



Assessing the efficacy of financial reporting in expenditure management at Emfuleni Local Municipality

LFP Libate

 **orcid.org / 0000-0001-7721-3635**

Dissertation accepted in fulfilment of the requirements for the
degree *Master of Arts in Public Management and Governance*
at the North-West University

Supervisor: Prof C Hofisi

Graduation ceremony: October 2019

Student number: 22452214

DECLARATION

I, Lerato Faith Pamela Libate, student no. 22452214 declare that the Dissertation **ASSESSING THE EFFICACY OF FINANCIAL REPORTING IN EXPENDITURE MANAGEMENT AT EMFULENI LOCAL MUNICIPALITY** as submitted in requirement of the Master of Arts in Public Management and Governance is my own original work and has never been submitted to this or any other University for a degree. All materials that were referred to in the research are acknowledged and duly noted by means of a complete reference.

Signature: _____

Date: _____

DEDICATION

*I dedicate this dissertation to my father;
Pule David Libate.*

ACKNOWLEDGEMENTS

There are a number of people who contributed significantly by supporting and assisting me to complete my study. With the greatest sincerity, I acknowledge and appreciate all their efforts in serving me and making this study possible.

- As a child of faith; to my Creator, My God. The One who is always by my side; Father, I thank You. For the grace and gift you awarded to me not only start but to persevere towards the end. At every length of this journey, You never left me nor forsake me. This is testament that truly You are a God that answers prayer. My heart is full of gratitude, praise and thanksgiving.
- To my Supervisor, Professor Costa Hofisi, words evade me on where to begin. In all honesty, this Study sees the light of day because of you. For your faith in me and your persistence in pushing me towards completing; I truly thank you. You served as a great supervisor and always dealt kindly with me especially when it required getting me back on track. I'm greatly indebted to you.
- To my family, the core of who I am and the reason I strive for the things I do. You are the origin of what defines me; my values, my belief and what I stand for. I am proudly ngwana wa Bataung.
 - Firstly, to my father Ntate Pule David Libate, thank you for being my biggest supporter. As a father, you spoke strongly about me furthering my studies. Thank you for always pushing me to pursue my education and to continuously strive to empower myself. I carry this dream in honour of your name, to make you proud.
 - To my mother; the Queen of my heart - Atticate Chukuma Libate. Thank you for modelling what a strong woman is. For always keeping me grounded and imparting the right values in me. It is through you, I learned to trust in my journey and to believe in the process of progress.
 - To my sister Keitumetse Libate and nephew Tshiamo, thank you for your support and love throughout this entire process. For always understanding each time I said, "I can't, not now or some other time"; I appreciate you!
- To my best friend, sister, confidant and travel partner Khothatso Mpheqeke. Thank you for embodying the exact meaning of your name "encouragement". In all my frustrations, breaking point and the tears, thank you for being the anchor

and support I needed. For your prayers and always being the voice of encouragement packed with tons of laughter. Nneso, Ke ya leboha haholo and I thank the Lord for you.

- To the only brother I have, Johannes Nteso. I thank you for always carrying the Word of God in my life especially when I needed it the most. For every phone call and for all the times you availed yourself, abuti waka ke leboha ho menahane.
- To my former senior manager Dr. Minnesh Bipath and colleague Mr. Teslim Yusuf. Thank you for your support, particularly when it came to my education even when I decided to leave the team. You gave me the confidence to forge ahead and pursue my goals.
- To Dr. Thembakazi Mali and Dr. Karen Surrige-Talbot, thank you for being phenomenal women in my life. For instilling in me the confidence to trust in my abilities and teaching me the importance of self-belief. Women such as yourselves are worthy to be praised and acknowledged for the work you do.
- To Mama Dorothy Kanyemba, how I appreciate your efforts in keeping me steadfast in the Lord and focused on the task at hand. For all those phone calls and words of wisdom, I thank you so much.
- To Ms. Moji Tshabalala and Mr. Paseka Motaung from Emfuleni Local Municipality, thank you for your assistance in making sure I had everything I needed. For each time you responded to my emails and took my phone calls, a million thank yous.

ABSTRACT

Decision making is a critical process in local government; it puts into effect the role played by municipal officials in public life. Through the development of strategic plans and budgets; decision makers enter into commitments that are geared towards securing the needs and demands that emanate from the public. In contrast to the private sector, the execution of a budget is not measured on the value of profit or loss. However, budgeting within the public domain is aimed at measuring outcomes on account of public expenditure. As executors of the will of the people, decision makers on the directive of the Constitution and legislation, are required to account for the use of public resources. This applies to every financial transaction; whether big or small, it must be recorded, processed and reported. The purpose of this study is to assess the efficacy of financial reporting in expenditure management at Emfuleni Local Municipality (ELM). The study utilised extensive literature review and document analysis to investigate the extent to which ELM is compliant in managing its' expenditure.

Central to the purpose and outcome of the study, it was established that ELM's financial reporting system is not effective in managing expenditure. Based on the findings of the research, the state of ELM's financial performance is not at a desirable level. The financial reporting system of ELM is marred by systematic weaknesses in internal control along with inefficiencies in monitoring, information and communication processes. As a result, this translates into material findings in relation to how financial information is prepared and disclosed. In what the study identifies as financial performance crisis, ELM's operational budget is running on a consistent deficit. What ELM's statement of financial performance reveals; the Municipality is spending more on its budget than what it generates as income.

Moreover, the study recognised that the management approach of ELM is not effective in ensuring compliance; wherein, the Municipality is failing to prevent unlawful expenditure, along with adhering to the regulatory requirements of supply chain management. It was also observed that due to ELM's financial challenges, the Municipality is failing to settle its' invoices in a timely manner. There is material discrepancy in terms of what the requirements of the law are, in contrast to how ELM actually operates. Consequently, the impact of non-compliance yields no positive impact on ELM's financial viability.

Key words: financial reporting, expenditure management, compliance, internal control, efficiency, effectiveness, transparency and accountability.

Table of Contents

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENTS.....	iii
ABSTRACT	v
LIST OF FIGURES	xii
LIST OF TABLES	xii
ABBREVIATIONS.....	xiv
CHAPTER 1: INTRODUCTION AND BACKGROUND.....	1
1.1. INTRODUCTION	1
1.2. BACKGROUND TO THE STUDY	1
1.3. PROBLEM STATEMENT.....	4
1.4. RESEARCH QUESTIONS.....	5
1.5. RESEARCH OBJECTIVES.....	5
1.6. RESEARCH METHODOLOGY.....	6
1.7. RESEARCH DESIGN	6
1.7.1. Preliminary literature review	6
1.7.2. Research method.....	7
1.7.2.1. Data collection techniques.....	8
1.7.2.2. Document analysis	8
1.7.3. Data processing, analysis and interpretation.....	10
1.8. SIGNIFICANCE OF THE STUDY	10
1.9. LIMITATIONS OF THE STUDY	11
1.10. ETHICAL CONSIDERATIONS	11
1.10.1. Ethical practice and the researcher.....	11
1.11. CHAPTER OUTLINE	12
CHAPTER 2: A THEORETICAL EXPOSITION OF FINANCIAL REPORTING IN THE CONTEXT OF MUNICIPAL FINANCIAL MANAGEMENT	14
2.1. INTRODUCTION	14
2.2. AN ANALYSIS OF SYSTEMS THEORY	15
2.3. SYSTEMS THEORY APPROACH TO LOCAL GOVERNMENT	17
2.3.1. The Environment.....	19

2.3.2.	Input	19
2.3.3.	Processing	20
2.3.4.	Output	20
2.3.5.	Feedback	20
2.3.1.1.	Systems value-application to municipal financial management	21
2.4.	THE MUNICIPAL BUDGET CYCLE	23
2.4.1.	Phase 1: Budget preparation and submission	23
2.4.2.	Phase 2: Budget approval	24
2.4.3.	Phase 3: Budget implementation	24
2.4.4.	Phase 4: Budget control	24
2.4.5.	Phase 5: Budget reporting.....	25
2.5.	KEY ROLE PLAYERS IN MUNICIPAL BUDGET ADMINISTRATION	25
2.5.1.	Municipal Manager	26
2.5.2.	Chief Financial Officer	26
2.5.3.	Head of Departments	27
2.5.4.	Financial administrators/ officers	27
2.5.5.	Internal auditors	27
2.5.6.	Municipal audit committee.....	28
2.6.	LEGISLATIVE AND REGULATORY FRAMEWORKS.....	28
2.6.1.	Municipal Financial Management Act (Act 56 of 2003)	28
2.7.	CONCEPTUALISING FINANCIAL REPORTING.....	29
2.7.1.	Objectives of financial reporting	31
2.8.	QUALITATIVE CHARACTERISTICS FOR MEASURING THE EFFICACY OF FINANCIAL REPORTING.....	32
2.8.1.	Relevance	32
2.8.2.	Reliability	33
2.8.3.	Understandability	33
2.8.4.	Timeliness	34
2.8.5.	Comparability	34
2.8.6.	Verifiability.....	35
2.9.	ELEMENTS OF FINANCIAL STATEMENTS.....	35
2.9.1.	Assets	36
2.9.2.	Liabilities	36
2.9.3.	Equity/ Net assets	36
2.9.4.	Income	37

2.9.5. Expenses	37
2.9.6. Capital maintenance	37
2.10. MUNICIPAL ACCOUNTING STANDARDS	38
2.10.1. An overview of the Accounting Standard Board (ASB)	39
2.10.2. GRAP standards	39
2.10.3. GAMAP standards	41
2.10.4. IPSAS - International Public Sector Accounting Standards.....	43
2.11. PREVALENT CHALLENGES IN MUNICIPAL FINANCIAL REPORTING	43
2.11.1. The Auditor General’s views on municipal financial audits.....	44
2.12. THE ACCOUNTING CYCLE AND FINANCIAL REPORTING	47
2.12.1. Obtaining financial data.....	48
2.12.2. Recording and processing financial data.....	48
2.12.3. Reporting: Management and financial reports.....	48
2.13. MUNICIPAL REPORTING REQUIREMENTS	49
2.13.1. Monthly reports	50
2.13.2. Mayoral quarterly reports	50
2.13.3. Mid-year report.....	50
2.13.4. Annual report.....	51
2.13.5. Oversight report	51
2.14. PERFORMANCE BASED BUDGETING SYSTEM.....	52
2.14.1. The 3E’s performance measurement standard	54
2.14.1.1. Economy.....	55
2.14.1.2. Efficiency	55
2.14.1.3. Effectiveness	55
2.15. CHAPTER SUMMARY	56

CHAPTER 3: AN OVERVIEW OF EXPENDITURE MANAGEMENT: ASSESSING THE CHALLENGES AND CONSTRAINTS FACED BY LOCAL GOVERNMENT

3.1. INTRODUCTION	58
3.2. WHAT IS PUBLIC EXPENDITURE MANAGEMENT?.....	59
3.2.1. Objectives of expenditure management.....	61
3.2.1.1. Maintaining aggregate financial discipline	61
3.2.1.2. Allocation efficiency in accordance with strategic priorities.....	62
3.2.1.3. Operational efficiency	62
3.3. CONTEXTUALISING EXPENDITURE MANAGEMENT	64

3.3.1.	Policy context	64
3.3.2.	Institutional context	65
3.3.3.	Governance context	66
3.3.4.	Administrative and cultural context.....	66
3.4.	CHARACTERISTICS OF PEM SYSTEM.....	67
3.4.1.	Comprehensive and Discipline.....	67
3.4.2.	Legitimacy.....	67
3.4.3.	Flexibility	68
3.4.4.	Predictability.....	68
3.4.5.	Policy clarity, consistency and affordability	68
3.4.6.	Contestability.....	69
3.4.7.	Honesty	69
3.4.8.	Transparency	69
3.4.9.	Accountability	69
3.5.	BASIC STAGES OF THE EXPENDITURE CYCLE	70
3.5.1.	Stage 1: Authorisation of expenditure	70
3.5.2.	Stage 2: Commitment.....	71
3.5.3.	Stage 3: Verification	72
3.5.4.	Stage 4: Payment authorisation	72
3.5.5.	Stage 5: Payment.....	73
3.5.6.	Stage 6: Accounting	73
3.6.	MANAGING EXPENDITURE IN A MUNICIPAL CONTEXT	74
3.6.1.	Supply Chain Management.....	74
3.6.2.	Transfer payment	75
3.6.3.	Public-Private Partnership.....	75
3.6.4.	Approval of expenditure	76
3.6.5.	Unforeseen expenditure	76
3.6.6.	Setting funds between multi-year appropriations	76
3.6.7.	Unlawful Expenditure	77
3.6.8.	Unspent funds/ Roll-overs.....	77
3.7.	THE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF).....	78
3.8.	MUNICIPAL EXPENDITURE PLANNING TOOLS	79
3.8.1.	The Integrated Development Plan (IDP)	79
3.8.2.	The Service Delivery Budget Implementation Plan (SDBIP)	80
3.8.2.1.	Components of the SDBIP.....	83

3.9.	PREVALENT CHALLENGES IN MUNICIPAL EXPENDITURE MANAGEMENT	85
3.9.1.	Leadership and accountability deficiency	85
3.9.2.	Unspecialised and unskilled capacity	86
3.9.3.	Non-compliance to policy and regulation	87
3.9.4.	Inadequate planning and poor budget alignment	87
3.9.5.	Weaknesses in internal control	88
3.9.6.	Financial constrain	88
3.9.7.	Effects of ineffective expenditure management	89
3.10.	WHY INTERNAL CONTROL MATTERS?	90
3.10.1.	Components of internal control	92
3.10.1.1.	The Control Environment	93
3.10.1.2.	Risk assessment	93
3.10.1.3.	Control activities	94
3.10.1.4.	Information and communication	94
3.10.1.5.	Monitoring	94
3.11.	CHAPTER SUMMARY	95
	CHAPTER 4: RESEARCH METHOD	96
4.1.	INTRODUCTION	96
4.2.	RESEARCH METHODOLOGY	97
4.2.1.	Literature review	97
4.2.2.	Research methods	98
4.2.2.1.	Data collection technique	98
4.2.2.2.	Document analysis	98
4.2.3.	Data processing, analysis and interpretation	99
4.2.3.1.	Validity and Reliability	101
4.3.	ETHICAL CONSIDERATIONS	101
4.3.1.	Ethical practice and the researcher	101
4.3.2.	Ethical practice and the involved parties	102
4.4.	CHAPTER SUMMARY	102
	CHAPTER 5 RESEARCH RESULTS: THE EFFICACY OF FINANCIAL REPORTING IN MANAGING EXPENDITURE AT EMFULENI LOCAL MUNICIPALITY	103
5.1.	INTRODUCTION	103
5.2.	AN OVERVIEW OF EMFULENI LOCAL MUNICIPALITY	104

5.2.1.	Historical background.....	104
5.2.2.	Administrative governance of Emfuleni Local Municipality.....	105
5.3.	RESEARCH RESULTS: THE EFFICACY OF FINANCIAL REPORTING IN MANAGING EXPENDITURE AT EMFULENI LOCAL MUNICIPALITY	107
5.3.1.	Theme 1: Financial and performance management.....	107
5.3.2.	Theme 2: Liquidity management.....	109
5.3.2.1.	Current ratio analysis.....	111
5.3.3.	Theme 3: Institutional arrangements.....	113
5.3.3.1.	Leadership.....	113
5.3.3.2.	Internal control.....	115
5.3.4.	Theme 4: Compliance	116
5.3.4.1.	Contract management	116
5.3.4.2.	Supply chain management	118
5.3.4.3.	Expenditure management.....	120
5.3.5.	Theme 5: Accountability	124
5.4.	CHAPTER SUMMARY	125
	CHAPTER 6: CONCLUSION AND RECOMMENDATIONS	126
6.1.	INTRODUCTION	126
6.2.	REALISATION OF RESEARCH OBJECTIVES	126
6.3.	OUTCOME OF THEORETICAL STATEMENT	127
6.3.1.	Predictive outcome of theoretical statement.....	127
6.4.	THEORETICAL FINDINGS.....	128
6.5.	AREAS FOR FURTHER RESEARCH	131
6.6.	RECOMMENDATIONS	131
6.6.1.	Integrated Financial Management Information System (IFMIS)	131
6.6.2.	Expenditure control strategy.....	132
6.6.3.	Capacity Building - Training and Development	132
6.6.4.	Political will - Commitment to change.....	133
6.7.	CONCLUSION.....	133
	REFERENCE LIST.....	135
	APPENDICES	156

LIST OF FIGURES

Figure 1: Basic Systems Theory Model	18
Figure 2: Governments Outcome Approach	18
Figure 3: Municipal Financial Management as a System	22
Figure 4: Municipal Budget Cycle	23
Figure 5: Political and administrative structure	25
Figure 6: Qualitative Attributes for Measuring the Efficacy of Financial Reporting	32
Figure 7: Accounting cycle and financial reporting	47
Figure 8: Municipal Accountability Cycle	49
Figure 9: Performance Budgeting System	53
Figure 10: 3-Es' Relationship.....	54
Figure 11: Objectives of public expenditure management.....	61
Figure 12: PEM and the policy process	65
Figure 13: Basic stage of an expenditure cycle	70
Figure 14: SDBIP Contract.....	81
Figure 15: Process for preparing and approving the SDBIP	82
Figure 16: The COSO 2013 Framework.....	92
Figure 17: Emfuleni Local Municipality structure	106
Figure 18: ELM Decision making process	106
Figure 19: ELM's current ratio range	112
Figure 20: ELM creditors' payment period rate.....	121
Figure 21: ELM's irregular, unauthorised and fruitless expenditure pattern.....	124

LIST OF TABLES

Table 1: Municipal budget administration capacity	26
Table 2: GRAP Standards	40
Table 3: GAMAP Standards	43
Table 4: Municipal Clean Audit Trend from 2012/13 – 2015/16 financial year.....	45
Table 5: PEM objectives and budget phases.....	63
Table 6: ELM's statement of financial performance for the financial year ended	109
Table 7: An analysis of ELM's current ratio	112
Table 8: Annual AG dashboard for 2016-17	115
Table 9: ELM's- amounts procured through deviations	119
Table 10: ELM creditors' payment period rate	121

Table 11: ELM’s irregular, unauthorised and fruitless expenditure pattern 123
Table 12: Outcome of theoretical statement 127

ABBREVIATIONS

3Es	Economy, Efficiency and Effectiveness
ACCA	Association of Chartered Certified Accountant
AGSA	Auditor General of South Africa
ASB	Accounting Standard Board
CFO	Chief Financial Officer
CIPFA	Chartered Institute of Public Finance and Accountancy
COFOG	Classification of the Functions of Government
CoGTA	Department of Cooperative Governance and Traditional Affairs
COSO	Committee Sponsoring Organisations of the Treadway Commission
DFID	Department for International Development
DPLG	Department of Provincial and Local Government
ELM	Emfuleni Local Municipality
FASB	Financial Accounting Standards Board
FMS	Financial Management System
GAMAP	Generally Accepted Municipal Accounting Practices
GGLN	Good Governance Learning Network
GRAP	Generally Recognised Accounting Standards
GST	General System Theory
HoD	Head of Department
IABS	International Accounting Standards Board
IDP	Integrated Development Plan
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standard
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IRBA	Independent Regulatory Board for Auditors
LGTA	Local Government Transition Act
MFMA	Municipal Financial Management Act
MM	Municipal Manager
MPPP	Municipal Public Private Partnership
MSA	Municipal Systems Act

MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NT	National Treasury
NWU	North-West University
PEM	Public Expenditure Management
PFMA	Public Financial Management Act
PPP	Public-Private Partnership
PPPF	Preferential Procurement Policy Framework
RSA	Republic of South Africa
SALGA	South African Local Government Association
SCM	Supply Chain Management
SDBIP	Service Delivery Budget Implement Plan
SDM	Sedibeng District Municipality
SLA	Service Level Agreement
SMT	Senior Management Team
VTC	Vaal Triangle Campus

CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1. INTRODUCTION

The study is an investigation of the efficacy of financial reporting as a mechanism for improving expenditure management, along with an outlook of strengthening the practice of compliance within municipalities. It is guided and influenced by the Municipal Financial Management Act (Act 56 of 2003). The physical parameter of the study is limited to Emfuleni Local Municipality (ELM). ELM is part of the Sedibeng District Municipality (SDM), which is regarded as a Category B municipality. Crythorne (2006:57) states that a Category B municipality is identified as a local council. Furthermore, as enacted by the Constitution (Act 108 of 1996), a Category B municipality shares municipal legislative and executive authority in its area with a Category C municipality within whose area it falls (The Constitution, Section 155 (1)).

The following chapter is an induction to the fundamental elements that construct the structure of the research. It presents the orientation and background of the study, followed by the problem statement and research design. It specifies the research questions and research objectives. Lastly, it captures the researcher's consideration of ethics, along with a chapter outline of the study. The aforementioned components served as a structural blueprint in guiding the researcher to complete the study and for the purpose of compiling the research report.

1.2. BACKGROUND TO THE STUDY

Local government in South Africa has undergone a considerable amount of transformation, much of which was centred on the development and promotion of the well-being of its citizens. At the height of 1990 reforms, under the auspices of the Constitution, local authorities soon became the implementation arm of Government in addressing the injustices of the past and the damage that was caused under the apartheid regime. Under the new political dispensation, the Local Government Transition Act (LGTA) (Act 209 of 1993), was framed to provide a plan that would guide and inform the process of transformation at local level under the new dawn of democracy (Binza, 2005:69; Pauw, Woods, Van der Linde, Fourie & Visser, 2000:259).

The process of change was implemented in the following phases; pre-interim phase which saw the appointment of new councillors according to legislative requirements

(Binza, 2005:78; Part IV of the LGT Act). This was then followed by an interim phase, which took effect after the first democratic elections and completed under the adoption of Constitution of the Republic of South Africa (RSA) (Van der Waldt, 2007:17; Binza, 2005:7; Part IV of the LGT Act). Section 10 G (1) of the Local Government Transaction Act, states that a municipality must ensure the following:

- conduct its financial affairs in an accountable and transparent manner;
- prepare a financial plan in accordance with the Integrated Development Plan;
- structure and manage its administration and budgeting and planning to give priority to the basic needs of the community;
- manage its financial resources in such a manner that it will meet and sustain its objectives;
- monitor and assess its performance regularly against its IDP; and
- annually report on its overall performance to the community it serves.

Much of what local government does in society, is realised through decision making by means of budgetary allocations (Khalo, 2007:87). To this view, municipal budgets articulate the priorities and obligations that are undertaken by decision makers, which mirror the needs and demands of the community. Financial commitments are carried out through the means of productivity based on what a municipality budgets for in a given financial year (Pauw, Woods, Van der Linde, Fourie and Visser, 2009:50; Gildenhuys, 1997:25; Fourie, 2007:734). Khalo (2007:187) presents two key elements which are central to municipal financial planning; namely:

- *an expenditure plan; and*
- *a revenue plan, for the provision of expenditure acquired by the municipality.*

The abovementioned elements are important sources of regulating the operational activities of a municipality; from having a budget as a plan, to goal driven actions that are aimed at achieving predetermined objectives.

Proper financial management encourages that a budget should be executed in a manner that propagates the economical, efficient and effective use of fiscal resources, which are of a scarce attribute (Nsingo, 2011:19, 40; Pauw et al., 2009:122). In practice, municipalities are tasked with the responsibility of reporting and accounting for the appropriateness of decision making in relation to how financial resources were employed and what outputs were attained (Fourie & Opperman, 2011:212). As an on-going process, financial reporting activities are carried out from when the budget is formulated, approved and executed (Visser and Erasmus, 2002:10). In the context of a

municipality, the appropriate allocation of funds connects three important elements that are central to the execution of a budget (public spending), namely; results, standard processes and procedures and the management of information as prerequisite for accounting and reporting. The importance of accounting activities is to make use of credible and accurate information in reporting on the administration and management of municipal funds (Gildenhuys, 1997:17).

Crythorne (2006:209) notes that within the limits of public money, financial reporting is not only a tool for opening municipalities to public scrutiny but it is also a practical instrument in dealing with issues of fraud, corruption, waste and mismanagement. Pauw, et al., (2009:125) present that as a monitoring tool for measuring results; the purpose of a proper financial reporting system is to improve the entire value chain of a municipality. It cuts across various departments and integrates internal processes and procedures. Thus, the usefulness of financial reports is to strengthen the efficiency of the financial management system (FMS) on the basis of effective internal communication processes and quality information management. Concurrently, Khalo (2013:580) and Mafunisa (2011:98) share the view that, it is the cord of public trust; a requirement that necessitates accountability, integrity, honesty and ethical conduct within the public domain. The rationale of what these views provide is that the scope of financial reporting must be defined in a manner that is synonymous with transparency, enables internal control and promotes accountability, especially within institutions that are closest to the people.

