal officials and councillors					
2.5	Through capital predictions					
2.6	Payment options and technologies.					
2.7	Confirm or correct prior predictions					
2.8	According to value judgments					
2.9	For political and bargaining processes with self-interest behaviour					

What factors influence the use of accounting information by administrative and political actors in Mahikeng Local Municipality's budget decision-making processes?

No	Item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
2.10	Individual self-interest					
2.11	Better jobs,					
2.12	Higher salaries					
2.13	Entrenchment of power					
2.14	Career security,					
2.15	Organisational performance					
2.16	Investors and creditors.					
2.17	Political factors					
2.18	Pressures of their institutional environments					
2.19	Legal and technical requirements of budget cycle					
2.20	Technological Factors					
2.21	Knowledge					
2.22	Experience					
2.23	Expertise of business and business activities					

How does the use of accounting information influence the Mahikeng Local Municipality's budget efficiency?

No	Item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
2.24	Constantly confronted with the problem of alternative decision making					
2.25	To use alternative scarce resources					
2.26	It tries to identify the relationships between an organization's internal and external characteristics and its management capacity					
2.27	Personal experience is a burdensome task					
2.28	Social responsibility performance					
2.29	Internal institutions structure such as habit, culture ,					

How will the suggested model improve the financial reporting as an internal decision support system?

No	Item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
2.30	Attributes that increase competency					
2.31	Understand, interpret, usability					
2.32	Have cognitive ability,					
2.33	Reporting and evaluating economic events					
2.34	Experience and expertise					
2.35	Willingness to study the information with reasonable diligence.					
2.36	Committed to developing principle-based accounting standards					
2.37	Use transactions that affect business enterprises,					

SECTION C:

3. Please indicate whether there is induction on financial reporting systems in the Municipality.

If you answered YES to the above question, please indicate how induction was done.

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If you answered NO to the above question, please indicate the reason for this.

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.....

4. Do you think you have technological skills to do a more demanding job than the one you have now?

If you answered YES, please indicate explain.

.....
.....

If you answered NO, please indicate why.

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.....

5. Do you think there is enough training within your section which could improve the employee performance?

If you answered YES, please indicate the type of training.

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If you answered NO, please indicate why.

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.....

6. Do you contribute towards the annual report of the institution?

If you answered YES, please indicate how.

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If you answered NO, please indicate why.

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.....

7. Are you employed exclusively according to your own field?

If you answered YES, please indicate how.

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.....

If you answered NO, please indicate why.

.....
.....

8. Are you employed in a completely different field than what you are qualified for?

If you answered YES, please indicate how.

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.....

If you answered NO, please indicate why.

.....
.....

THANK YOU FOR YOUR TIME AND CO-OPERATION