As a legal framework, the MFMA stands as an anchor that supports sound financial management under which municipal councils are held accountable for their budgets, policies and programmes. In practice, the MFMA mandates municipalities to exercise authority over their resources in compliance with legislative requirements and in adherence to accounting standards and best financial practices (Fourie & Opperman, 2011:269; National Treasury (NT), 2006:62). Moreover, the aim of actively monitoring and reporting on the implementation of a budget is conducted with the focus of strengthening municipal performance, particularly with that of service delivery targets.

In light of the above background, the researcher observes that financial resources give effect to municipal decisions. The study presents a position that in order for a municipality to achieve sound financial management, it requires an efficient financial reporting system that is established on the foundation of a sound policy, fiscal governance framework and best financial practices.

1.3. PROBLEM STATEMENT

In 2009 then Minister of Cooperative Governance and Tradition Affairs, Mr. Sicele Shieko launched “Operation Clean Audit”; which was a programme that was aimed at rehabilitating and addressing financial management and governance challenges in local government. The primary objective of the programme was to achieve clean financial audit reports with no findings for all 283 (now 257) municipalities by 2014 (Powell, O ‘Donovan, Ayele & Chigwata, 2014:1). However, the objective of the programme was marked as a missed target, being that from the time of its initiation to 2014, a significant number of municipalities failed to cross the finish line in meeting the benchmark of a clean audit opinion.

At the fold of the 2013-14 financial year, the municipal audit outcomes revealed that only 40 municipalities (14%) were able to demonstrate the skill and ability in qualifying for a clean audit (Auditor General of South Africa (AGSA), 2015:2), which is a commendable improvement from the 22 municipalities during the 2012-13 financial year (AGSA, 2014:1). By the same token, it can be submitted that the Programme’s objective was impractical and too idealistic in trying to address historical financial legacies, systematic management failures, and complex institutional dynamics and governance deficiencies within a limited timeframe. What is critical and a matter that has been stressed by the AGSA is the need for credible and quality information, which plays an important role in the function of feedback and the effectiveness of internal control. The lack of transparency and accuracy in financial reporting is a deterrent to a municipality’s ability to effectively control its’ budget.

In the stream of challenges municipalities are faced with, unlawful expenditure and deficiencies around supply chain management are still a grave concern, one that is profusely stressed by the AGSA (National Treasury & CoGTA, 2014:3). In the context of financial probity and accountability, most municipalities still find it difficult to demonstrate effective fiscal governance and compliant behaviour in handling financial transactions and also in maintaining proper recording keeping (Ababio, 2007:3). The lack of compliance to regulation and the inability to enforce rules remains a major contributor to financial mismanagement and poor performance on municipal audit outcomes. This conduct weakens the efficiency of the financial management system and also perpetuates systematic corruption in local government. The nature and extent of financial mismanagement in municipalities is elevated by a “transparency deficit” that creates a paradox against the Batho Pele principles.

From the 2011-12 financial year up until 2014-15, Emfuleni Local Municipality (ELM) has obtained unqualified audit opinions with findings (ELM, 2015:10). Based on the concerns raised by the AGSA; a common thread also filters its way through ELM's financial reporting, which relates to findings associated with compliance to regulation in exercising control over the budget. In assessing the impact of compliance to audit outcomes; the AGSA has been clear in pointing out deficiencies relating to the process of ensuring complete, timely and accurate information in the preparation and disclosure of financial information (ELM, 2013:21; ELM, 2015:20). Through the office of the accounting officer at ELM; the Auditor General has maintained a strong emphasis on the important role leadership plays in ensuring that the management approach in managing ELM's financial resources is value inclusive and also promotes a changed behaviour towards improving audit outcomes (ELM, 2013:21; ELM, 2014:23; ELM, 2015:20; ELM, 2016:25).

Based on the above problem statement, the researcher submits that the impact of a passive approach to noncompliance will result in money being spent where it was not apportioned for in the approved budget, and there is no plan in place in terms of how it will be recouped back to the municipality. Moreover, municipalities need to institute robust internal gatekeeping measures in ensuring quality financial reporting and accountability for the administration and management of its resources.

1.4. RESEARCH QUESTIONS

The following questions were developed for undertaking the research:

1. What are the characteristics of an efficient financial reporting system?
2. What are the prevalent challenges and constraints to expenditure management in Local Government?
3. How effective is financial reporting in managing expenditure at Emfuleni Local Municipality?
4. To what extent is Emfuleni Local Municipality compliant with legislation in managing expenditure?

1.5. RESEARCH OBJECTIVES

The objectives of the research were set out as follows:

- To identify the characteristics that encompasses an efficient financial reporting system.

- To highlight the challenges and constraints Local Government faces in relation to expenditure management.
- To assess the effectiveness of ELM's financial reporting system in managing expenditure.
- To examine the extent to which ELM is compliant with regulation in terms of managing expenditure.

1.6. RESEARCH METHODOLOGY

The researcher employed a qualitative research methodology approach. The basis of this approach was undertaken in order to develop detailed explanations, about the main issues of the chosen study. In practice, a qualitative research methodology allows the researcher to get an in-depth understanding and a comprehensive view of the research problem (Gray, 2004:320). Furthermore, this methodology was instrumental in drawing meaning and giving insight to the data that was collected.

1.7. RESEARCH DESIGN

Before a researcher undertakes the step of conducting research, it is of paramount importance that a plan is put in place in terms of "how" the study will be executed (Kumar, 2014:122). The importance of planning, allows the researcher to have a strategy in answering questions such as; "*What data collection technique will be used for the study*", "*Who are the subjects of the study?*" or "*Where and when will the study be conducted?*" (Sarantakos, 2005:105; Burns, 2004:145). In order for the researcher to be informed of what is going on and to understand why it is going, a deductive research design was used for this study. In the context of financial reporting, the preferred research design enabled the researcher to derive specific information about ELM in relation to key issues that are central to the research problem.

1.7.1. Preliminary literature review

Kumar (1991:26) clearly explains that the basic function of literature review is to conduct an inquiry into the existing body of knowledge, much of which is useful in acquainting the researcher with the chosen field of interest. In same vein, Locke, Spirduso & Silverman (2007:63) confer with the above supposition and further note that it gives the researcher a voice to join and engage in the on-going conversation with other scholars within the similar field. Undeniably, literature is important in theory and in practice. For

the purpose of developing research questions, a preliminary literature review began by searching through the body of existing knowledge and studies completed prior to this one within the similar subject area. This was conducted through the use of the internet (Google-scholar, Nexus Database System, SA ePublications) and the North-West University (NWU) - Vaal Triangle Campus (VTC) library catalogue search (books, journals, theses and dissertations).

The preliminary review of literature set a point of departure in the conceptualisation of financial reporting as a systematic process that incorporates the administration of accounting functions from monetary allocations, to the execution of budget decisions and the assessment of financial and management results (Fourie & Opperman, 2011:270). Provided that financial excellence seems to be too much of an ideal goal for most municipalities; institutional transformation is needed in order to capacitate municipalities towards achieving fiscal governance and to stabilise them into efficient and financially viable institutions. The process of financial reporting supports target driven actions; wherein, the budget is executed in alignment with the strategic plan.

Fourie (2007:734) presents that in accounting for the use of public resources, financial control plays a crucial role in the governance of managing finances by establishing preventative measures, monitoring actual budget results, detecting nonconformities and instituting corrective actions. The significance of monitoring expenditure should be approached so as to understand how and why expenses were incurred, rather than only focusing on what was spent. The way emphasis is placed on measures and processes that are taken to plan and allocate financial resources; the same amount of emphasis, if not more, should be placed on ensuring financial discipline and control, especially in quantifying the cost of accomplishing objectives.

A further literature review was conducted to expand the understanding of the researcher and also to refine observations made about the subject matter in question. The researcher further consulted various materials such as government reports, research papers, AGSA reports, the Constitution and other relevant materials of legislation. These reviewed materials were valuable in informing the researcher's position of reasoning and for enriching the knowledge base of the research.

1.7.2. Research method

In conducting an investigation on a research problem, the researcher needs to employ methods and techniques in terms of how the data is gathered and processed (Brynard,

Hanekom & Brynard, 2014:38). Research methods are fundamental instruments that are required to successfully complete a study, such that they are directly linked to the data the researcher is interested in. The importance of employing research methods is qualified by Flick (2011:86), as “the data that you wish to work with”, which is also essential for the quality aspect of reliability and validity in the study.

1.7.2.1. Data collection techniques

In relation to the type of study that was carried out, the researcher made use of secondary data as the main data collection technique for the study. Secondary data involves extracting information that already exists; this includes information that is documented through mediums such as government publications, articles, journals and books (Fox & Bayat, 2007:38; Kumar, 2014:124). In practice, this form of data technique supports the researcher in gathering background information, conducting a comparative analysis and in identifying the main issues about the research. The use of secondary data was instrumental in strengthening the quality of literature review, and also in enhancing the significance of the research in the chosen field of interest. Moreover, this data collection technique was useful in providing insight and rounding off conclusions made by the researcher.

1.7.2.2. Document analysis

According to Bowen (2009:27) document analysis refers to the systematic process of reviewing documents either printed or electronically. He further notes that documents analysis as an analytical method enables the researcher to “elicit meaning, gain understanding and to develop empirical knowledge”. Bailey (in Mogalakwe, 2006:221) refers to it as a method that uses analysis to review documents that contain information about the phenomena that has been chosen for study. Furthermore, Ahmed (2010:2) adds that documents represent physical sources of data that may exist in the public or private domain.

This approach was determined by the researcher as being suitable for the research questions that were developed and for the purpose of demonstrating a proven understanding about the research problem through data analysis and interpretation. In ensuring that the process of document collection and review contributed valid and accurate data (evidence) to the study, the researcher applied a quality control criterion that is best described by Scott (in Ahmed, 2010:3-5; Mogalakwe, 2006:225-228) for

purpose of conducting proper document analysis. This quality measurement standard is based on the following principles:

- *Authenticity*

Authenticity refers to the truthfulness of the document's origin. What needs to be established is whether the evidence that is contained therein is genuine and reliable. As a standard requirement, the researcher must consider the internal consistency and completeness of the document. For example, the author and number of versions of the document should be taken into account.

- *Credibility*

The characteristic of credibility measures the objectivity of the document, in terms of assessing whether the document is free from any distortions or errors. In acquiring documents, it is of paramount importance that from the standpoint of the researcher and the objectives of the study, all documents used and consulted are one and the same with the truth.

- *Representativeness*

Representativeness is determined by the standard of the evidence contained in the data that is collected. In relation to handling official government documents, representativeness and authenticity are two aspects that are linked which have a direct implication with regards to what is commonly known about the evidence of the data and the representation of information contained in the document.

- *Meaning*

Meaning is concerned with the extent to which the data that is reflected in the document is clear and comprehensible. In practice, this constitutes the meaning that is drawn up in the research, which is informed by the content taken from the documents and what is understood in relation to the phenomena. A key point is for the researcher to make extrapolations from the documents, on issues that are central and applicable to the focus and objectives of study.

DISCLAIMER: The following documents were proposed as materials of data collection:

- Annual Financial Statements for the year ended
- Annual Reports
- Budget Report (Medium-Term Revenue and Expenditure Framework)
- ELM auditors reports from the Auditor General's Office
- ELM financial management and management reports
- Internal audit reports

1.7.3. Data processing, analysis and interpretation

Data processing is a critical component of the research process; it takes effect once all the data has been collected (Kumar, 1999:200). Essentially, during the process of data analysis and interpretation the researcher needs to ensure that the instruments used for data collection, obtain the desired information. As such, before processing the data the researcher must ascertain that it is consistent and complete. This is done in order to ensure that the data is reliable and valid for use (Kumar, 1999: 200). It is important to note that data analysis is based purely on the aggregate context and purpose of the study (Rugg & Petre, 2007:91). Therefore, the data that is collected must align with the objectives of the research. Ahmed (2010:6) presents that during the process of document analysis, the researcher takes the data that is collected and puts it into “constituent components”; thus, the data is put into shape.

The researcher firstly started by assessing the data that was collected for completeness and consistency. In reviewing the data that was derived from the documents, the researcher sought to identify the common themes and also examine how they are linked to the investigated research problem. Burns (2004:589) provides that the purpose of content analysis is to assist the researcher in building context from “emergent themes”. The researcher employed a data analysis process that is described by Miles & Huberman (in Ahmed, 2010:6) as the “interactive model of qualitative data analysis”, which is based on three components, namely; “data reduction, data display and data drawing and verifying conclusions”.

1.8. SIGNIFICANCE OF THE STUDY

In the quest for knowledge, the study contributed to the existing body of knowledge and the growth of academic literature. Also, it enhanced the conversation between academics with reference to the findings of the research and areas that are proposed for future study. In what the research considers, financial reporting contributes to the efficiency of the financial management system. The study establishes that financial reporting is a critical component to proper financial management; wherein, it facilitates sound decision making in relation to the budget and budget process. Furthermore, the study advocates for the enforcement of transparency, compliance and accountability in local government; wherein, there is an active responsibility in upholding the law and also in preventing any form of financial wrong-doing.

1.9. LIMITATIONS OF THE STUDY

The limitations of the study are outlined by the researcher as weaknesses and restrictions that pertain to the completion of the research (Locke et al., 2007:16). Due to the limitation in resources and time constraint, the study was set to focus only on Emfuleni Local Municipality. The following restrictions were taken into account; considering the time and effort that was required to complete the analysis of each document, the researcher took the responsibility of collecting the data and ensuring that it was complete and ample time was given to proper analysis.

The researcher was cognisant of the restriction placed on the availability of data, being mindful of the rate to which the data was made available or accessible; for example, in dealing with the issue of sensitive knowledge. In mitigating this as a risk to the study, the researcher motivated to the Municipality that the purpose of the research was purely academic. The researcher gave an assurance through the researchers' code of ethics to provide a truthful account "as is" and an unbiased view of the original documents received. In the interest of the Municipality, the researcher remained objective and fair in presenting the findings of the study. As a benefit to the Municipality, the researcher intends to provide feedback of the findings of the research to Emfuleni Local Municipality and a bound copy of the research report once it is finalised.

1.10. ETHICAL CONSIDERATIONS

Ethical conduct in research is of utmost importance, both to the researcher and the study itself. Fox & Bayat (2007:48) indicate that all research is subject to ethical scrutiny and review. To this effect, we can also stand in agreement with Brynard et al., (2014:95) by stating that the guiding instrument of ethics is to measure the manner in which the study was conducted. The following ethical measures were undertaken:

1.10.1. Ethical practice and the researcher

The process of handling data is to present findings that are valid and reliable, in accomplishing the objectives of the study. To this effect, the researcher has a moral obligation to conduct inquiry by searching for the truth in a way that does not fabricate nor falsify the information that is collected (Kumar, 1999:194; Sarantakos, 2005:18). In maintaining the objectivity of the study, the research was guided by the following principles; accuracy, honesty, integrity and transparency. The highest consideration of ethical practice in academic writing was upheld, by the use of an effective referencing

system. The researcher was cautious not to plagiarise, as such, all sources that were used in the study are acknowledged and cited properly. Furthermore, the researcher remained committed to completing the research in an honest and professional manner; such that any legal ramification is avoided, now and in the time to come.

1.11. CHAPTER OUTLINE

The study was completed and comprises of six chapters that outline the entire research process and the flow of the research questions framework. These chapters are identified follows:

Chapter 1: Introduction and background

Chapter one provided detailed information in terms of what the research is about. Essentially, it introduced the study to its audience. It detailed the scope of the research and how it was conducted. This chapter served as a blueprint in guiding the researcher to complete the study and for the purpose compiling the research report.

Chapter 2: A theoretical exposition of financial reporting in the context of municipal financial management

Chapter two expounded on the concept of financial reporting as a systematic and logical approach in terms of how government institutions manage and account for the utilisation of the resources entrusted to them. The researcher explored the qualitative characteristics that encompass an efficient financial reporting system, along with key topics that are central to the formulation, execution and reporting of the budget within a municipal context

Chapter 3: An overview of expenditure management: Assessing the challenges and constraints faced by Local Government

Chapter three was an investigation of expenditure management in the context of local government; with specific focus on the prevalent challenges and constraints within municipalities. This chapter also focused on key topics of municipal financial planning and the importance of internal control.

Chapter 4: Research Method

This chapter focused on the research method, with regards to the objective of inquiry and how the study was conducted. It provided details on the methodology of choice, data collection technique and how the data was analysed and interpreted. Lastly, the

researcher captured the importance of reliability and validity in the study, along with how ethical requirements were adhered to.

Chapter 5: Research results: The efficacy of financial reporting in managing expenditure at Emfuleni Local Municipality

Chapter five provides a detailed account of the research results, with regards to the efficacy of financial reporting in managing expenditure at Emfuleni Local Municipality (ELM). The researcher examined the state of expenditure management at ELM, with a specific consideration on the state of compliance and the impact it has on budget results and institutional arrangements within the Municipality.

Chapter 6: Conclusion and recommendations

As the last chapter of the study, it establishes the findings of the research. The chapter also details the realisation of research objectives, recommendations and final conclusion of the study. Lastly, this chapter is followed by the bibliography list, which represents the sources cited in the research, stated in alphabetical order.

CHPATER 2:

A THEORETICAL EXPOSITION OF FINANCIAL REPORTING IN THE CONTEXT OF MUNICIPAL FINANCIAL MANAGEMENT

2.1. INTRODUCTION

The previous chapter introduced the focus and scope of the study. The chapter provided a comprehensive overview of what the study entails. Moreover, it laid the foundation for the researcher in completing the study. It served as a practical plan by mapping out how the research would be conducted, in terms of the data collection technique and strategy to be used. Lastly, it provided an overview of the series of chapters that constitute the research report as whole.

Financial reporting is an essential component of proper financial management. It is a process that is carried out by recording, accounting and reporting on the financial activities of an institution. As a logical approach, it translates into an oversight function in assessing and accounting for the efficient and effective use of resources within an entity. The fiscal exercise of effectively managing public money is demonstrated by the responsibilities and obligations that are entered into by decision makers, by means of transforming financial commitments into tangible results for the benefit of the general public. With the limits of the Constitution, the mobilisation of public resources must be in accordance with the relevant regulation and legislative guidelines. As a prerequisite condition of employing public money, municipalities within the boundaries of the law and as permissible by the Constitution need to regularly monitor and assess their financial activities, and account for the administration and management of their budgets.

As a measure of providing assurance over the proper and appropriate use of budgetary funds particularly with the authorisation of expenditure, it becomes essential for a municipality to have a system of practice that is able to provide explanations in terms of how it sources and employs its resources. It is imperative for a municipality to establish efficient internal monitoring and evaluation processes, which are necessary for assessing budget results on the basis of strategic plans, performance targets and the decision making process. Furthermore, the assessment of a budget is not for the purpose of collating records for filing purposes; it is a hands-on approach wherein the regularity of reliable and accurate information must be made available for the purpose of determining how the means of productivity were employed, in conjunction with the predetermined objectives and policy framework that supports it.

The following chapter presents the theoretical exposition of financial reporting in the contextual perspective of municipal financial management. There are three primary goals that will be realised at the end of this chapter. Firstly, is to conduct a review of systems theory and its applicability to municipal financial management. Secondly, is to capture the importance of an efficient financial reporting system. Lastly, it is to explore the value application of financial reporting in relation to the performance result of how budget choices were carried out.

2.2. AN ANALYSIS OF SYSTEMS THEORY

In order for the researcher to successfully demonstrate a clear and comprehensive understanding of the study, the researcher makes use of a theory and literature to develop context and a position of reasoning for the study. The application of a theory presents significant value in informing and guiding the development of the study, and the manner in which the researcher understands the intricacy of the observed phenomena or research problem. In relation to the above statement, the study will be guided and influenced by Systems Theory.

The usefulness of Systems Theory is employed as a pragmatic approach to comprehend complex realities under which the dimension of analysis constructs the logic of a phenomenon into subunits or interrelated parts that make the whole (Heywood, 2002:20; Schwella, 1983:15; Ansari, 2004:1). The theory was popularly advanced by Ludwig Von Bertalanffy's (1901- 1972) invaluable contributions in the 1940s, in his efforts to promote the unity of science (Amagoh, 2008:2; Kramer, 1974:94). In its earliest development, the theory was predominantly steered towards understanding complex phenomena in physics, biology and engineering discipline (Von Bertalanffy, 1968: vii). However, Von Bertalanffy's approach to the theory resulted in the development of the General Systems Theory (GST), which offers a broader approach that cuts across various disciplines (Adams, Hester, Bradley, Meyers, & Keating, 2014:113; Von Bertalanffy, 1950:140).

Through the seminal work and writings of theorists such as Max Weber, David Easton, Paul A. Weiss; the proliferation of knowledge and the development of the systems approach has been incorporated to fit the context of various disciplines, such as the Political Sciences, Management Sciences and Behavioural Sciences (Laszlo & Krippner, 1998:8; Friedman & Allen, 2011:4). The evolution of Systems Theory framework has been useful in advancing methods of inquiry in various subject fields,

thereby contributing to knowledge, ideas and methods of study. Furthermore, in formulating a better understanding about a phenomenon, it supports the use of a multidisciplinary approach wherein the basic elements of the theory can be adapted to match the fundamental principles of other subject fields (Adams et al., 2014:120).

In what Ludwig explored through his writings, it is referred to as a basic scientific approach wherein a system is composed of various interconnected parts that are not independent but are linked and are arranged for the purpose of the system (in totality) and its objectives (Von Bartalanffy, 1968:4). From a sociological perspective of studying society and behaviour; the functionalist view derives that a systems approach focuses on society in parts that are independent. Functionalists observe that human behaviour is the triggering effect that either results in order and stability on one hand, and disorder and instability on the other (Ferrante, 2008:28; Amagoh, 2008:2).

Niklas Luhmann (1927 - 1998) a German theorist in the field of sociology points out that the complexity of what a system entails requires drawing a fine distinction between the system and the environment. Luhmann's point of view presents that the complexity that is dealt with in the system, is advanced through a cause and effect relationship wherein the degree of complexity is strengthened by changes from the environment; thus, the systems connection with the environment is to identify contingencies that are less complex and are more aligned to the goals of the system (Ritzer, 2012:335).

US political scientist David Easton (1917 - 2014) after much exploration developed what is said to be the most influential approach used in political analysis, the Political System (Heywood, 2009: 19, Anderson, 2011:19). The contribution made by Easton presents that, a political system consists of the interaction between government and the environment. This is illustrated by the actions and activities of government institutions that are a direct response to the needs and demands placed on them by society (Anderson, 2011:19; Cloete & De Coning, 2011:34). In practice, decision making within a political system represents government's basic authoritative function of governing a society, with consideration of factors such as; social problems, resource availability, policy, political climate, and technological capacity. Moreover, the elements of a political system are interrelated, wherein objectives are linked and realised through the system.

From a perspective of Systems Theory to management, Johnson, Kast & Rosenzweig (1964:364) and Kramer (1975:94) concur; that management through a systems approach fosters a new way of thinking, which on one hand assists in dealing with complex developments in the environment an organisation operates under, and on the

other hand it helps management to identify the nature of the problem and the most effective way of exercising control in addressing it. Whichever way the subunits are characterized, they define the attributes of the system and how the system is established as a panacea for addressing complex problems. A focus shared by Ansari (2004:7), who corroborates with the view of control by management, points out that the interdependence between subunits is to yield the desired results through control in order to achieve strategic objectives and to avoid unintended consequences.

There are two types of systems, namely; an open system and a closed system. The difference between the systems is based on the properties adopted by the systems and the relationship it has with an environment (Von Bartanlanffy, 1950:156-157; Johnson, Kast & Rosenzweig, 1964:37). An environment is considered to be any occurrences or matter that is external to the boundaries of a system (Anderson, 2011:19). An open system establishes interactions with an environment and views it as being necessary for the total objectives and continuous improvement of the system (Cornell & Jude, 2015:4). However, a closed system is considered to be subject to inadequate interaction with the environment, and as a result it is inhibited by the trivial relationship it has with the environment external to it (Valentinov, 2014:14; Friedman & Allen, 2011:9; Van der Waldt & Du Toit, 1999: 96). Thus, it can be accepted that municipalities in the context of South Africa operate as open systems, wherein their decisions not only mirror the needs of the community but are also binding to society.

The systems approach and its application constitutes the arrangement of subunits that are established and function on principles which are reinforced by human behaviour through decision making, institutional arrangements, organisational culture, with a clear emphasis on the achievement of the desired objectives (Johnson, Kast & Rosenzweig, 1964:376). The efficacy of a system thrives on its ability to achieve wholeness.

2.3. SYSTEMS THEORY APPROACH TO LOCAL GOVERNMENT

In practice, municipalities as political institutions fit the scope of a political system as developed by Easton. Anderson (2011:19) underlines that political activity within a political system is classified as a response (literally a course of action) to the demands that are influenced by socioeconomic conditions that arise from the environment (being the public). The aim of a systems model is to provide a framework that integrates decision making on the part of the organisational structure (departmentalisation) and the administrative arrangements (processes and procedures) (Johnson, Kast &

Rosenzweig, 1964:376). Thus, exchanges with the environment are maintained to strengthen the efficiency of the system, accomplishment of objectives and to promote effective decision making. Figure 1 below, is an illustration of an open systems model:

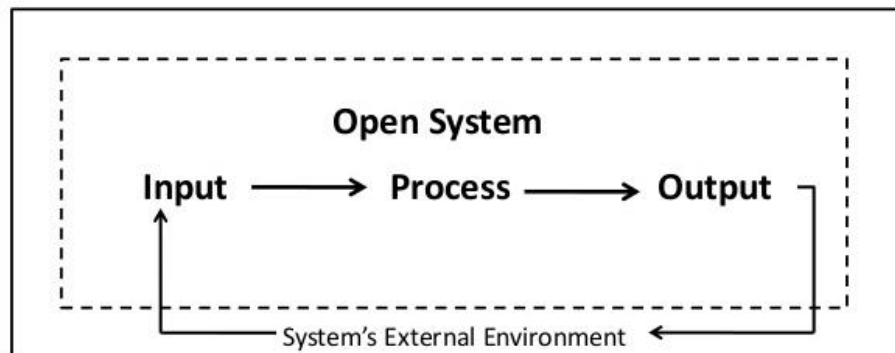


Figure 1: Basic Systems Theory Model (Source: <https://www.slideshare.net/manumelwin/training-as-a-open-system-manu-melwin-joy>)

Figure 2 below, is a modification of Systems Theory which is referred to as 'The Outcomes Approach'. The Outcomes Approach is intended to guarantee that decision making is focused to accomplishing the desired change in public life. The Outcomes Approach articulates what is required to be accomplished, the procedure of how it will be accomplished and an evaluation and assessment process of whether the objectives have been met or not (Parliament, 2011:93).

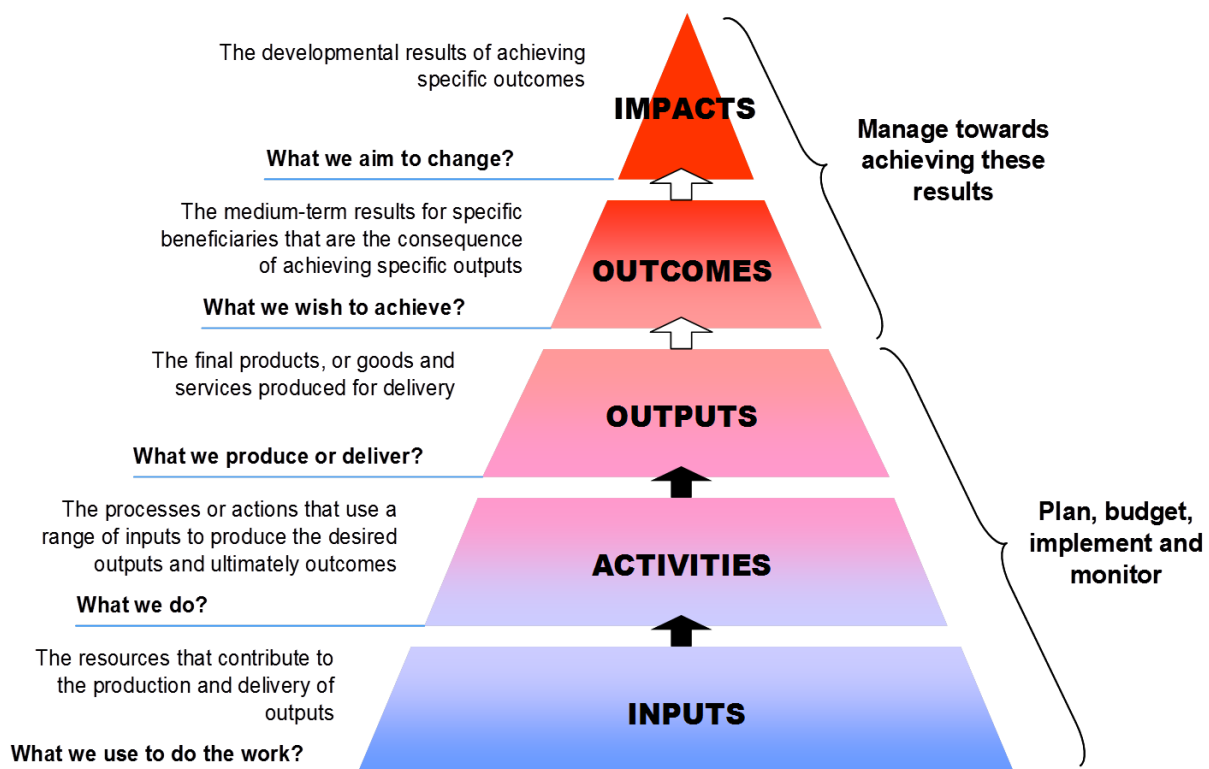


Figure 2: Governments Outcome Approach (Source: Parliament, 2011:93)

Practically, a system is structured and established on the basis of interrelated components that are placed together for the accomplishment of the overall goal(s). These elements are identified and explained as follows:

2.3.1. The Environment

In the context of structure, the environment is indicative of the parameters in which the system exists. Kramer (1975:6) presents that the environment is considered to be any matter that does not belong to the system; however, the existence of the environment has an influence on and can be influenced by the system. In the case of local government, the internal environment constitutes a municipality as an entity wherein the financial management system forms part of the total system that is organised within the management structure. Conversely, the external environment sets the boundary wherein the constituency places its needs and demands on the municipality (Du Toit, Knipe, Van Niekerk, Van der Waldt, 2002:87).

To this effect, the environment defines the boundaries and conditions within which the system is established and functions. In a more elaborate length, Van der Waldt & Du Toit (1999:98) present that “the environment sets the limits, makes the demands, offers opportunities and provides resources, the history of the institution and the strategy of the institution”. It is worth noting that, the response or activities that take place in a municipality (internal environment) are undertaken on the basis of available resources.

2.3.2. Input

Input can be characterised into two folds; on one hand it is classified as the resources a municipality has to carry out its mandate, and on the other hand it implies the input (as information) that is received from the public (Parliament, 2011:91). On the basis of Easton’s political system, input is outlined as the needs and demands that emanate from the general public into the political system (Heywood, 2002:20; Anderson, 2011:19). This would mainly be developed and articulated into the municipality’s plans and budget or through its medium-term and long-term goals. The interaction between an environment and the system is represented by the inputs that are received from the environment, which circulate into the system and have an impact on the system (Friedman & Allen, 2011:4). Having considered the former statement, the manner in which a municipality allocates its resources is informed by both the needs of the external environment (community) and capacity of a municipality to deliver. Thus, strategic prioritisation is essential to the planning and development of the budget.

2.3.3. Processing

Processing or transformation constitutes the conversion of inputs to outputs; it exists and relies on the support of the organisational structure, resources capacity, skills, internal processes and procedures (Ansari, 2004:6). In practice, processing relates to a municipality's productivity levels, which includes performance activities that are undertaken to accomplish the desired results (Parliament, 2011:91). Thus, the course of action that is taken must demonstrate sound decision making in relation to the cost of achieving predetermined objectives. Furthermore, the performance of an efficient municipality is reliant on a technically sound and well organised management capacity, for the purpose of achieving the desired end.

2.3.4. Output

Outputs constitute the results that are achieved through the conversion of inputs in the system (Cornell & Jude, 2015:3). They are a reflection of the decisions taken by management. Outputs may take the form of goods and services offered by the municipality. Once the outputs have been attained; they circulate back to the environment, from where they started (Du Toit, Knipe, Van Niekerk, Van der Waldt, 2002:88). Outputs can be assessed for their impact on the basis of the three Es' measurement standard. Essentially, the evaluation of outputs must be linked to performance targets of a municipality and its objectives (Fourie & Opperman, 2011:321). Furthermore, the nature and impact of an output is that it must offer maximum social benefit and minimum negative externalities to the public.

2.3.5. Feedback

Feedback is a fundamental component in an open system (Venter 2007:82). Naturally, feedback has two extreme ends; either positive feedback which further advances the existence of the system, or negative feedback which indicates the occurrence of errors or complexities that may potentially halt or derail the system. Feedback is useful in assessing whether or not the desired results have been achieved (Friedman & Allen, 2011:8). An efficient system requires adequate control in order to maintain the systems stability and alignment towards achieving the intended results (Ansari, 2004:6). As a prominent feature in systems theory, feedback highlights the important role information plays through monitoring and evaluation and how divergences are dealt with and by so doing exercising corrective measures (Van der Waldt & Du Toit, 1999:122). Ultimately, the usefulness of feedback is to enhance the efficiency of the system in its entirety.

2.3.1.1. Systems value-application to municipal financial management

What is most critical for a municipality is to establish an efficient accounting system as the back bone for proper budget management. The integration and harmonisation between strategic planning, administrative capacity and financial management function is imperative in taking well informed decisions, which have a direct bearing on the present and future financial position of a municipality. At the forefront of its budget agenda, a municipality needs to institute preconditions that are suitable for achieving effective fiscal resource management, where the enforcement of transparency and accountability is unhindered (Diamond & Khemani, 2005:3).

It is worth noting that the systems way of thinking is not only aligned to the legality of fulfilling policy requirements, it also affirms and safeguards the interests of the public. Essentially, the systems tool enables management to maintain the credibility of the budget at a strategic level and operational level. According to Parry (in the Association of Chartered Certified Accountant (ACCA), 2010:2), the practicality of the systems arrangement personifies a step by step approach that cuts across four critical areas of financial management within a municipality, namely;

- *Aggregate financial management*: monetary sustainability, resource mobilisation and allocation.
- *Operational management*: performance, value-for-money and budget management.
- *Governance*: transparency and accountability.
- *Fiduciary risk management*: controls, compliance and oversight.

In implementing a fully integrated financial management system, Diamond & Khemani (2005:5) provide that the system should exemplify the following features:

- It is a *management tool*: it is imperative that it takes into account administrative and management requirements of the institution.
- It should *provide a wide range of nonfinancial and financial information*: as an apparatus of administration it ought to give the required data for effective decision making, and also enhance the function of reporting and performance management.
- It *is a system*: its' function is to associate, collect, process, and afterwards give information to the relevant parties in the budget system on a continuous basis. A critical function of a system should be to strengthen financial controls and promote accountability.

Figure 3 below is an illustration of municipal financial management as a system.

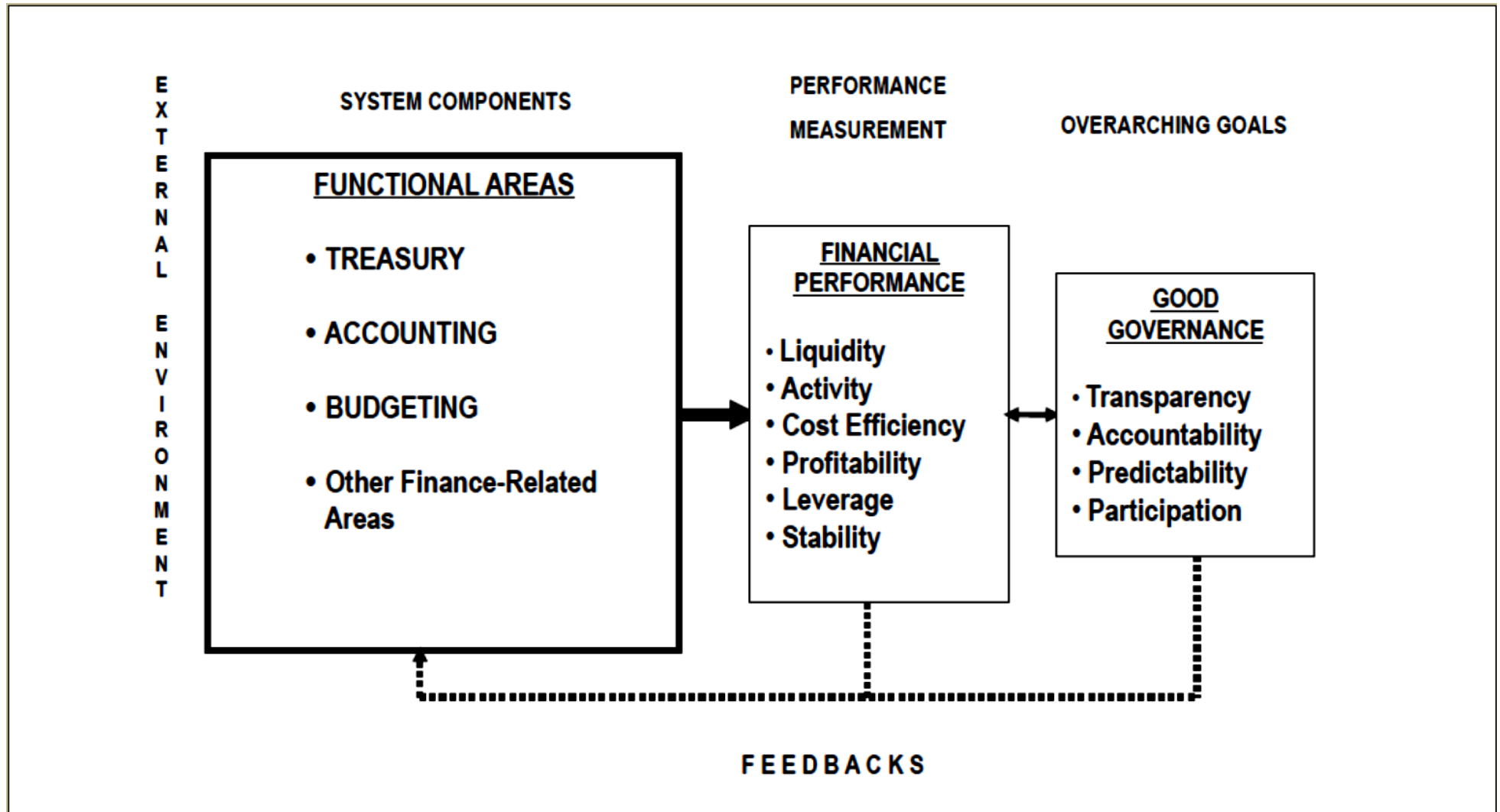


Figure 3: Municipal financial management as a system (Mendoza, 2007:4)

2.4. THE MUNICIPAL BUDGET CYCLE

In the context of ensuring efficient reporting in a municipality, the budget process takes place in well-coordinated manner, resembling that of a cycle. The process is undertaken through meticulous planning, coordination and proper decision making at every stage of the cycle. The budget cycle is instrumental in promoting proper governance, transparency and accountability.

Figure 4, illustrates the municipal budget cycle, with further exploration of each phase:

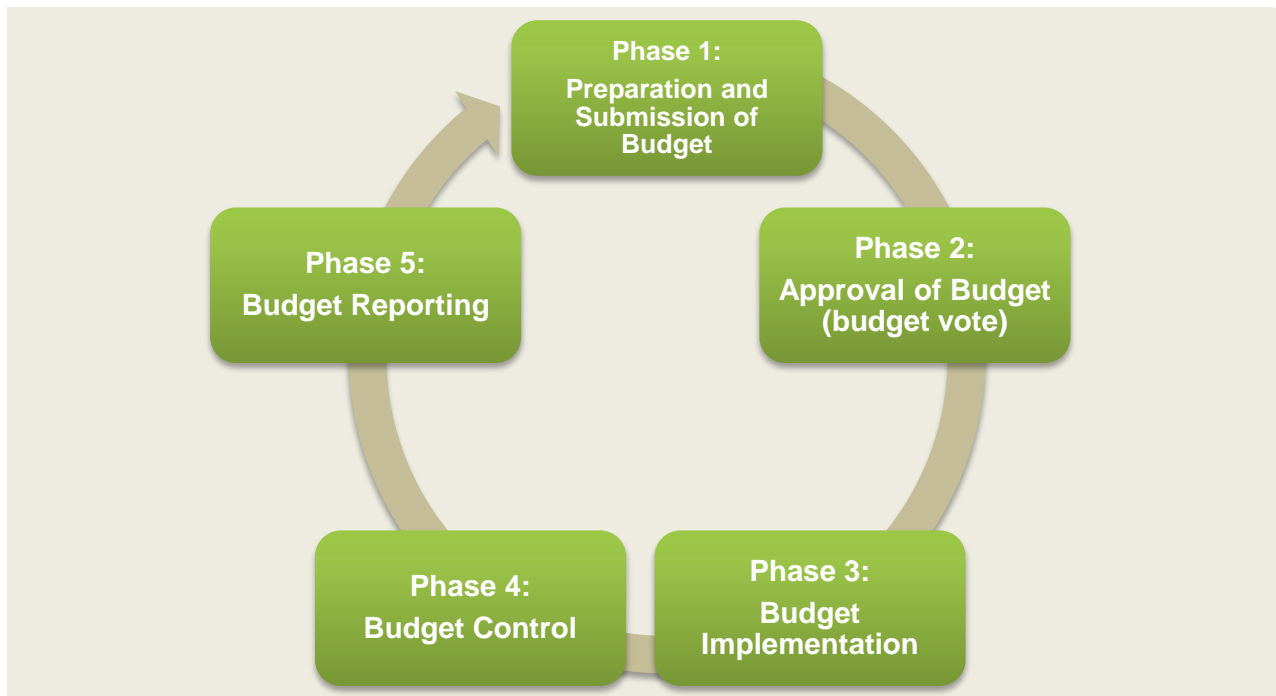


Figure 4: Municipal budget cycle

2.4.1. Phase 1: Budget preparation and submission

The formulation of a budget is informed by the identification of needs and policy goals of a municipality. The preparation phase is initiated by a directive being issued from Treasury and the budget office to heads of departments within the municipality (Khalo, 2007:182; National Treasury, 2006:65). Based on the input received from the respective departments for request of funds, the budget office will proceed with developing the draft budget. During this process the budget will be developed and tabled to the municipal council as a draft budget (Pauw et al., 2009:294). In terms of Section 53 of the Municipal Financial Management Act (Act 56 of 2003), the mayor is required to take the necessary steps in providing guidance over the budget and budget process. This is also done in alignment with the goals and objectives set out in the IDP and SDBIP of the municipality.

2.4.2. Phase 2: Budget approval

The approval of the budget is directed by Section 16 of the MFMA (Act 56 of 2003). As soon as the draft budget has been completed; it must be tabled before council for consideration. In accordance to the MFMA (Act 56 of 2003), National Treasury (2006:66) stipulates that; by 31st May, the council must consider the approval of the budget and must approve it by 30 June. Once the formality of review by the council has been finalised along with the public consultation process, only then can it be approved (National Treasury, 2006:70). The approved budget constitutes the annual budget of the municipality (Section 24 of the MFMA; Khalo, 2007:189). In addition, the approved budget must also be submitted to National Treasury and Provincial Treasury.

2.4.3. Phase 3: Budget implementation

From whence the budget is approved, it is then published. The respective senior managers (management executive) and heads of department will receive their approved budget allocations (National Treasury, 2004:47). In practice, the action of administering a budget can be viewed as an obligation to spend money (*operation of the budget*). Pauw, et al., (2009:296) opine that the execution of a budget is acted upon by the authorisation of expenditure, wherein spending departments are able to carry out their functions. Most importantly, the implementation of the budget must link to the annual performance targets of the municipality and that of the SDBIP (Khalo, 2007:190). For the purpose of control, every financial transaction that takes place must be recorded and processed through the accounting system.

2.4.4. Phase 4: Budget control

Internal control is an important mechanism in the administration and management of the budget. The approved budget itself acts as a control mechanism for monitoring and evaluating spending on the budget and the delivery of objectives (Gildenhuys 1997:52). The managers presiding over the budget should use the operating and capital expenditure to ensure that expenditure is controlled within the confines of the approved budget (Van der Waldt, Van Niekerk, Doyle, Knipe & Du Toit, 2002: 286). This is done to ensure that resources are utilised appropriately and in line with the objectives, policies and plans of a municipality. It is mandatory that each head of department is able to disclose and account, with accurate records of how they carried out their functions. The occurrence of any variances or discrepancies should be completely reported and disclosed.

2.4.5. Phase 5: Budget reporting (Financial reporting and audit)

It is worth noting that reporting of the budget does not take place at the end of the financial year. The reporting of the budget is two-fold; this involves the monitoring and evaluation that is on-going during the implementation of the budget, and it also constitutes the audit process that takes place at the end of the financial year (Pauw et al., 2002:78; Gildenhuis, 1997:54). Budget reporting activities assess the manner in which a municipality employs its’ resources in accomplishing objectives. Reporting is also an instrumental tool for exercising internal control in dealing with deviations, fraud and errors, and also with guidance on how these should be treated.

2.5. KEY ROLE PLAYERS IN MUNICIPAL BUDGET ADMINISTRATION

The MFMA together with the Municipal Structures Act (Act 117 of 1998) and the Municipal Systems Act (Act 32 of 2000) provides clarity on the roles and duties of councillors and municipal officials. The MFMA clearly establishes the separation of roles and obligations concerning the mayor and council and between the mayor and the municipal manager and different senior officials (National Treasury, 2006:30). In practice, it institutes a streamlined and single line of authority within the council, which ought to approve council policy; the mayor, who should provide political leadership and manage the implementation of the policy; and the municipal manager, who is responsible to the mayor and council for implementing those policies (National Treasury, 2004:33). Figure 5 below illustrates the political and administrative structure:

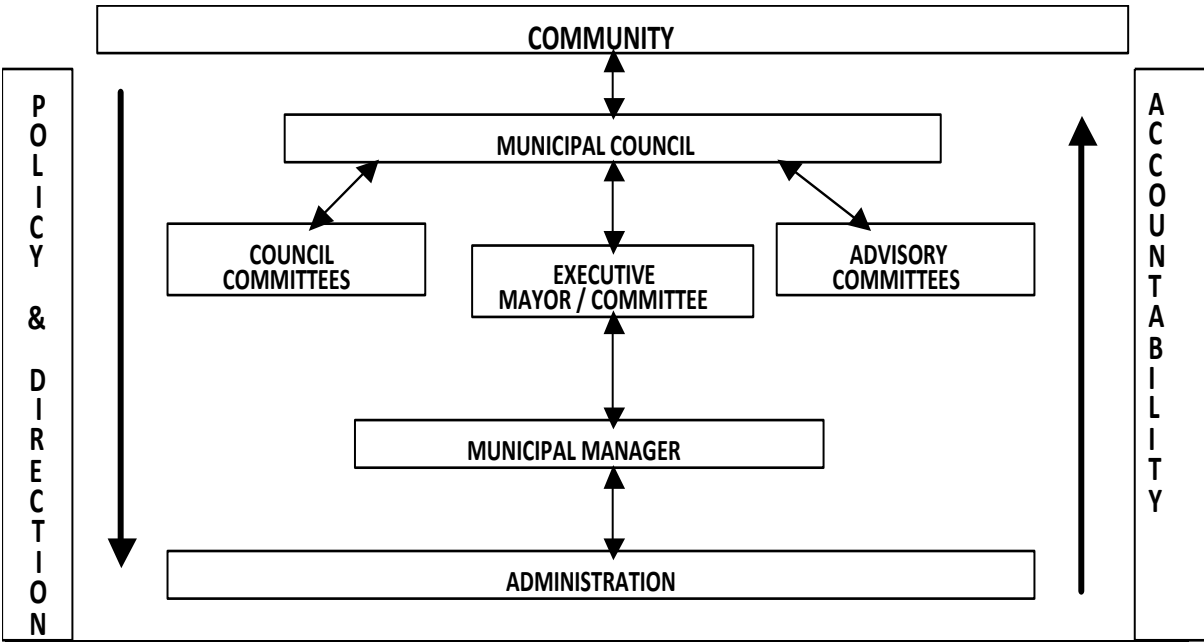


Figure 5: Political and administrative structure (Source: National Treasury, 2004:33)

When we consider the administrative authority, we focus on the management competence of key role players that are involved in the day to day (operational) activities of a municipality. Both management and the administrative capacity define and enforce the financial governance framework of a municipality, in ensuring that financial resources are managed through an efficient system that is established on the support of good governance and best practices (National Treasury, 2006:19). Proper financial management is not the exclusive responsibility of top management; however, it is an all-inclusive goal that should be esteemed by the municipality as a whole.

Table 1 below represents the set of role players that are involved in the administration of the municipal budget.

Municipal Budget Administration Capacity					
Municipal Manager	Chief Financial Officer	Head of Departments	Financial Officers	Internal Auditors	Municipal audit committee

Table 1: Municipal budget administration capacity

2.5.1. Municipal Manager

The municipal manager (MM) presides as the accounting officer of the municipality. He or She is required under the directives of the MFMA (Act 56 of 2003), to set the tone and culture of accountability in how the municipality conducts its business and fulfils its financial obligations (Fourie & Opperman, 2011:37). In their capacity as the accounting officer, they carry the scope of coordinating administrative resources, for the implementation of policy from council (National Treasury, 2004:36). Their responsibilities may include but not limited to; the disbursement of funds, minimisation of financial losses, risk mitigation, revenue and expenditure management. The municipal manager does not only play a role in the strategic outlook of a municipality, but is also required to demonstrate leadership in enforcing corrective measures and ensuring that the municipality conducts its affairs in accordance with the legislative prescripts that govern local government (Van der Waldt, 2007:76).

2.5.2. Chief Financial Officer

The Chief Financial Officers (CFO) functions as the administrative head of the budget and treasury office, and also serves as part of top management (Section 77 of the MFMA). He or She together with their financial officers is tasked with responsibility of ensuring that all matters that pertain to the budget and its implementation conform to the rules and regulations of local government. The CFO also plays a central role in

implementing financial reforms with the direction of the municipal manager (National Treasury, 2004:3). Section 81 of the MFMA, provides a clear outline of the role that is to be performed by the CFO. In executing their role effectively, the CFO must demonstrate a high level of competence on matters that pertain to the budget, financial accounting, strategic planning and risk management (Reddy, 1996:190).

2.5.3. Head of Departments

Head of Departments (HoDs) play a significant role in supporting the MM and CFO in planning and coordinating the budget for the financial year, along with the development of strategic plans and programmes that are carried out by the municipality (Van der Waldt, 2007:76). As part of the senior management of the municipality, HoDs are tasked with the responsibility of ensuring that financial commitments within their respective departments are executed in an appropriate manner and that the necessary steps are taken to ensure complete conformity to the approved budget and alignment to set targets (Reddy, 1996:192). Respectively, each HoD is required to account for its departmental allocation, whilst ensuring that those resources are employed for the specific purpose they were allocated for.

2.5.4. Financial administrators/ officers

Financial administrators play an essential role in the administration of the budget; particularly, in the area of financial planning, procurement and accounting. They form part of the team that is headed by the CFO. Financial officers must possess the appropriate skills within the financial department of a municipality; by demonstrating the ability to ensure conformance to the approved budget, adherence to internal procedures and compliance with the relevant rules, policy and legal frameworks. Furthermore, in their supportive role to senior management, they contribute significantly to the reports that relate to the financial affairs of the municipality.

2.5.5. Internal auditors

According to Section 165 (3) of the MFMA, the internal audit function may be outsourced if a municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that it is feasible or cost-effective. Internal auditors advise the accounting officer and report to the audit committee on matters that are set out in Section 165 (2) (b) of the MFMA. From a management perspective, the role of internal auditors is to supervise and ensure that the municipality is above board in terms of

managing its finances and to evaluate how it exercises internal control in the utilisation its resources. This is done in order to ensure that a municipality is able to minimise its risks whilst carrying out its mandate and accomplishing its targets.

2.5.6. Municipal audit committee

According to Section 166 of the MFMA (Act 56 of 2003), a municipality is required to establish an audit committee. The audit committee is mostly concerned with the upkeep of proper financial administration. Essentially, the function of the audit committee is to ensure that a municipality complies with legislation and is above board with the management of its funds. The audit committee must serve as an “independent advisory body” and should execute its role in the best interests of a municipality (Section 166 of the MFMA). The above mentioned role players are not exhaustive of the other key actors that are instrumental in the efficiency and effectiveness of the financial management system, for example the *Bid Committee*.

2.6. LEGISLATIVE AND REGULATORY FRAMEWORKS

Legislation plays an instrumental role in informing the decision making process and also with guiding the actions of municipal officials. In alignment with the focus of the research, the study recognises that the MFMA (Act 56 of 2003) is established as the primary base and directive of financial reporting in local government.

2.6.1. Municipal Financial Management Act (Act 56 of 2003)

Chapter 12 of the MFMA deals directly with all matters that pertain to financial reporting for municipalities. Section 122 (1) of the MFMA provides the following directive with regards to the preparation of the annual financial statements, which requires a municipality to:

- a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and
- b) disclose the information required in terms of sections 123, 124 and 125.

However, it must be accepted that there are other materials of legislation in conjunction with the MFMA that address and provide practical guidelines on matters that relate to municipal financial management in its completeness. These statutory frameworks are instrumental in setting the tone for proper governance, transparency and accountability.

2.7. CONCEPTUALISING FINANCIAL REPORTING

Public institutions are examined through a lens wherein their primary mandate is to serve the interests of the public. The budget is not only an expression of the obligations that are entered into by public officials; it is also an instrumental tool in measuring the performance result of predetermined objectives against actual results. Legislation is replete with laws and guidelines that define the parameters of reporting requirements. As a legal prerequisite, financial reporting is obligatory under Section 216 of the Constitution, wherein each sphere of government must ensure transparency and expenditure control in the management of financial resources.

The Public Financial Management Act (PFMA) (Act 1 of 1999) and MFMA (Act 56 of 2003) establish fundamental principles for instituting transparent and quality financial reporting. In what was observed from the review of literature is that there is no universal definition in terms of what financial reporting entails. However, the various materials of knowledge that were consulted reveal similarities and a consensus in what constructs the essence of financial reporting. In providing a coherent standpoint of what financial reporting is, the following definitions were discovered and taken into consideration, for purpose of deriving an informed understanding of the explored subject matter. From a business perspective, the Financial Accounting Standard Board (FASB) (2008:1) states that, “financial reporting is not an end itself, but is intended to provide information that is useful in making business and economic decisions.” They further highlight that the aim of financial reporting is to provide information about an enterprise’s financial performance for a particular period and about how the management of the enterprise has discharged its stewardship obligations to its proprietors. This indicates the importance of financial reporting as having a direct impact on the institution and its performance outputs.

According to Tasios & Bekiaris (2012:58), financial reporting is a two-way approach, wherein issuers of financial reports provide them to users of information for their informational needs, who in turn make use of the reports with expectation that it will assist them in enhancing their finances or to exercise decisions relating to the organisation. The premise of this definition is based on the output of financial information and its usefulness to user needs. In the same vein of financial information and information users, the Conceptual Framework Task Force (2012:12) in their Measuring Financial Performance and Public Sector Financial Statements Consultation Paper 2 provide the following view, “users and user needs for financial reports have

traditionally been the lens through which decisions about the concepts underlying financial performance have been made. As a matter of course, user needs are the driving force behind financial reporting.”

Fourie & Opperman (2011:530) submit that financial reporting “is the means of communicating financial information to users in a manner which is understood within both context and limitations, thus enhancing their confidence in the reported information.” This definition underlines the purpose of financial reports, unto which the goal is to provide explanatory information regarding the financial activities of an institution which should reflect the financial status, operating outcomes along with a financial projection for the eminent financial year(s).

In a more succinct approach, Wilfred & Salome (2014:45), provide that financial reporting is an important tool that helps the public sector to take care of its resources in a systematic, efficient, transparent and legitimate manner. In the same vein of “taking care”, the New Zealand’s Controller-Auditor General (2016:6) expressed that it is the manner in which “public entities account for their stewardship of- that is, the care they take with- public money and other assets.” It can be submitted that the issue of “stewardship” brings into focus the interests’ government institutions represent and extent to which the public entrusts them with that responsibility. Thus, in demonstrating good stewardship; financial reporting accounts for the effectiveness of leadership in decision making. Van Wyk (2003:146) highlights that financial statements disclose vital information about the management of resources in public sector. Additionally, the information can be utilised to improve performance and public confidence.

In observation of the abovementioned definitions, it can be established that financial reporting is carried out as the communication of financial information which is directed to a set of users, whom in accordance to their user profile analyse and interpret the information on the basis of their user needs. This is unfolded by the usefulness of the report which can be utilised to inform and guide decision making or as an instrument of enforcing accountability. Furthermore, the quality of information that is presented in the financial report must have a strong backing of relevant, accurate and complete data.

The process of financial reporting is all-encompassing, wherein the scope of financial information covers aspects of; decisions making, compliance, risk, performance and governance. It goes without saying that the justification of implementing a budget must be consistent with strategic plans and in alignment with the requirements of the law.

From the standpoint of capacity, municipalities must exemplify the technical know-how, which is fundamental to the function of effective internal control and the quality of financial reporting. It goes without saying that every cent counts and it should be reported as such.

2.7.1. Objectives of financial reporting

The International Public Sector Accounting Standards Board (IPSASB) released its Consultation Paper: General Purpose Financial Reporting by Public Sector Entities. The Consultation Paper yielded Preliminary Views, under which the scope of financial reporting classifies information into two streams; namely, financial and non-financial information. It is considered that, the logic and usefulness of what is disclosed in the financial report is determined by the range of information in account of (IPSASB in Krambia-Kapardis & Clark, 2010:2-3):

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

The value application of financial reports highlights the significance of accountability with regards to the management of public monies and the consistency of these with the activities and objectives of the institution itself. Essentially, the output of a financial report needs to cover three key areas, namely; the primary purpose of the report, the time period covered by the report and legal requirements that necessitates the need of the report. Principally, the credibility of a municipal budget must demonstrate management's commitment to conforming to the ethos of sound financial practice and good governance. Adherence to legislative requirements must not be viewed as a 'green light' for decision makers to exercise the right to spend without logic or explanation for their decisions.

2.8. QUALITATIVE CHARACTERISTICS FOR MEASURING THE EFFICACY OF FINANCIAL REPORTING

Nzotta (in Adediran, Alote & Ashode, 2003:108), states that financial reporting is the centric nerve which affects the decision making process. The previous definitions that were reviewed put into context the usefulness and relevance of information when it comes to financial reports and in practice the extent to which it impacts decision making and activities of accountability. The International Accounting Standards Board (IASB) (2008:35) states that qualitative characteristics are employed to strengthen the value and usefulness of financial information, and are also distinguished as fundamental standards of measuring the efficacy of financial reporting and the quality of the financial report. These qualitative characteristics are instrumental tools in enhancing the disclosure and presentation of financial and non-financial information.

In the following section, we explore the qualitative characteristics which are instrumental and have a direct impact on financial reporting activities and the information that is measured, assessed and disclosed in the report. Each of the six (6) characteristic are identified below and discussed further on:

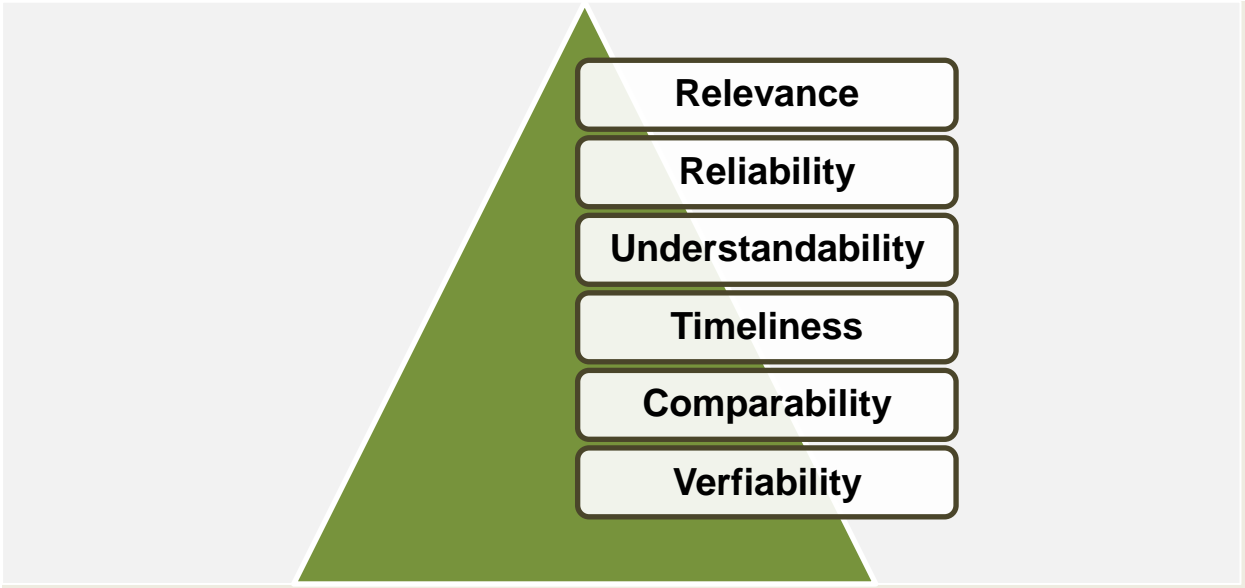


Figure 6: Qualitative attributes for measuring the efficacy of financial reporting

2.8.1. Relevance

An indication that the obtained information is relevant exists when it offers the benefit of making a difference to an entity (Independent Regulatory Board for Auditors (IRBA), 2011:15). The International Public Sector Accounting Standard Board (IPSASB), (2014:30) explains that financial information is relevant if it is capable of making a

difference in achieving the objectives of financial reporting. This is based on the understanding that information can either confirm or correct the past, present and future evaluations (National Treasury, 2006:6; Adediran, Alode & Ashode, 2013:109; Herath & Albarqi, 2017:4).

Robert, Weetman & Gordon (2005:36) make the following assertion, “the relevance of information is affected by its materiality; for example, whether its omission or misstatement could influence the economic decisions of users. Materiality provides a threshold or cut-off point for the provision of information”. It can be established that the principle of relevance is realised when the information is able to influence the economic decisions of information users on the basis of unbiased evaluations.

2.8.2. Reliability

Reliability is described as information that is free from material error and is not subject to any form of bias (Tasios & Bekiaris, 2012:59; Herath & Albarqi, 2017:5). When information is said to be reliable, it constitutes the faithful representation of information (Hemus, Wingard, Van Wijk & Becker, 1999:6). This simply means that the information can be trusted and is said to be valid. National Treasury (2013:6) submits that reliable information qualifies under the following criteria:

- reflects the substance rather than legal form of transactions or events;
- be neutral, in that it should not present information in manner to achieve predetermined results; and
- be complete within the bounds of materiality and cost.

Essentially, reliability strengthens the quality of the information in being understood and is deemed useful by the user. Under no circumstances should information which contains any form of prejudice, distortion or falsification being reported from information that is inaccurate and incomplete be deemed acceptable. The IPSASB (2014:31) submits that reliability must achieve the highest level of neutrality, such that information is not used to manipulate the outcome of the reported results.

2.8.3. Understandability

There term understandability simply means that the information makes sense to the users (FASB, 2010:21). The quality of information is deemed useful when its users are able to comprehend its contents and develop meaning from analysis (IPSASB, 2014:32; Hemus, Wingard, Van Wijk & Becker, 1999:5). Thus, it is of extreme importance that the information is categorised and presented in a clear and coherent manner, with no

ambiguity. Understandability highlights the diligence that is exercised in terms of how information is prepared, processed and presented. The standard of understandability requires that information must not be subject to significantly different interpretations (IRBA, 2014:7). Furthermore, those who are tasked with the responsibility of compiling financial statements should make use of practical visual aids such as graphs, tables and charts if necessary (Fourie & Opperman, 2011:548). The disclosed information must be kept in line with the scope and purpose of the report.

2.8.4. Timeliness

Timeliness constitutes the timeframe or period it takes for the information to be made available and accessible to users (Alderian, Alode & Ashode, 2013:10). According to the ASB (in Tasios & Bekiaris, 2012:60) and Herath & Albarqi (2017:5), timeliness exemplifies making information accessible to information users before it loses its ability to inform decision making. The timeliness of information is a crucial factor, which impacts on the usefulness of the information and extent to which it lends itself to the function of carrying out accountability (IPSASB, 2017:51). Timeliness has a direct impact on the relevance and faithful representation of information, which is a critical balance in satisfying the economic needs of information users (IASB, 2008:52; Fourie & Opperman, 2011: 549).

2.8.5. Comparability

The quality of comparability is put into effect when the users of the information are able to identify similarities and differences by evaluating performance for a certain period and/ or between similar entities (National Treasury, 2012:6; Robert, Weetman & Gordon, 2005:35). Comparability and consistency are two different aspects. Where consistency is applied, it is a means of achieving comparability as a goal and to the extent to which the information is deemed useful (IPSASB, 2017:32). Consistency as a key factor is derived from employing the same accounting processes and policies (FASB, 2010:19). Hemus, et al. (1999:5) and Herath & Albarqi (2017:5) point out that the adopted accounting policy has an effect on the provision of comparable information, in terms of how transactions are treated and the results obtained between different accounting periods.

Comparative information is instrumental when it is employed for the purpose of identifying patterns and trends as disclosed in the financial statements, which presents significant value in understanding the state of affairs and financial performance for a

specific period (Fourie & Opperman, 2011:549). A municipality can conduct a comparative assessment over a period of time or comparatively evaluate itself against other municipalities that are similar to it. It's worth noting that consistency is a key component to comparability, especially in cases of dealing with changes, adjustments, uncertainty and new information (Beest, Braam & Boelens, 2009:15).

2.8.6. Verifiability

Verifiability refers to the ability of confirming (being able to verify) the information, as an accurate account of what is disclosed and presented in the financial statements (FASB, 2010:17). The principle of verifiability is not only based on the truthfulness of the information but is also linked to the validity and faithful representation of information (IASB, 2008:3). In practice, verifiability is measured by information that is supportable during preparation and disclosure (Krambia-Kapardis & Clark, 2010:19).

Regardless of whether it is alluded to as verifiability or supportability, the quality of verifiability implies that distinctively proficient and independent observers (users of information) should be able to achieve a general accord on the information presented, despite not being in complete agreement (IPSASB, 2012:52). Verifiable information qualifies on the following criterion (IPSASB, 2012:40):

- the information represents the phenomena that it purports to represent without material error or bias; or
- an appropriate recognition, measurement, or representation method has been applied without material error or bias.

Whilst the aforementioned characteristics do not singlehandedly represent the quality of financial reporting; however, they do offer much assistance to information users and have a direct impact on the output of financial reports. These characteristics are linked and also contribute to the assessment of the appropriateness of decision making, on the basis that the disclosed information is complete, reliable and useful. Furthermore, the standard of quality in the information is underlined by the quality of financial reporting.

2.9. ELEMENTS OF FINANCIAL STATEMENTS

According to Roberts, Weetman & Gordon (2005:33), "the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions." As instruments of measurement, financial statements are

critical in providing detailed information about how a municipality conducts its business and manages its finances. These elements are identified and explained as follows:

2.9.1. Assets

An asset is a resources or a possession of value that is controlled by an entity as a result of previous activities; and, is also a means in which future economic benefit can be derived (IPSASB, 2017:74; Hemus, et al., 1999:9). Notably, assets are distinguished into two classifications, namely; tangible assets which are of a physical form (e.g. land, property, equipment); and non-tangible assets for properties such as patents (IPSASB, 2010:18; Fourie & Opperman, 2011:554). The utilisation of an asset contributes directly to a municipality's ability to provide goods and services. In order for municipality to provide adequate service delivery, it must have the proper and sufficient assets that will enable it to generate income which is collected in the form of revenue through rates and taxes. It is undeniable that assets play a critical role in the operational activities of a municipality and how it carries out its mandate.

2.9.2. Liabilities

A liability can be described as the interest of creditors other than that of the municipality's itself (IPSASB, 2017:76). Practically, liabilities take the form of debts that have been incurred over time. Liabilities represent financial obligations that have been acquired by a municipality from previous activities which now require an outflow of resource (money being spent) in order for them to be settled (IPSASB, 2012:75, Pauw, et al., 2002:189). Liabilities are also formalised through agreements that are binding and enforceable by law for amounts payable on goods and services acquired by a municipality (Fourie & Opperman, 2011:555). A municipality as a public institution may only enter into commitments that are lawful and also in alignment with the legislative guidelines relating to financial management. Moreover, liabilities can also be acquired from future obligations; for example, *the repayment of a loan* (Hemus, et al., 1999:10).

2.9.3. Equity/ Net assets

Equity entails the remaining interest that is obtained once total liabilities have been deducted from the entity's assets. The equity of a municipality is categorised as reserves and returned surplus in the statement of financial position (Fourie & Opperman, 2011:555). The assessment of equity evaluates the management of an institution, on the basis of its current financial capacity and sustainability in meeting its financial commitments to its creditors (IPSASB, 2010:56; Fourie & Opperman,

2011:556). In addition, Hemus, et al., (1999:10) point out that; “the amount at which equity is shown in the balance sheet is dependent on the measurement of assets and liabilities and not the value of the enterprise as a whole on the going concern basis.”

2.9.4. Income

Income translates to both revenue and gains. Revenue is derived from operating activities of various sources such tariffs, rates and taxes (Fourie & Opperman, 2011:556). A gain on the other hand represents an item that contributes to an increase in economic benefit for a municipality, for example this could arise from the disposal of non-current assets (Hemus, et al., 1999:12). Generally, income is reflected on the financial statement as the inflow of money as received by the municipality (Pauw, et al., 2009:177). An increase in income will constitute future economic benefit which is attributed to a decrease in liabilities and an increase in assets (Roberts, Weetman & Gordon, 2005:36; Hemus, et al., 1999:11).

2.9.5. Expenses

Expenses are recognised as the losses and costs that are incurred by a municipality in carrying out its day to day activities (Hemus, et al., 1999:12). Expenses may take the form of wages, service fees or maintenance fees. Essentially, expenses result in an outflow of money from the municipality, which is paid out in settling obligations that were previously entered into (Pauw, et al., 2009:177). From the presentation of the income statement, expenses constitute a decrease in assets or a measured increase in liabilities; which will have a direct impact on equity (Roberts, Weetman & Gordon, 2005:36). In order for a municipality to fulfil its mandate, it is inevitable that it will incur costs in the process; thus, it needs to put in place robust control measures in managing expenditure effectively.

2.9.6. Capital maintenance

The focus of accounting on capital maintenance is linked to results and is measured against the financial performance of an institution (Jaarat, 2015:661). There are two concepts of capital maintenance that can be applied, namely:

- Financial capital maintenance which is adopted in measuring the maintenance of the nominal invested capital, ‘in which capital equal to net assets (assets - liabilities)’ (Jaarat, 2015:661). Profit is gained under this concept only if the financial amount of net assets at the end of the financial period is greater than

the financial amount of net assets at the beginning of the financial year (Hemus, et al., 1999:15).

- Physical capital maintenance is based on the operating capability of an entity. The entity earns a profit when its operating capability at the end of the financial year exceeds the operating capability at the beginning of the financial period (Hemus, et al., 1999:16; Mrša, Mance & Vašiček; 2008:144).

Both these concepts make a comparative analysis of whether the entity was able to maintain its capital from the beginning of the financial period to the end of the financial period. The significance of financial statements enhances financial reporting activities in accurately detailing the performance of the budget and how expenses and revenue were managed throughout the financial year. Thus, the quality of completeness and accuracy play a critical role in the credibility of the information disclosed in the financial statements. Furthermore, financial statements are instrumental in informing the decision making process on the basis of the financial health of a municipality.

2.10. MUNICIPAL ACCOUNTING STANDARDS

Within the context of an accounting framework, municipalities through their accounting policy must employ analytical financial instruments. These instruments are known as *Accounting Standards*. Universally, accounting standards are utilised as control mechanisms when dealing with; financial transactions, the preparation of financial statements and for the purpose of completing audits (Garg, 2012:117). Accounting standards are connected to the accounting system and have a direct bearing on the effectiveness of a municipality's financial accounting practice. In reality, those who are tasked with responsibility of preparing financial statements must make use of accounting standards which provide guidance when dealing with the following matters (Fourie & Opperman, 2011:530):

- explanation of the accounting treatment of the transactions;
- explanation of the accounting measurement of the transaction; and
- explanation of the presentation and disclosure requirements of transactions in the annual financial statements.

Essentially, the utilisation of accounting standards contributes to the credibility and quality of both, financial data and financial information. It's worth noting that, accounting standards are instrumental in strengthening the use of proper financial practices and the value of the reported information.

2.10.1. An overview of the Accounting Standard Board (ASB)

The Accounting Standard Board (ASB) was established by the then Minister of Finance in early 2002, in accordance with Section 87 (i) of the PFMA Act (Act 1 of 1999). The primary objective of the ASB was to define and institute accounting standards that would establish a sound foundation for financial reporting in the public sector. According to Pauw, et al. (2009:186), the accounting standards as developed by the ASB are clear in specifying how transactions and other economic matters are to be identified, prepared, processed and disclosed in the financial statements. Section 89 of the PFMA (Act 1 of 1999) provides that the ASB was bestowed with the following functions:

- to set standards of generally recognised practices as required by section 216 of the Constitution (1)(a);
- to prepare and issue directives and guidance with regards to the above mentioned standards;
- to recommend to the Minister of Finance the effective date for the implementation of the standards; and
- to further undertake activities that relate to the advancement of quality financial reporting in the public sector.

For the purpose of this study, focus will be placed on the Generally Recognised Accounting Practice (GRAP) standards, Generally Accepted Municipal Accounting Practices (GAMAP) standards and the International Public Sector Accounting Standards (IPSAS).

2.10.2. GRAP standards

Generally Recognised Accounting Practice (GRAP) standards were established in accordance to the Constitution for the purpose of facilitating the promotion of transparency and the effective expenditure management in the public sector. These standards conform to the International Public Sector Accounting Standards (IPSAS), which are also aligned to the International Financial Reporting Standards (IFRS) (Van Wyk, 2007:66). The overarching objective of GRAP standards is to establish accounting standards that can correctly measure and disclose the financial position and financial performance of a municipality, by fairly and accurately presenting information and ensuring uniformity in the presentation of the financial statements (Fourie & Opperman, 2011:531). To this effect, financial reporting activities are carried out and supported through recognised accounting concepts, principles, norms and standards

Pauw et al. (2009:186), alludes that from a legal perspective of implementing GRAP standards, the following benefits can be realised:

- Enhanced reliability, consistency and comparability in financial reporting.
- Easier assessment of the fairness of the presentation of the financial statements.
- Increased understanding of financial information, as adherence to GRAP ensures complete and useful information.
- Standardisation of financial reporting in both the private and public sector.
- Enhanced management information for evaluating and monitoring the efficient, economic and effective management of resources.

Table 2 below outlines the GRAP standards and the topics they represent:

GRAP No.	Topic
GRAP 1	Presentation of financial statements
GRAP 2	Cash flow statements
GRAP 3	Accounting policies, changes in accounting estimates
GRAP 4	The effects of changes in foreign exchange rates
GRAP 5	Borrowing Cost
GRAP 6	Consolidated and separate financial statements
GRAP 7	Investments in associates
GRAP 8	Interests in joint ventures
GRAP 9	Revenue from exchange transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment property
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, contingent liabilities and contingent assets
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 101	Agriculture
GRAP 102	Intangible assets

Table 2: GRAP Standards

2.10.3. GAMAP standards

During the period of July 1997, National Treasury commissioned a study to develop accounting standards that would be applicable to municipalities (ASB, 2004:3). In October 1998, the presiding Minister of Finance approved the GAMAP Standards; however, the inauguration of these standards was postponed to October 2002 (ASB, 2004:4). According to De Beer (2001:15), the purpose of the GAMAP standards was not established to regulate the financial activities of municipalities or to act as a legal backing in determining which transactions are to be undertaken by a municipality. The focus of these standards was to provide a practical framework for municipalities that would facilitate and guide the manner in which financial data is treated and disclosed in the financial statements. According to Fourie (in Scott, 2008:4) the main objectives of applying GAMAP standards are:

- to ensure consistency in the accounting treatment of transactions and classification of account balances in municipalities;
- to enhance comparability between similar-sized municipal bodies on a national basis; and
- to enable users of financial statements to make more accurate assessments of risks and returns.

It can be accepted that the value-application of GAMAP standards are intended to address fundamental areas of accounting within municipalities with regards to, the preparation and disclosure of financial statements and the audits outcomes for the financial year end. Essentially, the application of accounting standards is to strengthen the quality of financial reports and to provide accurate details about the nature and purpose of financial transactions. It is imperative for accountants to be well acquainted with these standards, with respect to the preparation, presentation and disclosure of financial statements.

The following challenges are cited by Yorke (in Moeti, 2007:197) as prevalent challenges municipalities experience in implementing GRAP/ GAMAP Standards:

- The inability to adopt a principled-based accounting system, which is attributed to a difficulty of having to understand and apply specific principles to the circumstance that pertain to the uniqueness of the transaction.
- Nonfeasance to formulate and institute a proper accounting policy.
- Unable to convert account balances to fund accounting, along with restating previous balances in the income statement.

The ASB has since then reviewed GAMAP standards, which resulted in the issuing and implementation of new standards of GAMAP (ASB, 2004:4). This was also steered by the idea that GRAP standards will supersede the new GAMAP Standards; thereby, GRAP standards will be the primary standards of practice for all municipalities. (Scott, 2008:2). Table 3 below outlines old GAMAP standards and the status of the topic they cover, which have been revised under new GAMAP reference, along with those that have been replaced by GRAP:

GAMAP No.	Topic	New Reference
GAMAP 000	Framework for the Preparation and Presentation of Financial Statements	GRAP 0
GAMAP 100	Presentation of Financial Statements	GRAP 1
GAMAP 101	Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies (now Accounting Policies, Changes in Accounting Estimates and Errors)	GRAP 3
GAMAP 102	Accounting for Leases in the Financial Statements of Lessees	Withdrawn
GAMAP 103	Provisions, Contingent Liabilities and Contingent Assets and Events Occurring After the Balance Sheet Date (now Provisions, Contingent Liabilities and Contingent Assets)	GAMAP 19
Not a separate statement	Events After the Balance Sheet Date	Withdrawn
GAMAP 104	Inventories	GAMAP 12
GAMAP 105	Accounting for Investments in Associates and Subsidiaries (now Accounting for Investments in Associates)	GAMAP 7
Not a separate statement	Consolidated Financial Statements and Accounting for Controlled Entities	GAMAP 6
GAMAP 106	Revenue	GAMAP 9
GAMAP 107	The Effects of Changes in Foreign Exchange Rates	GAMAP 4
GAMAP 108	Lessor Accounting	Withdrawn
GAMAP 109	Research and Development Costs	Withdrawn

GAMAP 110	Retirement Benefit Costs	Withdrawn
GAMAP 111	Cash Flow Statements	GRAP 2
GAMAP 112	Financial Reporting of Interests in Joint Ventures	GAMAP 8
GAMAP 113	Property, Plant and Equipment	GAMAP 17
GAMAP 114	Accounting for Statutory Funds, Reserves and Capital Receipt	Withdrawn

Table 3: GAMAP Standards (ASB, 2004:7)

2.10.4. IPSAS – International Public Sector Accounting Standards

The International Public Sector Accounting Standards (IPSAS) are developed by the International Public Sector Accounting Standards Board (IPSAB) for the public sector (Chan, 2008:1; Van Wyk; 2007:66). These standards are applied on the side of a cash basis of accounting and an accrual basis of accounting (International Federation of Accountants (IFAC), 2004:13). The IPSAS were designed to be applicable to public sector entities that meet the following criteria (IPSASB, 2017:14):

- are responsible for the delivery of a service to benefit the public and/or the redistribution of income and wealth;
- mainly finance their activities, directly or indirectly by means of taxes and/ or from other levels of government, social contributions, debt or fees; and
- do not have the primary objective of generating a profit.

These standards are established to advance public interest through financial reporting, wherein the promotion of transparency and accountability is steered towards the improvement of public financial management and proper decision making. In the event that the scope of GRAP and GAMAP standards does not cover certain issues, IPSAS can be applied in that respect (ASB, 2004:8).

2.11. PREVALENT CHALLENGES IN MUNICIPAL FINANCIAL REPORTING

Municipal leaders as custodians of a municipality are not only entrusted with the authority of decision making at a grass root level, but they are also required by law to account for the management of resources, on the basis of the actual use of funds against what was originally budgeted for (Fourie, 2007:741). From all sides of the public sector; Visser & Erasmus (2002:355), identify the following deficiencies as impediments to an efficient financial reporting system:

- inability to determine the cost of service;

- distortion of financial reports;
- no existence of a system to measure capital maintenance; and
- a significant emphasis on budget compliance does not facilitate meaningful information reporting.

There is no doubt that Local Government has undergone structural changes and reforms in an effort to promote sound financial management, good governance and transparency in municipalities. Despite the clear requirements and guidelines that are set out by the MFMA and efforts from both National Treasury and SALGA in supporting municipalities, there are still systematic inefficiencies that obstruct the realisation of satisfactory performance audit results (Ababio, 2007:10). These issues are not restricted to finances only; they also encompass the broader context of what constitutes the 'capacity' of a municipality.

In the State of Local Government in South Africa report, CoGTA (2009:54) cited that the poor state of audit reports from municipalities originates from their inability to manage their annual financial statements, along with the processes set out in the MFMA. There are various challenges that inhibit quality financial reporting and these challenges vary across municipalities, even to the level of complexity. The following section delves into the perspective of the AGSA in respect of the municipal audit outcomes.

2.11.1. The Auditor General's views on municipal financial audits

The office of the Auditor General is affirmed and established by the Constitution as an independent state institution. Section 3 of the Public Audit Act (Act 25 of 2004) declares that the Auditor General is the Supreme Audit Institution of the Republic of South Africa. In his/her capacity the Auditor General is tasked with the duty of preparing a report on the performance of a municipality, which must be concluded within three (3) months receipt of its annual financial statements (Section 126 of MFMA, Act 56 of 2004). The Auditor General may in view of a municipality's financial administration and management conduct, raise issues which a municipality must address (Section 131 of MFMA, Act 56 of 2004).

The role that is performed by the AGSA is a critical one; thus, it is of utmost importance for the Auditor General to exercise his/her functions without any form of bias, prejudices, partiality or fear. For that reason, government institutions within the directive of the Constitution and the relevant regulatory guidelines need to demonstrate the highest level of cooperation and transparency during the audit process.

Table 4 below provides a comparative view of the progress towards achieving clean audits, of which were achieved by municipalities from the 2012-13 financial year to the 2015-16 financial year. This is collated against each province and the total number of the previously 278 municipalities that comprised local government.

		FINANCIAL YEAR			
		2015-16	2014-15	2013-14	2012-13
PROVINCES	Eastern Cape	7	5	2	0
	Free State	1	1	0	0
	Gauteng	1	4	4	1
	Kwa Zulu Natal	11	18	13	7
	Limpopo	0	0	0	0
	Mpumalanga	3	2	2	2
	North West	0	0	0	0
	Northern Cape	2	2	2	1
	Western Cape	24	22	17	11
TOTAL		49	54	40	22
% (out of 278)		18%	19%	14%	8%

Table 4: Municipal Clean Audit Trend from 2012/13 – 2015/16 financial year (Sourced from: The Auditor General - Consolidated general report on local government audit outcomes)

The above table gives a clear indication that the progress towards achieving clean audits has been rather slow paced. The Western Cape has been able to achieve a steady increase in the number of clean audits in the province. Their efforts are followed by Kwa-Zulu Natal and the Eastern Cape. In the case of Limpopo and the North West, both these provinces have been unsuccessful in securing clean audits within their municipalities, for the four consecutive financial years. Whilst the Auditor General’s report discloses critical information about the state of administration and governance in municipalities, the are more intricate issues that need to be considered when dealing with the financial viability and sustainability of municipalities. The capacity of an audit outcome is clear in the information it discloses, which directly addresses issues of internal control, accounting practices, records management, quality of information, organisational systems and procedures.

Under the review of the 2016-17 financial year, the AGSA expressed his disappointment at the state of unaccountability in Local Government. He recounts the following indicators as reasons for the regression that was observed from the audit outcomes:

- The number of clean audits declined from 20% in 2015-16 to 13% (33 municipalities), for the now 257 municipalities that represent local government (AGSA, 2018:13). This stark regression is a clear indication of an accountability failure, which puts into question the extent to which municipalities are able to arrange themselves internally and establish effective reporting mechanisms. The lack of complete, accurate and timely data weakens the responsibility of municipal officials in being answerable to their constituency.
- Poor submission of quality financial statements. With regards to the submission of financial statements, the AGSA observed that only 22% of the audited municipalities were able to provide financial statements that were free from financial misstatements (AGSA, 2018:14). As result, this paints a bleak picture of the responsibility of ensuring credible and accurate in-year reporting within municipalities. In the previous year (2015-16), the AGSA expressed that 62% of municipalities with an unqualified audit opinion, in reality would have been 31%. This was attributed to auditees who were permitted to make corrections to misstatements that were identified during the audit process (AGSA, 2017:34).
- It is also evident that municipalities to a great extent still find it difficult to report on performance. In the report of 2016-17, an astounding 62% of the performance reports that were generated had 'material flaw', such that the AGSA did not deem the reports to be credible for council and the public (AGSA, 2018:14). A key contributing factor of this is the inability to quantify the performance productivity of municipalities through reliable, accurate and complete data.

It can be accepted that the purpose of financial reporting and the use of financial statement is to promote transparency and accountability in municipalities. Where reporting inefficiencies materialise, is a clear indication of a weak system and the lack of proper financial practices. The auditor general's report cannot be viewed as a confirmation tool for municipalities to be told that they are failing. It is the responsibility of the municipality to accelerate its leadership capacity, to identify gaps and areas that need to be addressed. Problems do not go away simply because they have been identified; there should be a commitment to addressing institutional and systematic failures in order to strengthen the achievement of positive audit outcomes.

2.12. THE ACCOUNTING CYCLE AND FINANCIAL REPORTING

The process of demonstrating accountability is reliant on an accounting system that is, transparent and well-organised for the purpose of handling and processing financial data, from the budget preparation stage to budget implementation (Diamond & Khemani, 2005:5). There are three types of accounting functions that a municipality performs in accounting for the results achieved through decision making; these are (Fourie & Opperman, 2011:576):

- *Financial accounting*: is concerned with information that reports on the financial outlook of a municipality, in relation to its performance, position and conduct.
- *Costing accounting*: this pertains to establishing the cost that relates to the provision of services, with the main focus on cost accumulation, inventory valuation and product costing.
- *Management accounting*: deals primarily with providing information regarding the internal decision making process. It has a strong emphasis on the allocation efficiency of resources.

What is evident is that accounting activities are linked to the financial information system. The accounting cycle can be broken down into three basic components, namely; obtaining financial data, recording and processing, and lastly reporting (Pauw et al., 2009:172). These components influence how financial information is prepared and disclosed in the financial report and financial statements (Visser & Erasmus, 2002:236). Figure 7 below, is a basic illustration of the accounting cycle and each phase of the cycle is discussed thereafter:

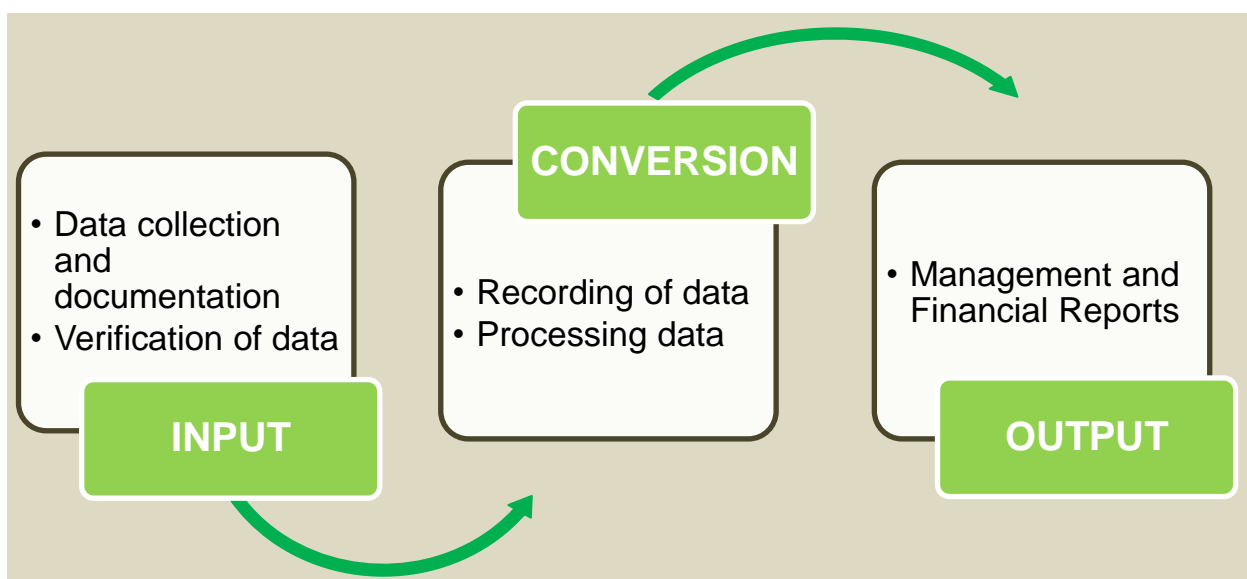


Figure 7: Accounting cycle and financial reporting (Adapted from: Visser & Erasmus, 2002:235)

2.12.1. Obtaining financial data

Essentially, this step is concerned with collecting and compiling financial data. Financial data can be sourced from records that are kept by a municipality of all its financial activities. The data collected provides information about the nature of the transaction, date, purpose and the transacting parties (Visser & Erasmus, 2002:236). What is important about the existence of financial data is that it establishes an audit trail from when the transaction was originated and as it moves through the accounting system. It is of basic importance to ensure that the data is complete, accurate and valid by authorisation (Pauw et al., 2009:173). This data can be obtained from source documents such as, purchase orders, invoices and petty cash vouchers.

2.12.2. Recording and processing financial data

Recording of financial data refers to correctly categorising and summarising the financial data in a manner that is useful, clear and meaningful. Recording takes place through the activity of 'entering', either by journalising and posting (general ledger) or through the use of a financial software programme. Once the data has been recorded and classified, it moves into the step of processing. (Visser & Erasmus, 2002:236). The financial data is captured and processed in compliance with the prescribed accounting standards and norms, along with the rules and regulation that are relevant to municipal financial management. For that reason, principles of accuracy and completeness of data are critical during processing activities (Pauw, et al., 2009:174). Lastly, the report that is generated by the software programme is based on the financial data that was entered and processed.

2.12.3. Reporting: Management and financial reports

The last stage of the cycle is the output of the report. The produced report is categorised into two deliverables, namely; the financial report which contains the financial statements and the management report (Visser & Erasmus, 2002:23). Essentially, the nature of the report is to provide an assessment of the financial and performance results of a municipality for a specific period (for example, a financial year) (Pauw, et al., 2009:174). The focus of the report is to assess the effectiveness of management and decision making process in relation to the utilisation of funds. Once the financial statements have been issued, information users can use the information according to their user needs. Moreover, the financial reports are useful in enhancing the quality of decision making and in improving a municipality's performance.

2.13. MUNICIPAL REPORTING REQUIREMENTS

Budget control is an important function, one which must be applied and carried out in an organised manner. Fourie & Opperman (2011:577) express the following view, “budget control is the watchdog ensuring that what is budgeted for is actually achieved within the context and timeframe planned”. It is therefore necessary for information to be made available in a timeous manner, for the purpose assessing the result(s) derived from decision making and for the function of oversight in a municipality. Herath & Albarqi, (2017:7) state that, “effective internal control always lowers information risk and enhances the completeness and accuracy of planned information”. Municipalities carry out their performance measurement evaluations through an in-year reporting approach. Figure 8 below illustrates the municipal accountability cycle:

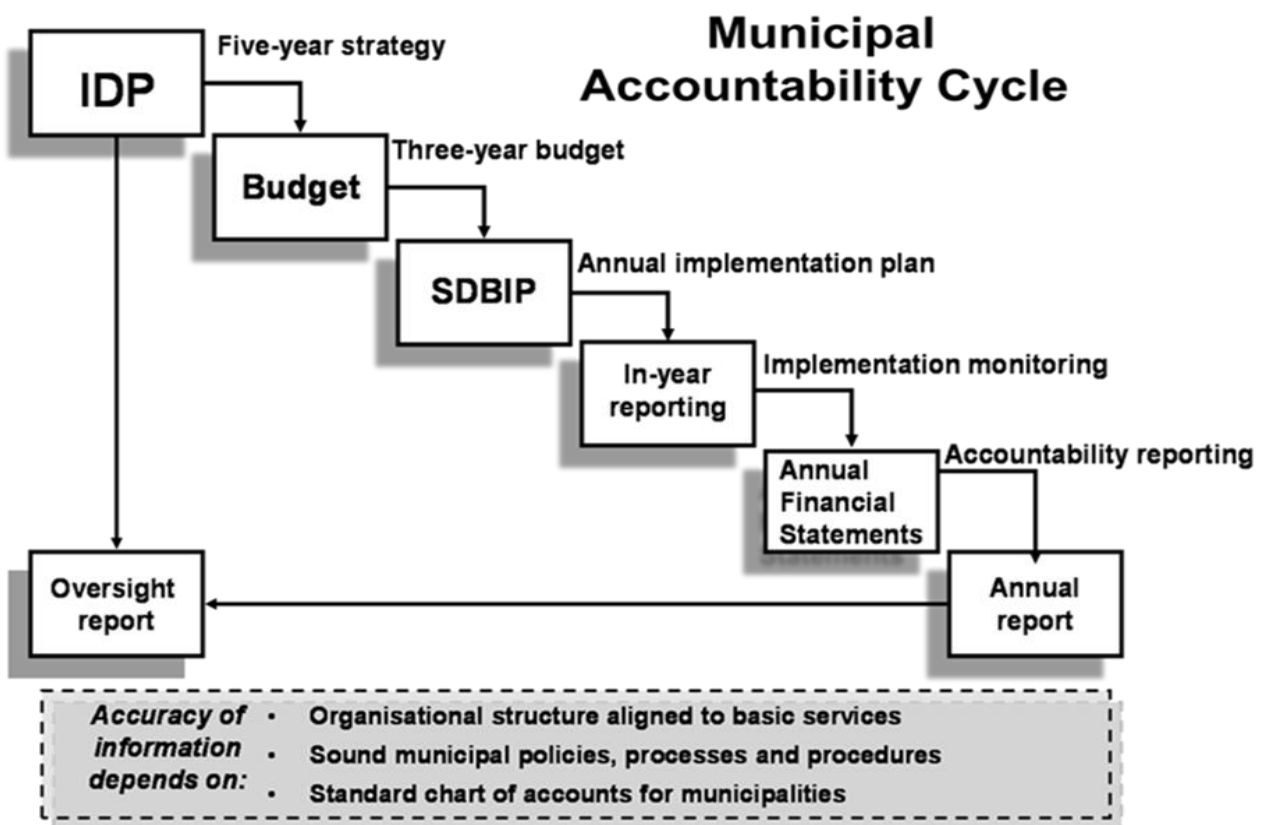


Figure 8: Municipal Accountability Cycle (Source: National Treasury, 2011:76)

The practice of in-year monitoring and reporting is aimed at promoting accountability over budget funds, along with strengthening the efficiency of municipal performance in relation to the strategic and operational plan. The significance of performance assessments is enhanced by the existence of a transparent financial management system that facilitates (National Treasury, 2000:6):

- controlling the current activities of the municipality;
- planning and preparation of future strategies and operations;

- improving objectivity in the decision-making process through the use of lesson learned and fact based evidence;
- optimising the utilisation of resources towards this realisation of targets;
- measuring and evaluating performance; and
- improving internal and external communication and information.

The following reports are required submissions, which are prepared by municipalities:

2.13.1. Monthly reports

According to Section 71 of the MFMA (Act 56 of 2004), the municipal manager is required to provide monthly reports (also known as monthly budget statements) to the mayor of the municipality and the relevant provincial treasury, no later than the 10 working days after the end of each month. The purpose of the report is to give an account of the financial activities of the municipality on a monthly basis. The relevant provincial treasury is required to submit a monthly budget statement to National Treasury and also make public a consolidated statement of the budget progress of the municipalities and municipal entities within the province (National Treasury, 2004:82). Lastly, the provincial MEC for finance must provide the provincial legislature with a consolidated statement for each quarter (Section 71(7) of the MFMA).

2.13.2. Mayoral quarterly reports

According to Section 52 (d) of the MFMA (Act 56 of 2004), the Executive Mayor must submit to Council within thirty (30) days of the end of each quarter, a quarterly report regarding the budget and state of financial affairs at the municipality. The mayoral quarterly report must be compiled and provided to the council, for the purpose of reporting on the progress and execution of the budget and the performance targets of the SDBIP (National Treasury, 2011:75).

2.13.3. Mid-year report

Section 72 of the MFMA (Act 56 of 2004) prescribes that the municipal manager must by 25th January of each year; assess the performance of the municipality during the first half of the financial year. This report must also be submitted to Council, Provincial Treasury and National Treasury by 31st January. Subject to the assessed performance; the municipal manager in his/her capacity as the accounting officer of the municipality, can make recommendations as to whether a budget adjustment is required and also recommend revised projections for revenue and expenditure to the extent that this may be necessary (Section 72 (3) of the MFMA).

2.13.4. Annual report

Chapter 12 of the MFMA sets out the preparation and adoption process of the municipal annual report (Section 121 of the MFMA). The annual report is a comprehensive performance report that is prepared, submitted and publicised; which articulates the financial performance and accomplishment of performance targets for the reported financial year (Section 46 (1)(a) of Municipal System Act; Section 127 of the MFMA; National Treasury, 2011:76). Essentially, the lens of an annual report brings under review the full scope of a municipality's financial and management activities.

National Treasury (2006:114) points out that the objectives of an annual report are:

- to provide a record of the activities of a municipality or municipal entity;
- to provide a report on performance in relation to service delivery and budget implementation;
- to provide information that supports decisions made with regards to revenue and expenditure; and
- to promote accountability to the local community for decisions made.

In demonstrating accountability and transparency, the annual report must also be made available to the public; for example, making it available on the municipal website. In addition, the annual report must be supported with the inclusion of financial statements for the financial year-end (Section 46 (1)(b) of the MSA; Section 122 of the MFMA).

2.13.5. Oversight report

According to the National Treasury (2006:117), "the oversight report is a report of the municipal council and follows consideration and consultation on the annual report by the council itself. Thus, the full accountability cycle is completed and the separation of powers is preserved to promote effective governance and accountability." The oversight report must be developed within two (2) months of the annual report having been tabled to council for consideration (Chapter 12, Section 129 of the MFMA). The purpose of the oversight report is:

- To review previous performance in an effort to improve future performance.
- To hold the mayor and senior management accountable.

The aforementioned reports are known for providing both financial and non-financial information. These reports require sufficient details on areas that are linked to measurable targets and spending on the budget. Moreover, these reports are not exhaustive of the number of reports that are compiled and issued by municipalities.

2.14. PERFORMANCE BASED BUDGETING SYSTEM

The process of assessing the performance of a budget is established on a criterion that measures the administration and management of funds on the basis of the 3E's standard - economy, efficiency and effectiveness (Van der Waldt, 2004:363). Whilst the evaluation of performance is not a single-handed approach that can be used in measuring and accounting for the management of funds; it does however, provide information about how functions of public institutions are carried out through the allocation and disbursement of funds.

As a fundamental aspect of the budgeting systems, control as a management function is vital in managing the performance of a budget, along with the realisation of targets set against it. From an audit perspective of performance, Prinsloo & Roos (2011:71) states that "an assessment of performance is aimed at evaluating the measures instituted by management or the lack of these measures; ensuring that resources have been acquired economically and are utilised efficiently and effectively, and reporting on the acquisition and use of resources to management or the relevant authority." Therefore, effective controls need to be maintained in unison with the daily operations of a municipality, for the purpose of mitigating risk and ensuring compliance to legislation.

Without question, at the epicentre of measuring financial performance is the need for an accountability culture that is embedded within efficient financial administration and management processes (Walker & Mengistu in Siswana, 2007:121). The PFMA and MFMA, along with other materials of legislation are explicit in detailing the role public officials need to exemplify in ensuring the efficient, economic and effective management of resources. Undoubtedly, performance assessments provide government institutions with an opportunity to measure whether or not they are doing the right thing and to also consider making changes or adjustments in areas needing improvement or corrective action (National Treasury CFO Handbook for Municipalities – Part III:92)

It is worth noting that the measurement of performance is an on-going activity, which is geared towards securing financial discipline and management accountability. National Treasury (2000:5) suggests three fundamental questions that arise during the 'monitoring and evaluation' stage (tracking of performance):

- What has happened so far?
- What do we think will happen to our plan for the rest of the year?
- What (if any) actions do we need to take to achieve our agreed plan?

Figure 9 below depicts the performance budgeting system. The basis of a performance system approach is to measure and report on the execution of the budget, in terms of the realisation of goals, derived from inputs and the means of productivity.

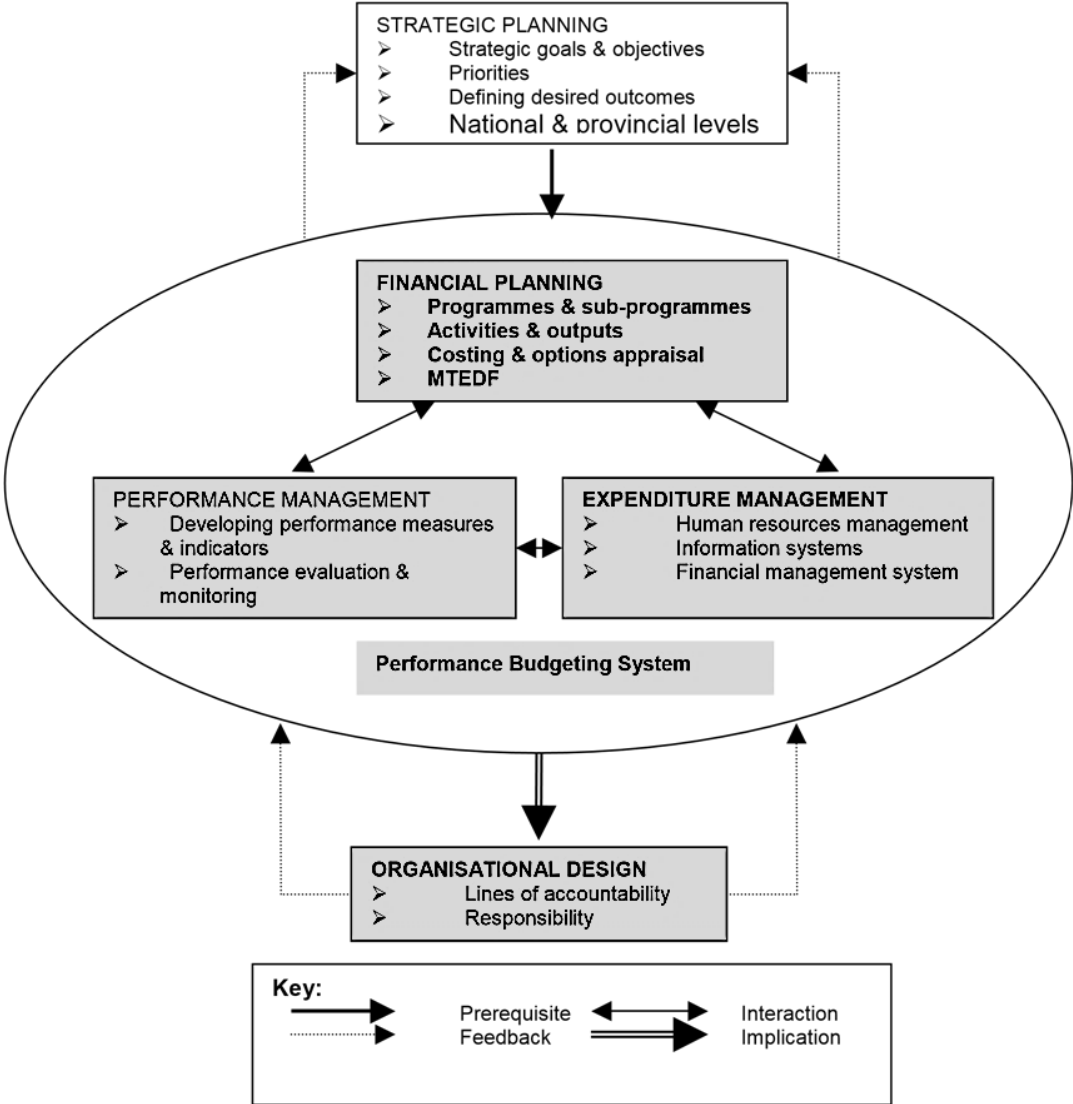


Figure 9: Performance Budgeting System (Source: Shall in Siswana, 2007:120)

In the esteemed words of Osborne L. Gaebler (1992) in the *Performance Management Guide for Municipalities* (in the Department of Provincial and Local Government, 2001:1), it can be accepted that:

“What gets measured gets done. If you don’t measure results, you can’t tell success from failure. If you can’t see success, you can’t reward it. If you can’t reward success, you are probably rewarding failure. If you can’t see success, you can’t learn from it. If you can’t recognise failure, you can’t correct it. If you can demonstrate results, you can win public support.”

A performance budgeting system encourages a clear and coherent approach for a municipality to know how to manage its planning, implementation and reporting of its budget. This approach is aligned to providing details on time-specific events, on the basis of valid, reliable and complete data; with direct explanations of what, where, how and whom? In addition to the illustration of Figure 9, good performance measurement encompasses a systematic design that incorporates transparency and accountability and promotes the efficient and effective improvement of the institution as whole.

2.14.1. The 3E’s performance measurement standard

The value application of the 3E’s puts into context the relationship between management and the reporting of results. These 3 units of measurement place a strong emphasis on the accomplishment of a goal, without overshadowing the requirement of compliance to legislation and due process. Furthermore, they also underline the importance of achieving the desired returns, with consideration of a municipality’s financial stability and sustainability.

Visser & Erasmus (2002:246) present that the objectives of performance indicators are to:

- Enable accounting officers to continuously evaluate financial management in their institutions and report on financial management in their annual reports.
- Enable the Auditor General to report annually on the financial management performance.
- Enhance the governance and general ethical standard of public management.
- Promote a focus on results, services quality, and customer satisfaction.

Figure 10, below illustrates the relationship between the 3-Es, with a discussion of each element thereafter:

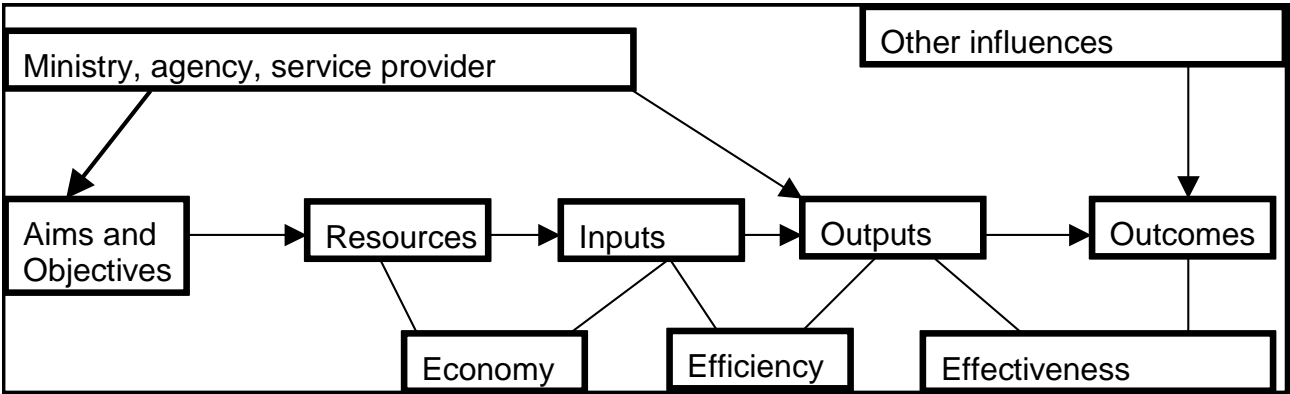


Figure 10: 3-Es’ Relationship (Source: Roberts, 2003:4)

2.14.1.1. Economy

Economy refers to cost divided by input (Bovaird & Loffler, 2009:155). It measures the relationship between quantity, quality and related cost, which can be viewed as the lowest cost for a given quality and quantity for an input (Visser, & Erasmus, 2002:244). Thus, economy measures the provision of input on the basis of cost and value. A key principle of economy, is achieving the lowest cost possible in obtaining the resource within the appropriate quality (Pauw, et al. 2002:138). Essentially, economic decisions are a direct representation of proper expenditure management without compromising the performance and quality of production outcomes; however, it promotes the concept of doing things inexpensively (Otrusinova & Pastuszkova, 2012:174).

It worth noting that the requirement to “spend less” by no means translates to underspending or not spending at all; however, it is a preventive measure for management to avoiding wasteful, unauthorised and irregular expenditure.

2.14.1.2. Efficiency

Efficiency translates to productivity. It refers to the extent to which resources are used in order to achieve policy and programme objectives (Schwella, Burger, Fox & Muller, 1996:17). Principally, efficiency accepts the reality that resources are limited; as such, the aim of decision making is to ensure optimum utilisation of resources in securing the demands of the public (Otrusinova & Pastuszkova, 2012:174). Prinsloo & Roos (2011:71) and Venables & Impey (in Visser & Erasmus, 2002:243) concur that the ratio of efficiency is measured in the relationship between input and output.

Ideally, efficiency indicators can be measured to the degree to which they can be broken down at the execution level in understanding to what extent the provision of service delivery is said to be economical (Yurich et al., 2008:24). Moreover, efficiency considers how well a municipality carries out its business (stability) and plans for the forthcoming years (sustainability) on the basis of the previous year’s performance.

2.14.1.3. Effectiveness

Effectiveness is concerned with the extent to which outputs are met (Schwella, Burger, Fox & Muller, 1996:16). According to Otrusinova & Pastuszkova (2012:174), effectiveness seeks to answer the question of, “Do we have what we wanted?” Therefore, the assessment of output based results safeguards the interests of the public, by ensuring that public funds are used in a purposeful manner and with the correct intent. Egibe & Agbude, (2012:51) highlights that it is not easy to measure

effectiveness, as it is based on achieved outcomes which are influenced by political choices. Effectiveness indicators are instrumental in assisting decision makers to conduct comparative assessments, by evaluating the performance level planned for the future against the performance levels of previous year(s).

The above units are valuable standards of measurement, which are necessary in establishing the “value for money” in public spending. These standards of measurement provide vital information on the rationality and logic behind decision making. The importance of instituting performance measures is defined and prioritised by a municipality that is constantly seeking ways to improve itself by ensuring efficient administration and effective management.

This is further accomplished by establishing effective processes and instituting an ethical code of practice that should be adhered to in carrying out activities. In relation to deviations and errors that are flagged by the system; the question should be on how they were identified, controlled and rectified. It is essential for municipalities to consider what the intended and unintended or direct and indirect impact inadequate management has on service delivery. The reliability of data and quality information within a systems framework is essential to improving performance; wherein, change is introduced in segments without disrupting the entire system. Where the existing administrative functions are inefficient and ineffective in meeting policy requirements, institutional transformation can be initiated in order to enhance the system’s performance in achieving the intended performance results.

2.15. CHAPTER SUMMARY

Financial reporting is the heart of sound financial management. It is through the usefulness of information that public institutions are able to exercise robust, rational and effective decision making. It is also a means of providing information that strikes a balance between achieving results and accounting for the realisation of objectives. It cannot be denied that financial reporting is an effective tool for demonstrating effective leadership for the management of fiscal resources. Through a system that is transparent, financial reporting enhances the credibility of a budget and the budget making process as a whole.

As a technical and managerial exercise, financial reporting must be incorporated into the institutional design and management system. Within the context of the public domain, financial reporting provides an incentive for public institutions to invest in public

confidence through transparent and accountable actions, by making information accessible and available in a complete and timeous manner. The application of accounting standards and principles are necessary in ensuring that public officials are held responsible for the information they disclose, unto which must be free from bias, falsification and prejudice. Additionally, in providing information on the financial performance of a municipality, enables decision makers to effectively monitor performance patterns, by taking into account the present status. In so doing, management is able to implement corrective measures where needed and also be informed in planning for the future.

Essentially, quality financial reporting contributes to the viability and sustainability of a municipality. As government that is closest to the people, municipalities play a vital role in ensuring that the provision of service delivery is not lacking or compromised in any part. It goes without saying that as public institutions, they must be above board in managing their financial affairs, by setting the tone through their organisational culture, governance approach, and accounting policy. Sound financial management and proper governance cannot be waived on.

CHAPTER 3:

AN OVERVIEW OF EXPENDITURE MANAGEMENT: ASSESSING THE CHALLENGES AND CONSTRAINTS FACED BY LOCAL GOVERNMENT

3.1. INTRODUCTION

Expenditure management is carried out in parallel with the budget cycle; it requires meticulous technical skill and sound leadership in ensuring financial discipline, allocative efficiency and operational efficiency. To this effect, it is imperative for a municipality to have the necessary capacity in ensuring that due process is followed throughout. An effective approach to expenditure management is critical in answering questions that relate to public expenditure, with regards to whom, what, why and how? The following chapter is an exploration into the subject of expenditure management. The aim of the chapter is to give focus to the manner in which expenditure is administered and managed in local government. Furthermore, it will cover the prevalent challenges local government is faced with. Lastly, it highlights the importance of internal control as a mechanism for achieving effective expenditure management results.

The previous chapter expounded on the concept of financial reporting as a systematic and logical approach in terms of how government institutions manage and account for the utilisation of the resources entrusted to them. The chapter explored the qualitative characteristics that encompass an efficient financial reporting system. These fundamental attributes strongly promote internal processes that are transparent and established on principles of credible, accurate, reliable and complete data. The practicality of financial reporting is more than chasing paper trail; it is an essential evaluation tool that is geared towards strengthening public accountability and improving the efficiency of performance in the public service.

The course of action in providing service delivery is one that cannot be undertaken without expenditure being incurred. The classification and estimation of expenditure is a critical aspect in the budget process; it is an exercise of authority that determines how public institutions plan, prioritise and allocate funds. In reality, the allocation of funds represents what gets prioritised. The function of managing expenditure involves a process that allows municipalities to manage their budgets effectively; wherein, they are able to appropriate resources during the budget preparation stage (as funds committed) and to effectively make use of those resources during the execution stage. Therefore, expenditure management on its own is public policy.

The developmental role of local government is articulated through its ability to achieve allocation efficiency and to maintain the optimal use of public resources. Fiscal capacity and legitimacy are the spectrum upon which municipal decisions (priorities) are established within the budget. The function of how best to allocate requires an exceptional understanding of financial regularity and propriety, as fundamental principles that are necessary for ensuring the efficient and effective use of public monies. Essentially, within their operating stream, municipalities need to demonstrate performance based management which co-functions with internal control management in securing the desired results on the basis of spending.

3.2. WHAT IS PUBLIC EXPENDITURE MANAGEMENT?

It is irrefutable that without resources governments, markets, global economies and businesses would cease to exist. The fundamental purpose of expenditure constitutes a decision that is taken to allocate and spend money in an effort to drive policy and achieve objectives with the intention of yielding public benefit. The management context of expenditure relates to an equally competent and coherent approach with regards to how funds are controlled and managed to accomplish a desired end. Considering the ever increasing demands that are placed on government, coupled with challenges of budgetary constraints; these amongst others highlight the issue of effective expenditure management as a pressing and needed approach in terms how best to appropriate and manage public resources.

In defining public expenditure management (PEM) the Department for International Development (DFID) (2001:8) states that, "Politicians and public servants share the task of allocating and managing public money. Politicians, with advice from public servants, must decide the amount to be spent, the balance between revenue and expenditure, how funds are allocated among public activities and entities and how these resources will be managed and accounted for." Public expenditure management is government policy, which exists as a critical function of achieving financial control during the budget process and the implementation of the approved budget (Kasim, 2016:31).

According to Allen & Tommasi (2001:19) the importance and function of public expenditure management is undertaken by government to; firstly, collect resources from the economy, in a sufficient and appropriate manner; and secondly to allocate and disburse those resources "responsively, efficiently and effectively". In this way, the operation of expenditure is managed with an 'end in mind', which is realised through a

result-driven approach (DFID, 2001:4). For that reason, public expenditure management sets a standard that demands for the accomplishment of goals (result driven planning); wherein the efficiency and effectiveness of the achieved results must be aligned to the strategic focus of the institution. Principally, the evaluation of budget implementation must give a complete account of the total costs and outputs linked to it.

In another length, Djurović-Todorović & Djordjević (2009:233) draw a thin line between expenditure policy and expenditure management; wherein expenditure policy determines what is to be done and expenditure management is the process of determining how it is done. Therefore, as a bridge between policy and implementation; the financial responsibility rests with decisions makers to carry out expenditure assessments, in order to account for the rationality behind allocations and the results yielded by public spending.

Campos (2001:1) submits that expenditure management is distinguishable from conventional budgeting under the following points:

- Firstly, public expenditure management focuses on outcomes, wherein expenditure is viewed as a means to produce the desired outcomes.
- Secondly, public expenditure management places a strong emphasis on the right processes, which will lead to the desired outcomes. However, under the conventional approach, implementation of the budget is focused on the adherence to rules and procedures. Thus, it is viewed as being more legalistic.
- Thirdly, there is a balance between flexibility/autonomy which enables public officials to be committed towards delivering the required outputs in order to accomplish the desired outcomes. Under conventional budgeting, the process of accountability focuses on the proper disbursement of funds, “in accordance with the agreed upon allocation.”

It is worth noting that public expenditure management does not steer away from traditional rules or traditional budgeting; however, it focuses on institutional and administrative arrangements that promote good financial performance (Shah & Von Hagen, 2007:48). As a pragmatic approach, the driver of expenditure policy is for public institutions to regulate their spending within a legal framework that factors’ in the importance of financial viability, stability and sustainability. Furthermore, in order to achieve the desired results, the management function needs to exist within an environment that is established on proper governance and also supports deliberate decision making in relation to the strategic vision of the institution.

3.2.1. Objectives of expenditure management

From the time the budget is approved, the scope of expenditure must be clearly defined and appropriately determined. During the implementation of the budget, the decisions making process constitutes costs being incurred through the expenditure management system. The expenditure management system in relation to budget outcomes is set to achieve the following fundamental objectives:

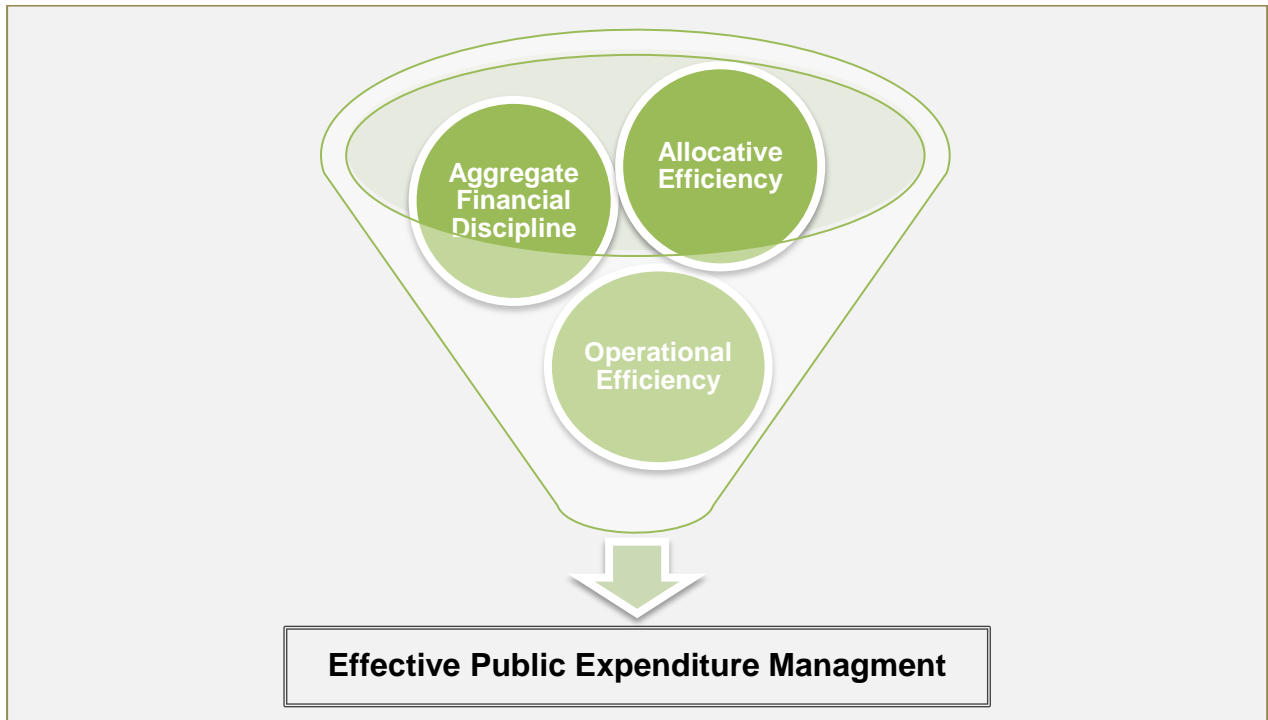


Figure 11: Objectives of public expenditure management

3.2.1.1. Maintaining aggregate financial discipline

Financial discipline pertains to the ability of maintaining adequate control of the budget by retaining spending within the appropriate spending limits (Schick, 1999:13). Aggregate fiscal discipline calls for public expenditure to be in line with the framework of the macroeconomic goals that are set in advance (Ghiasi, 2014:3; De Renzio, 2004:2). This is also identified by efforts that are made to curb unnecessary spending in providing services, which are ultimately constrained by the inability to generate sufficient revenue. An effective budget system is demonstrated by its ability to apply control over budget totals, in terms of what can and cannot be allocated.

Schick (1999:2) submits that “budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium term and beyond.” Thus, financial discipline requires checks and

balances to be put in place, as contingencies that warn against unaffordable spending and spending margins that are not within sustainable limits. Campos (2001:2) opines that the failure to practice restraint in the annual budget will bring about demands that far outweigh available resources, thereby resulting in ‘large and unsustainable deficits’. The World Bank (1998:21) concurs that the lack of restraint creates weak expenditure control which translates to poor expenditure management. The significance of constraining expenditure is not to underfund activities; however, it is to exercise effective control in preventing the occurrence of fraud, waste and corruption.

3.2.1.2. Allocation efficiency in accordance with strategic priorities

Allen & Tommasi (2001:20) make a substantial point, that “allocation efficiency is the capacity to establish priorities within the budget, to distribute resources on the basis of government’s priorities and the programme’s effectiveness and to shift resources from old priorities to new priorities, or from less to more productive activities, in correspondence with government objectives.” The fundamental basis of allocative efficiency is for government to set priorities and budget for the right things; this can be identified from the feasibility of decision making in being able to achieve those priorities.

By nature, resources are scarce; therefore, it is of fundamental importance for public expenditure to fall in line with strategic objectives, and within the existence of an effective policy or programme (World Bank, 1998:28). According to Ghiasi (2014:3), the process of allocation efficiency in most developing countries is constraint by the lack of comprehensive planning and the inability to measure the priority of programmes and activities. For that reason, the importance of proper planning cannot be overemphasised when it comes to the budget and budget process. The budget system should be able to achieve allocation efficiency in terms of scaling priorities and programmes from the most critical to the least (Schick, 1999:2). The implementation of allocation decisions and spending of resources must be in alignment with the agreed upon policies and also contribute to the accomplishment of desired outcomes.

3.2.1.3. Operational efficiency

Operational or technical efficiency is concerned with employing the budgeted resources for the provision of service delivery, within an acceptable standard of quality and at an economical cost (Campos, 2001:2; DFID, 2001:8). Primarily, operational efficiency focuses more on the management function of performance, wherein public institution leverage on efficiency gains, whilst the desired results are being achieved (Tommasi,

2009:5). Djurović-Todorović & Djordjević (2009:288) presents that technical efficiency depends on institutional arrangements to implement programmes within the spending units on the basis of an efficient and effective management system. Government institutions do not contend for profit, where priorities are concerned the spending capacity must demonstrate value for money, along with ensuring maximum public benefit and minimum negative externalities (De Renzio, 2004:2).

Additionally, Ghiasi (2014:4) provides that in order for optimal operational efficiency to be achieved, public institutions must properly manage budget implementation, cash management and accounting and reporting. The table below is an illustration of the public expenditure management objectives and how they linked to the budget preparation and implementation phase:

OBJECTIVES	BUDGET PHASES
1. Aggregate Fiscal Discipline	<ul style="list-style-type: none"> • Budget Preparation
2. Allocative Efficiency	<ul style="list-style-type: none"> • Macroeconomic forecasting • Budget preparations process • Budget approval
3. Operational Efficiency	<ul style="list-style-type: none"> • Budget Implementation • Budget documents • Budget Execution • Cash management • Accounting & Reporting

Table 5: PEM objectives and budget phases (Source: Ghiasi, 2014:3)

The abovementioned objectives are linked and have an interdependent relationship. Practically, they are building blocks of what comprises a sound financial management system. In order for public institutions to achieve the desired objectives, they must ensure that expenditure is linked to clear objectives. Public institutions should make it their honest commitment to avoid wastage of the resources available to them, resulting in performance failures due to unachieved or missed targets. For all intents and purposes, approaches towards planning and budgeting must be harmonised in achieving the intended output, which needs to be assessed on an on-going basis. Moreover, emphasis should not be placed on the total cost of expenditure alone but should be equally stressed on the part of due process and the achievement of results (performance output).

3.3. CONTEXTUALISING EXPENDITURE MANAGEMENT

The logic of the budget is to secure predetermined objectives through the appropriation of available funds (Gildenhuys, 1993:435). The expenditure management system encompasses a structural and procedural system through which decisions are taken and executed. Owing to the reality that the available resources are limited in contrast to the demands of the public, governments are forced into difficult trade-offs that require a strategic lens in how allocation decisions are determined and carried out. These decisions define the scope of the annual budget process, which is influenced and guided by the following contexts:

3.3.1. Policy context

Brynard (2005:17) states that policy is an instrumental tool that serves both as a means and an end. The political context of budgeting considers various aspects, such as; societal dynamics, environmental setting, economic conditions, political climate, technological landscape and rule of law (Roux, 2002:425), in determining what is intended, how to go about achieving the intended objectives and by what means will the objectives be achieved (Roux, 2002:421). To this effect, expenditure is dependent on policy as an over-riding factor that facilitates and guides the allocation and use of resources towards achieving objectives. When operating in the public domain, public officials need to be cognisant of the politics of the day. Allen & Tommasi (2001:21) state that the political landscape tends to dominate the decision making process with regards to the allocation of resources.

Essentially, public expenditure management asserts that the utilisation of public resources must be vested in achieving policy goals (DFID, 2001:12). Policies are not static statements; they are not intended to be documents that gather dust. The content of a policy represents a well-considered vision that is undertaken on the basis of goals and objectives. According to the World Bank (1998:31) failure to link policy, planning and budgeting contributes to poor budgeting outcomes at macro, strategic and operational level. Therefore, the relationship between policy, planning and budgeting is central to strengthening the effectiveness of decision making.

The DFID (2001:12) presents that the link between policy and expenditure provides a strategic framework wherein analysis of performance can be conducted on the basis of lessons learned and results achieved from budget implementation. Feedback becomes an instrumental tool in informing the formulation of future policies and decision making

process. Furthermore, the performance result of policy promotes a continuous improvement, on the side of budget outcomes and the policy process itself (DFID, 2001:12). An enabling policy context is fundamental to establishing control mechanisms for effective accountability and in managing the scope of performance targets. Figure 12 below represents the relationship between public expenditure management and the policy making process.

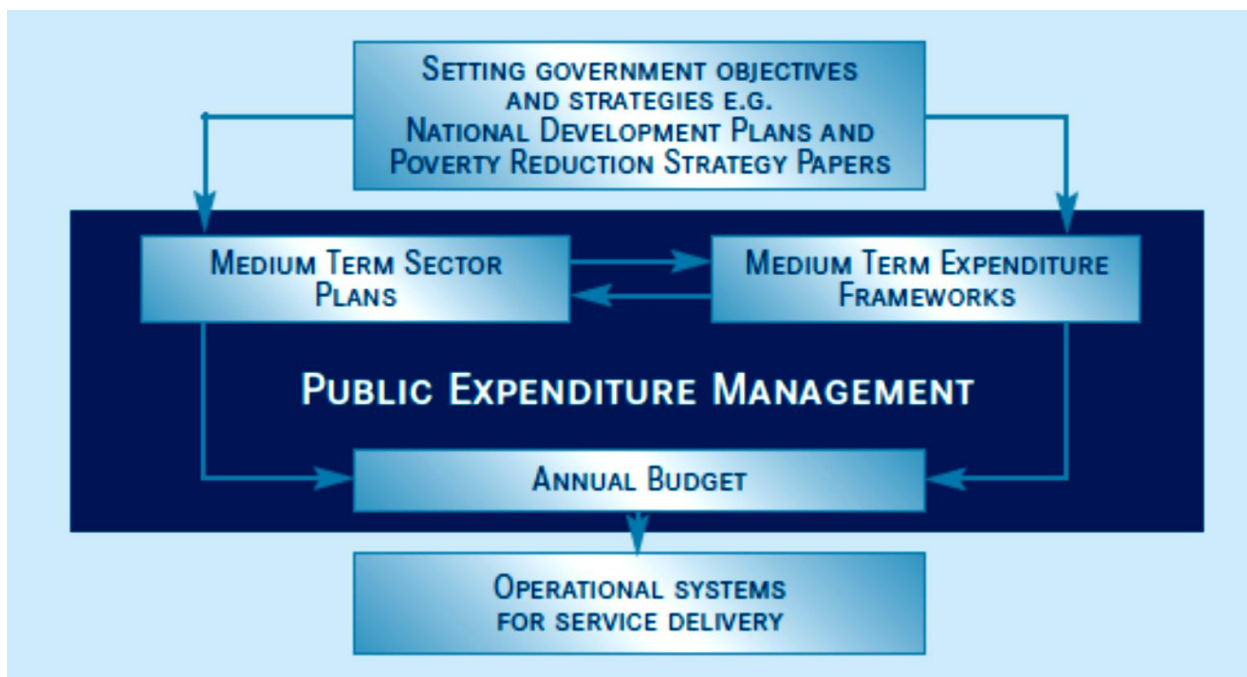


Figure 12: PEM and the policy process (DFID, 2001:12)

3.3.2. Institutional context

The words “institution” and “organisation” are often used as synonyms for each other; however, the essence of what these words entail makes them very distinctive in meaning. Budget outcomes are directly influenced by the institutions from which they originate (Allen & Tommasi, 2001:21). From the perspective of better fiscal performance, Von Hagen (in Shah, 2007:29) distinguishes budgeting institution into three classifications, namely; “institutions shaping the environment of the budgeting process, output-oriented rules and procedural rules.” The arrangement of an institution puts into context the rules and processes that govern and influence the manner in which expenditure decisions are made (DFID, 2001:13; World Bank, 1998:96). Essentially, rules are identified as formal laws and guidelines that govern an institution. It is important that the institutional framework creates a capable environment for achieving both fiscal discipline and strategic prioritisation, which are essential for the purpose of credibility and universality of a budget (Allen & Tommasi, 2001:22).

Therefore, the enforcement of rules promotes the efficient use of resources and the effectiveness of managing the budget towards achieving the desired results. Additionally, the DFID (2001:13) points out that “an expenditure management system will be more effective at promoting PEM objectives, if it operates in a structure of incentives, roles and rules which encourage good behaviour”. In the same accord, Schick (1999:20) states that PEM recognises that budget outcomes are not likely to be optimal if the public sector is poorly structured and managed, or if the incentives and information given to policy makers impels them to act differently.

3.3.3. Governance context

Central to expenditure management system, the preparation and execution of a budget must reflect the preference of the public and also espouse values that promote sound budget management (Allen & Tommasi, 2002:25). It is of basic importance for public officials who are entrusted with the authority to allocate and utilise public funds, to act in accordance with the rules and regulations they ascribe to. The DFID (2001:34) states that the performance of PEM can be measured through technical capacity (institutional structures and procedures) and the quality of governance. In good faith, the administration of the budget must follow due process whilst being focused on achieving PEM objectives. Proper governance is not optional but a fundamental prerequisite of proper financial management.

As an approach that is embedded in the rule of law; public officials are not only required to comply with the relevant legislative frameworks, they are also required to act in the best interest of the public (Schiavo-Campo in Shah, 2007:53). Tommasi (2009:11) expresses that governance will remain non-existent where rules exist but are not implemented. In principle, the relevance of governance exists on enforcement. The need for proper governance cannot be overstated; decision makers must promote transparency, responsiveness, credibility and accountability.

3.3.4. Administrative and cultural context

According to Allen & Tommasi (2001:25) the relevance of institutional agreements and effective budget management systems varies between countries, also in the case of the public domain and private sector. The administrative culture is similar to a network of how things get done (performance); it links people and processes, and also promotes the adherence to best practices and ethical conduct. According Schick (1999:116), “an informal administrative culture emerges: there are the rules, and then there are the

ways things really get done. This double standard - strict rules and loose compliance - is a breeding ground for inefficiency and corruption.” Without question, the influence of the administrative culture has a direct impact on the expenditure management system and the realisation of PEM objectives.

3.4. CHARACTERISTICS OF PEM SYSTEM

There are characteristics which are considered as key components in enhancing effective control over expenditure and promoting sound budget outcomes. These characteristics are also necessary in creating an enabling institutional setting for achieving PEM objectives.

3.4.1. Comprehensive and Discipline

It is important for a budget to provide clear details on all the financial operations of government (De Renzio, 2004:2). Comprehensiveness requires striking a balance between expenditure decisions, such that current and capital expenditure decisions are linked and evaluated together (DFID, 2001:27). In practice, the discipline that goes into a developing a sound budget needs to be in harmony with the budget calendar, in order to ensure that critical decisions are adopted as early as possible during the budget formulation stage. Essentially, the approach of comprehensiveness highlights the need for competitive coverage in selecting the most appropriate policies, equal to match the available resources and to assert that there are no impediments to accountability (World Bank, 1998:1). Furthermore, comprehensiveness is effective in measuring the extent to which the budget conforms to the appropriate norms of coverage as well as with the standards of accuracy and consistency (DFID, 2001:28).

3.4.2. Legitimacy

Legitimacy is concerned with the lawfulness of decision making. In order for policy makers to affect any changes to policies during implementation, they are also required to be involved in the formulation of the initial policy and must also act in alignment with it (Le Roux, 2006:35; De Renzio, 2004:2). Legitimacy establishes that decisions made during the budget process must not only consider how they are linked to policy but should also take into account how they affect policy (World Bank, 1998:1). Moreover, in an effort of taking well-informed decisions, legitimacy stands in line with openness and transparency by welcoming input from relevant stakeholders such as the citizens, non-governmental organisations and the business community.

3.4.3. Flexibility

Flexibility underlines that decisions should be deferred until the necessary information is collated and made available (Le Roux, 2006:35). In the process of decision making, the institutional design dispenses that at an operational level managers are bestowed with authority on a managerial level and ministers exercise their authority on a programme level (World Bank, 1998:2). In order for decision making to yield tangible results during budget execution, flexibility must be exercised in a transparent manner and also in adherence to government's policy goals (Von Hagen in Shah, 2007:32). Furthermore, flexibility must without fail preserve accountability on all matters that pertain to the budget.

3.4.4. Predictability

Schiavo-Campo (in Shah, 2007:54) states that "predictability results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced." Essentially, predictability is an important mechanism in assessing the efficient and effective implementation of policies and programmes. Predictability requires stability in the long-term policy and funding of existing policies (World Bank, 1998:2; Le Roux, 2006:35). Predictability provides measurable input to decision makers with reference to where, when and how resources will be made available (DFID, 2001:24). Proper planning is essential to ensuring the proper and stable flow of funds, along with the efficient provision of services. The DFID (2001:25) asserts that predictability can be measured by comparing budgeted expenditure and actual expenditure; where there is a continuous gap between the two, is indicative of poor predictability.

3.4.5. Policy clarity, consistency and affordability

Policy clarity is defined by the quality of policy analysis and formulation, which is the basis of effective expenditure management (DFID, 2001:22). The starting point of achieving effective expenditure management is reliant on a well-defined expenditure policy, wherein budget allocations are determined on the basis of totals that are consistent with the limits of available resources (DFID, 2001:22). In practice, it is important for policy makers to be mindful of the financial implication, as it may cause an imbalance between the policy and what is affordable. The approach of policy clarity is focused on ensuring that expenditure directly contributes to the achievement of objectives and that policies remain within the affordable limits (DFID (2001:23).

3.4.6. Contestability

During the planning and budget preparation stage, the various sectors must equally compete for available resources (De Renzio, 2004:2). Essentially, spending units must regularly review and evaluate existing policy and budget items, to be able to prioritise resources strategically and towards optimum performance areas (World Bank, 1998:2)

3.4.7. Honesty

The budget should be established on the basis of unbiased projections of revenue and expenditure. This constitutes refraining from any form of technical or political bias. The implication of mendacity towards the budgeting process may derail strategic priority setting, resulting from the failure of implementing priority policies in an efficient and effective manner (World Bank, 1998:2).

3.4.8. Transparency

Decision makers must take well informed decisions which are based on relevant and credible information, by so doing they need to also consider the issues and incentives before them (World Bank, 1998:2). It is imperative for any decision made, to be communicated to the public in a timeous manner (De Renzio, 2004:2; Schiavo-Campo in Shah, 2007:84). The DFID (2001:26) highlights that transparency promotes public certainty and confidence over plans and budgets, along with lessening the room for corruption. The establishment of a transparent information system is dependent on technical and procedural measures in ensuring that public officials are answerable and accountable for public resources and outputs (Foster & Fozzard, 2000:33).

3.4.9. Accountability

Much like transparency, the quality of accountability is attributed to the action taken by decision makers to be answerable and accountable for the authority they exercise and their responsibility in managing public resources (Allen & Tommasi, 2001:22; DFID, 2001:28). Schick (1998:113-127) classifies accountability into 3 types, namely;

- *Internal*; which considers classes of expenditure and the legality of transactions in terms of how public officials act in compliance to the law.
- *External*; which focuses on inputs (expenditure items) and adherence to the approved budget and legislative prescripts.
- *Managerial*; which relates to accountability for performance, on the basis of outputs and total expenditure.

3.5. BASIC STAGES OF THE EXPENDITURE CYCLE

The function of control is essential to the process of expenditure management, wherein it requires transactions to be tracked and controlled at each stage of the expenditure cycle. The expenditure cycle encompasses a set of activities that take place in phases, primarily, from the budget preparation phase right through to the execution phase (Ghiasi, 2014:6). Effective budget management is the responsibility of public managers, who are required to maintain effective control on the total cost of operation. The inability to manage expenditure effectively results in a direct failure to achieve sound budget management; as a result, it nullifies efforts that are aimed at achieving PEM objectives. Furthermore, it puts into question the efficiency and effectiveness of institutional systems; wherein, the assessment of spending takes place within the acceptable authorised limits and the flow of monies is managed in accordance to the appropriate financial standards, regulatory guidelines and laws that govern public institutions (Pattanayak, 2016:4).

Figure 13 below illustrates the 6 stages of the expenditure cycle, which are discussed in detail thereafter:

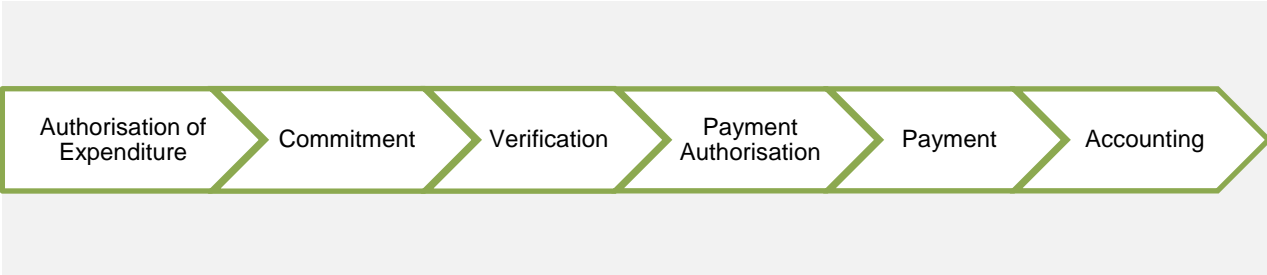


Figure 13: Basic stage of an expenditure cycle

3.5.1. Stage 1: Authorisation of expenditure

The authorisation of expenditure is enacted upon from whence the budget is finalised and approved (Kasim, 2016:33). Based on the approved apportionments, the release of funds into the various spending units translates into “the authority to spend” (Allen & Tommasi, 2001:211). The authorisation of expenditure underlines the logic and importance of the annual budget, as an instrument that defines spending regimes within the public sector, and across programmes and projects. Pattanayak (2016:5) provides the following criteria as a standard for controlling expenditure:

- *Limit on the amount of expenditure*
The expenditure must be within the approved budget allocation; however, flexibility can be exercised in cases where budget adjustments are required and

as permissible to the prescribed financial management practices, rules and regulation.

- *Limit on the time period of expenditure*

The expenditure must be incurred within the acceptable time limit; this may be from an annual basis or through a multi-year approach. Public institutions and spending units must be cognisant of the timeframe of their contractual agreements with service providers, which should ultimately comply with the requirements and guidelines of the law.

- *Authorised purpose of expenditure*

Access and availability to public resources is to ensure that public institutions are able to fulfil their mandate. As spending units, expenditure is provided for on the basis of predetermined objectives. Thus, the aim of expenditure should be in alignment with performance targets and the set policy objectives. It goes without saying that costs cannot be incurred aimlessly.

- *Administrative unit accountable for expenditure*

The assigned spending unit (for example, the department responsible for infrastructure in a municipality), presides as the administrative authority over the funds allocated to it. Therefore, it is tasked with the responsibility of ensuring that resources are put to use in a correct and effective manner.

3.5.2. Stage 2: Commitment

The commitment stage follows when spending units enter into contractual agreements with service providers; this is normally carried out through the supply chain management system (Pattanayak, 2016:6). The principle of commitment is acted upon when a reservation is made in good faith to make payment settlements at a later stage, for goods and services received (Allen & Tommasi, 2001:211; World bank, 1998:160). Good record keeping is essential in making sure that control is exercised over the flow of money, also for the manner in which contracts are managed. Quality information management is of paramount importance, especially for accounting on how goods and services were acquired.

In order to provide complete assurance for paying on time, it is the obligation of the spending unit to ensure that there are sufficient funds available for payments due to service providers (Ghiasi, 2014:6). The benefit of paying on time helps in preventing the occurrence of unnecessary additional costs; such as, penalties and interest (Kasim,

2016:34). Furthermore, it is important for each spending unit to maintain financial discipline over its resources; by demonstrating a high degree of compliance, in relation to regulatory requirements, financial practices and accounting norms and standards. Allen & Tommasi (2001:282) outline the following requirements in keeping expenditure commitments under control, namely:

- effective control of the uses of appropriations at the commitment stage;
- sound budget formulation to ensure the conformity of commitments with the budget forecasts;
- control of multi-year commitments; and
- good internal (management) control systems.

3.5.3. Stage 3: Verification

Once the goods and services are delivered, it is the duty of the spending unit to ensure that the work completed or goods received, is finalised within the agreed to costing and terms of references or conditions stipulated in the contractual agreement (Foster & Fozzard, 2000:17; Pattanayak, 2016:6). Essentially, verification considers whether the agreed to obligations have been adhered to. During this stage expenditure is identified as a liability and is reflected in the accounting system as accrued expenditure (or accrued liability); however, it may not be considered as a cash liability (Tommasi in Shah, 2007:283).

Practically, the verification process requires physically assessing the performance and quality of work done or goods received against the defined scope of work. Thus, quality assurance is a key factor in verification. Ghiasi (2014:7) states that the verification process is finalised with the issuing of an accurate and complete invoice, which must mirror the terms of the contract (SLA - service level agreement) and purchase order. Without the relevant supporting documents, the payment order cannot be issued.

3.5.4. Stage 4: Payment authorisation

Once the verification stage has been completed satisfactorily and the necessary control measures have been performed, the responsible authorising officer will issue a payment order (Tommasi in Shah, 2007:283; Pattanayak, 2016:6). Before the payment order is approved it must be checked and verified (Kasim, 2016:34). This entails identifying, verifying and recording the information received (completeness and accuracy) from creditors (for example; confirmation of bank account, invoices and purchase orders), in order for the payment request to be lodged through the system. Spending units as the

contracting agents must ensure that the payment order is in line with the approved allocation limit (World Bank, 1998:168; Pattanayak, 2016:7).

Ghiasi (2014:7) highlights a common challenge that is associated with “cash rationing” on the basis of available of resources, which often translates into a delay in the issuance of payment orders. For that reason, a culture of defaulting payments looms in the public sector, wherein public institutions carry the financial burden of increasing costs due to the accumulation of interest on arrears. Furthermore, it is of extreme importance that due process is followed in processing payment requests (for example, verifying tax clearance certificate), and also there must be gate keeping measures that maintain transparency and accountability throughout the entire system.

3.5.5. Stage 5: Payment

Payment stage constitutes the action of releasing funds from account of the spending unit into that of the invoicing parties or service provider (Ghiasi, 2014:8). Payments are executed through various financial mediums, including electronic fund transfer (EFT), checks and in some instances physical cash payments (Tommasi in Shah, 2007:284). According to Hashim & Allan (in Kasim, 2016:34) and Ghiasi (2014:8) a payment verification process has to take place in order to ascertain the legality of the payment order; this can be done by, verifying whether the classification of accounts is accurate, documents have been properly signed by the authorised persons, and the payment order is supported with proper documents. In the same vein, Allen & Tommasi (2001:281) concur that proper accounting controls need to be exercised in so far as, how the expenditure is incurred, processed and reported.

Essentially, payments are processed in alignment with the institutional design, lines of authority, internal processes and procedures, and rules and regulations (governance framework) of the institution. As a form of good practice, any transaction that takes place must be recorded and processed through the accounting books and/ or system (Pattanayak, 2016:7). Transparency plays a major role in ensuring that due process is followed and payments are administered to the correct creditor, for the intended purpose and in conformance to the budgeted expenditure.

3.5.6. Stage 6: Accounting

The transaction is considered completed once the payment has been made, and is further processed into the accounting system or books of the institution (Foster & Fozzard, 2000:17). It is standard practice for every financial transaction of government

to be recorded and reported (Ghiasi, 2014:9). Principally, the accounting system is established on the basis of quality information management, wherein the inflow and outflow of funds must be processed, reported and accounted for. According to the World Bank (1998:108), “the accounting subsystem is at the heart of an integrated financial management system because other subsystems depend upon it for useful, timely and reliable data necessary for the full range of decisions made as part of the resource allocation, budgeting, and financial management system and process”.

Intravenously, Allen & Tommasi (2001:291) relay that accounting activities relate to the application of accounting principles that determine when transactions or events should be recognised for financial reporting purposes. Essentially, the basic function of an accounting system is to demonstrate how public funds were used. It serves as a means of providing assurance with regards to compliance of the approved budget, on the basis of legal prerequisites and the efficiency and effectiveness of expenditure at every stage of the expenditure cycle.

3.6. MANAGING EXPENDITURE IN A MUNICIPAL CONTEXT

The existence and function of management control must be at the helm of maintaining the integrity and credibility of spending on the budget. Effective control mechanisms are required in order to keep expenditure claims within the allocated funds (Schaeffer & Yilmaz, 2008:5). The management approach should be focused on ensuring the correlation between planning and decision making, wherein each budget vote aligns with the established objectives. In dealing with expenditure management in the context of a municipality, we consider key areas that are central to the function of the expenditure management system. These areas are identified and discussed as follows:

3.6.1. Supply Chain Management

For goods and services a municipality does not have in-house, are to be procured through the supply chain management (SCM) system. For examples, bulk purchases in respect of electricity and water. According to Section 111 of the MFMA, every municipality and municipal entity must adopt and implement a supply chain management policy. In principal, Section 217 of the Constitution demands that “contracting goods or service must be done in accordance with a system which is fair, equitable, transparent and cost effective.” A supply chain management policy must be implemented by the SCM unit, under the supervision of the accounting officer and the CFO (Fourie & Opperman, 2011:335).

Through a competitive bidding process, municipalities are required to comply with the Preferential Procurement Policy Framework (PPPF) (Act 5 of 2000). The function of transparency is a critical aspect in the acquisition of goods and services, which needs to be upheld in order to avoid tempering or amendment to submitted quotations (Section 118 of the MFMA). A municipality must make the necessary precautions in order to avoid interference and undue involvement in the procurement process, which may compromise the process itself and those entrusted with the responsibility.

3.6.2. Transfer payment

A municipality may enter into an agreement where its funds are transferred to an agency or organisation for the provision of services on behalf of the municipality (Section 67 of the MFMA). Such an agreement must be lawful and its purpose must be clearly stated. The legal department or legal representative of the municipality plays a crucial role in advising and guiding the municipality into the establishment and acceptance of the terms and conditions set out in the agreement. The municipality, particularly with the MM and the CFO must be able to clearly account for funds that are transferred from the municipality (Section 67, (3) of the MFMA). They are required to play an oversight role in ensuring that the terms of the agreement are honoured and that no manifestation of theft, fraud or mismanagement takes place. Moreover, all activities that pertain to this transaction must be captured properly and reported.

3.6.3. Public-Private Partnership

In an instance where a municipality seeks to enhance its service delivery mandate, it may issue the process of Public-Private Partnership (PPP). However, it must be established that there is a need for it and an incentive of benefit for the municipality. By all means necessary, the PPP must yield value for money without placing the municipality under any financial duress (National Treasury, 2006:103). It is worth noting that a municipality cannot relinquish its mandate to a private entity. In order for a PPP to be considered it must comply with the requirements of the Municipal Public Private Partnership (MPPP) Regulations of 1 April 2005 and the Municipal Systems Act (Act 32 of 2000). Furthermore, in being mindful of the financial health of the municipality, the necessary measures must be taken to protect the interests of the municipality. A municipality cannot be seen entering into an unfeasible agreement that poses a risk to its financial stability and the provision of service delivery.

3.6.4. Approval of expenditure

According to Section 15 of the MFMA (Act 56 of 2003), a municipality may except where otherwise provided in this Act, incur expenditure only; in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget. Rules and regulations are established as mechanisms to support the functioning of the expenditure management system in facilitating the approval of expenditure and disbursement of funds from a municipality. The municipal manager with the other delegated authorised persons is tasked with the responsibility of ensuring proper control over the municipality's resources and the timely settlement of commitments entered into by the municipality. In carrying out their functions and responsibilities, they need to ascertain that the expenditure approved for payment follows proper procedure; and in principle, it must be recorded, processed and reported through the accounting system.

3.6.5. Unforeseen expenditure

Unforeseen and unavoidable expenditure occurs when expenditure is incurred but no provision has been made for it in the approved budget. In the case of a municipality, the mayor may under exceptional circumstances (those that cannot be avoided or serious in nature) authorise unforeseen expenditure. According to Section 29 of MFMA, the approval of such expenditure must meet the following requirements:

- It must be in accordance with the prescribe framework.
- The mayor must report it to the municipal council at its next meeting.
- It must not exceed a prescribed percentage of the approved annual budget.
- It must be appropriated in an adjustment budget.

The process of approving unforeseen expenditure is a 60 days' period from when the expenditure is incurred, under which the budget adjustment must be passed (Section 29 (3) of the MFMA).

3.6.6. Setting funds between multi-year appropriations

According to Section 31 of the MFMA, shifting of funds between multi-year may occur; when funds for a capital programme are appropriated in terms of Section 16 (3) for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme. Furthermore, Section 31 provides the following guidelines in dealing with multi-year funds:

- the proposed increase must not exceed 20% of the programme;

- the increase must be funded without straining the budget limit;
- the necessary procedure must be followed in securing approval from the mayor; and
- the documentation relating to the increase must be provided to the relevant provincial treasury and the Auditor General (Section 31 of the MFMA).

3.6.7. Unlawful Expenditure

Unlawful expenditure occurs when it is in contravention with the prescripts and legal framework of municipal financial management. The nature of such expenditure has a negative impact on the financial standing of a municipality and if it is not dealt with effectively, it results in unwanted financial consequences. A municipality must by all means necessary, try to avoid such expenditure. In the event that it cannot be avoided; it must be identified, investigated, reported and processed through a budget adjustment. Unlawful expenditure unfolds in the following ways (Chapter 1 of the MFMA):

- *Unauthorised expenditure*: relates to expenditure that occurs outside the parameters of Section 11(3) and Section 15 of the MFMA (Act 56 of 2003). It is commonly identified as overspending, in contrast to the approved allocation in the municipal annual budget.
- *Irregular expenditure*: constitutes expenditure that is incurred by a municipality or municipal entity that is in contravention of, or that is not in accordance with, the requirements of the MFMA, and has not been condoned in terms of Section 170 of the MFMA.
- *Fruitless and wasteful expenditure*: represents expenditure that occurred in vain and would have been avoided had reasonable care been exercised (Chapter 1 of the MFMA). This kind of expenditure is of no benefit to the municipality and there is no justification as to why it was incurred.

3.6.8. Unspent funds/ Roll-overs

Unspent funds relate to funds that have lapsed on the budget which have not been used during the financial year they were apportioned for. Section 30 of the MFMA states that, “the appropriation of funds in an annual or adjustment budget lapses to the extent that those funds are unspent at the end of the financial year to which the budget relates. Except in the case of an appropriation for expenditure made for a period longer than that financial year in terms of Section 16(3).” Unspent funds may only be rolled-over under exceptional circumstance, those which are permitted under regulation and subject

to review by the relevant treasury. The basis of a roll-over of unspent funds is underlined by the following conditions (Pauw, et al., 2000:147):

- a) capital funds in order to complete existing projects, and
- b) transfer payments may not be rolled-over for purpose other than what they were initially voted for.

The MFMA Circular No. 86 provides further guidance to municipalities with regards to the preparation of unspent conditional grant and the roll-over process.

3.7. THE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

The Medium Term Expenditure Framework (MTEF) functions as an integrative tool that links policy, planning and budgeting within a medium term outlook. According to the Public Expenditure Management Handbook developed by the World Bank (1998:48):

"The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources. The matching of costs should normally occur in the context of the annual budget process, which should focus on the need for policy change to reflect changing macroeconomic conditions as well as -changes in strategic priorities of the government."

Where future financing implications arise; it covers a period of three to four years and is rolled over annually (Tommasi, 2009:53). The significance of a medium-term perspective to budgeting provides government with a mechanism to facilitate and enhance allocation efficiency between competing policy priorities and budget realities (National Treasury, 1999:51; World Bank, 1998: 32). As a link between policy and the available resources, the MTEF is a catalyst for fiscal stabilisation; wherein, it enhances the reprioritisation of expenditure and affordable medium terms policy choices.

The MTEF as a planning tool seeks to achieve (Foster & Fozzard, 2000:25; Le Houerou & Talierno, 2002:4; Van der Waldt, et al., 2002:157):

- *Match expenditures with total resources available*: this would ensure the stabilisation of the budget in the short-term and project sustainability in the long-term. Essentially, this would be enabled by proper planning, in order to yield effective expenditure choices with regards to set objectives
- *Guide the sectoral allocation of expenditures*: wherein, allocations among subdivisions are kept in alignment with government's development priorities (for example, the National Development Plan - NDP). Resources are to be disbursed

in alignment with clear policy directives and a budget framework that promotes cooperative governance.

- *Facilitate strategic sector planning:* by strengthening predictability in terms how spending units are able to establish the manner in which their budgets evolve over time. This further supports the review of expenditure programmes, on the basis of performance assessments of achieved outputs and outcomes.
- *Improve the efficiency of expenditure;* in delivering quality services, spending units need to clearly establish their mission, objectives and activities and, to a greater length, demonstrate the link of expenditure to measurable targets and accountability over public expenditure.

3.8. MUNICIPAL EXPENDITURE PLANNING TOOLS

Effective budget implementation depends on proper planning. Without a solid plan, the preparation of a budget becomes a fruitless exercise. The formulation of a plan represents a blueprint that guides and informs the budget. Thus, the integration of both these component is paramount and central to the decision making process. The effectiveness of planning, puts into context the priorities and goals of a municipality. For the purpose of this study, focus will be given to two primary planning tools that are utilised in Local Government, that is; the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).

3.8.1. The Integrated Development Plan (IDP)

Considering that serving the needs of the public community is at the heart of what municipalities do; therefore, it is important that they have a strategic and coherent approach in planning and budgeting for their activities. The IDP, at its core is a strategic framework for Local Government, which is instrumental in charting the course of action for a municipality to realise its goals (Fourie & Opperman, 2011:111). Practically, it ties together the coordination of objectives and the available means of production. The aim of adopting a strategic focus enables a municipality to clearly establish where it is currently and where it wants to be. The Municipal Systems Act of 2000 (Act 32 of 2000) is the legislative backbone of the IDP and its process.

According to the Department of Provincial and Local Government (DPLG) (2000:5), “the IDP is an instrumental approach which municipalities can adopt to provide a vision, leadership and direction for all those that have a role to play in the development of a

municipal area.” In the same vein, National Treasury (CFO Handbook for Municipalities - Part III:62) submits that, “the nature of the Integrated Development Plan (IDP) is developmental as it focuses on building communities socially and economically by providing free basic services and involving them in municipal affairs through consultation processes; the IDP is the strategic development plan of the municipality.” The aforementioned definitions reveal the importance of participatory planning and stakeholder buy-in, in the development of an IDP. National Treasury prescribes that the IDP must (2006:63):

- link, integrate and co-ordinate plans and proposals for the development of the municipality;
- align the resources and capacity of the municipality with the plan; and
- be compatible with national and provincial development plans and planning requirements binding on the municipality in terms of legislation.

Principally, an IDP is a legally binding document. Section 25 of the Municipal Systems Act (Act 32 of 2000) enforces the adoption of an IDP by the municipal council, its states that, “from the time the council is elected, it must adopt a single, inclusive and strategic plan for the municipality.” As a living document, an IDP may require review and adjustment in order to enhance harmony between planning and the budgeting process. Section 34 of the Municipal Systems Act (Act 32 of 2000), explains that a municipality can review and amend its IDP;

- (i) annually in accordance with an assessment of its performance measurements in terms of section 4 (i);
- (ii) to the extent that changing circumstances so demand; and
- (iii) may amend its integrated development plan in accordance with a prescribed process.

3.8.2. The Service Delivery Budget Implementation Plan (SDBIP)

In terms of Section 1 of MFMA (Act 56 of 2003), the service delivery and budget implementation plan represents the operational plan of a municipality which is approved by the mayor. The nature and function of the SDBIP makes it an implementation, management and monitoring tool (National Treasury, 2006:77). Strategically, the SDBIP is the municipality’s most important budget implementation tool; in that, it measures compliance on the side of the intended use of resources and the extent to which performance targets for each expenditure vote and revenue resource are achieved by the managers responsible for these votes (Fourie & Opperman, 2011:185).

The SDBIP gives effect to the IDP and the budget, which is directed by Section 53 and 54 of the MFMA, to implement the municipality’s service delivery mandate along with the annual budget. As a plan that is carried out over a period of 12 months, it establishes a contract between the municipal administration, council and community. The SDBIP contract functions as a performance measurement agreement, which outlines the measurable outcomes that are to be carried out and accounted for during the financial year. (National Treasury, 2005:1).

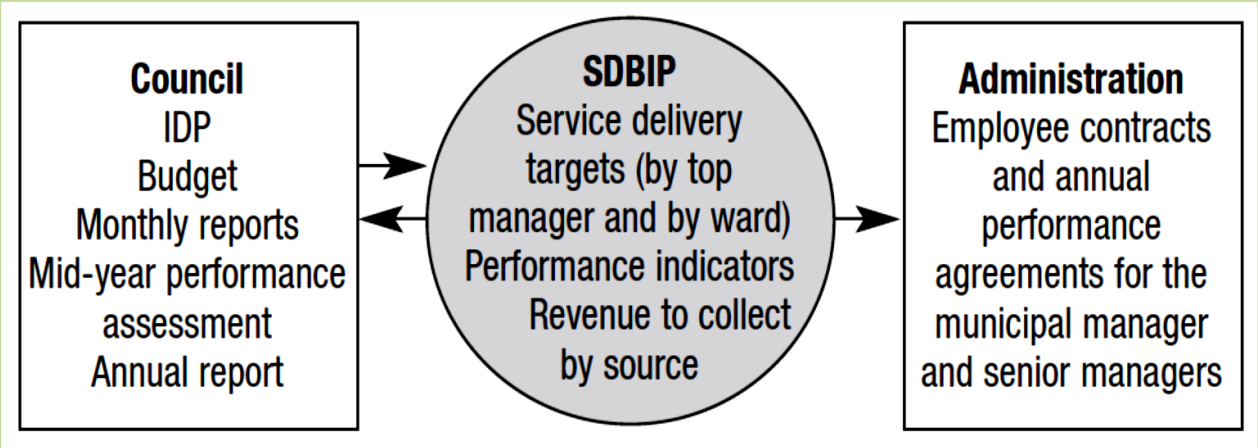


Figure 14: SDBIP Contract (National Treasury, 2006:77)

The SDBIP is constructed as a layered plan, wherein the top layer deals with the consolidated service delivery targets and in-year deadlines, and by linking those targets with top management (in accordance to Section 77 of the MFMA; National Treasury, 2006:78; National Treasury, 2005:3). Practically, the significance of service delivery performance targets reinforces an assessment orientation, for measuring the credibility and implementation of the annual budget along with the provision of quality service delivery in the community. Once the top-layer targets have been established, top management is tasked with the responsibility of developing the subsequent (lower) layer of the SDBIP (National Treasury, 2005:3).

Essentially, the lower layer provides more information (at an operational level); wherein, senior managers are required to further break down outputs under their responsibility, into smaller outputs which are linked to middle-level and junior managers (National Treasury, 2006:79). National Treasury (2006:79), points out that the SDBIP is not a policy proposal requiring the approval of the council; however, it must be tabled and made available to the council and public for information and monitoring purposes. Therefore, in-year monitoring and reporting activities need to be in place to ensure that “the ball is not dropped” where performance targets and service delivery obligations are concerned.

Figure 15 below is an illustration of the process for preparing and approving the SDBIP and including how the departmental SDBIPs roll into the draft SDBIP.

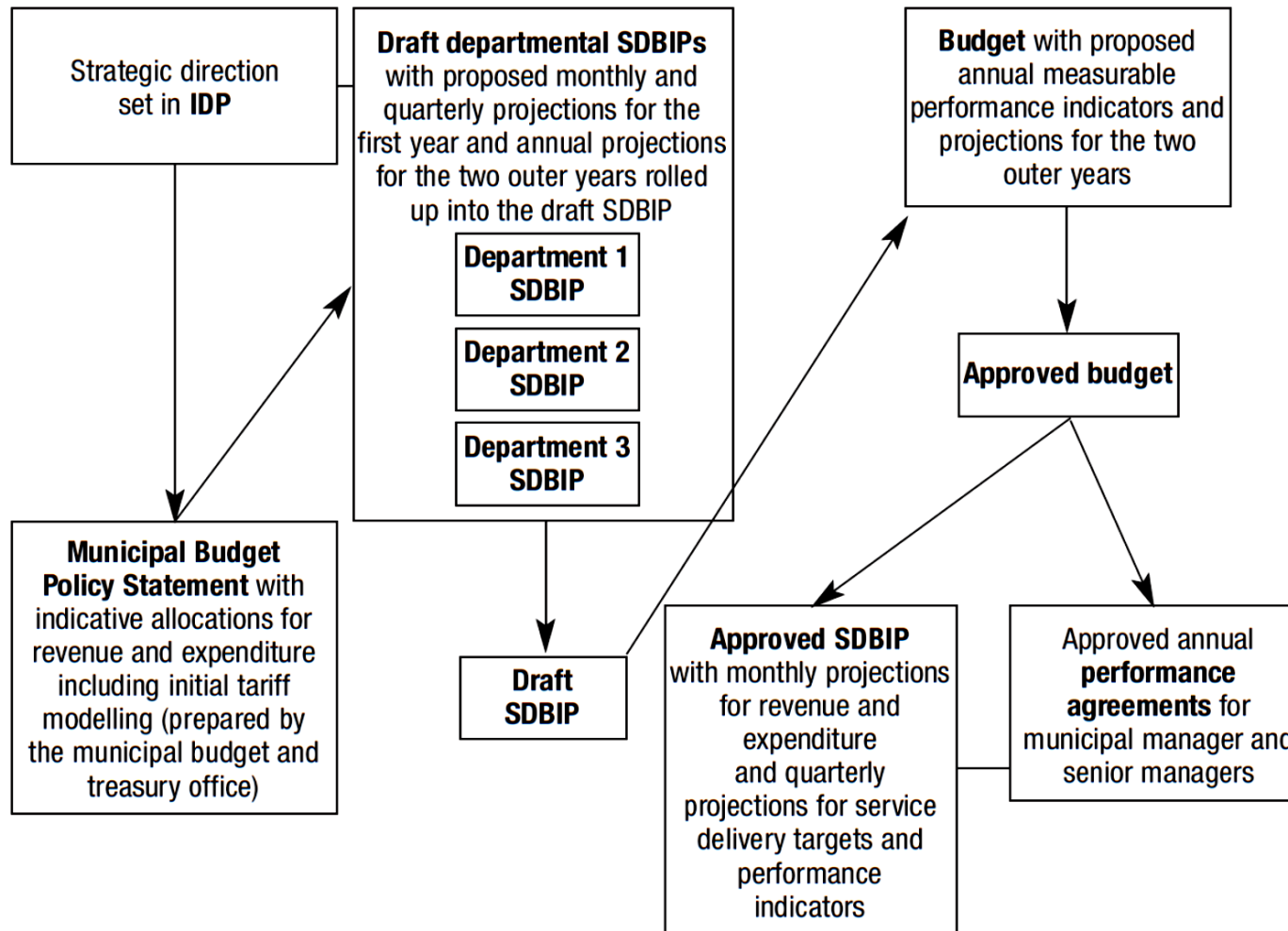


Figure 15: Process for preparing and approving the SDBIP (Source: National Treasury, 2006:85)

3.8.2.1. Components of the SDBIP

The SDBIP has five distinctive components which are identified and explained as follows (as set out in the MFMA Circular No. 13):

3.8.2.1.1. Component 1: Monthly projections of revenue to be collected for each source

The ability of a municipality to not only generate revenue but to also collect it is a critical requirement, one which is linked directly to its service delivery mandate. A municipality must ensure that it has instituted effective measures to achieve monthly revenue targets for each revenue source (National Treasury, 2005:5). Revenue projections relate to actual cash which needs to be collected and reconciled to the cash flow statement approved within the budget. The purpose for specifying actual revenue collected rather than accrued revenue is to ensure that expenditure does not exceed actual income (National Treasury, 2006:81).

The SDBIP information on revenue needs to be monitored and reported on a monthly basis by the accounting officer. Revenue can be sourced in various ways such as; *levies, billing tariffs, property rates, etc.* Furthermore, it is important that credit control policies and procedures are monitored, with appropriate action being taken promptly if the need arises. A municipality should have a contingency plan, in the event of cash flow shortages or may exercise the option of making investments on cash surplus.

3.8.2.1.2. Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote

Monthly projections of expenditure relate to cash payments, which should be reconciled with the cash flow statement adopted in the budget. The emphasis under this component is a monthly projection for each vote, in addition to projections by source (National Treasury, 2006:81). Each key 'vote' must be linked with its appropriate; operating expenditure, revenue, capital expenditure and measurable performance objective. At the time of reviewing budget projections against actual results, a municipality must consider revenue and expenditure per vote in order to gain a comprehensive view of budget projections in comparison to actuals (National Treasury, 2006:7). The inability of a municipality to effectively monitor expenditure in relation to revenue (as a source that funds it), will impede its efforts of achieving strategic objectives and targets set for the financial year. Section 71(1) (c), (d) and (f) of the MFMA requires a monthly report, reporting against such projections in the SDBIP.

3.8.2.1.3. Component 3: Quarterly projections of service delivery targets and performance indicators for each vote

The goals and objective set by council are established as quantifiable outcomes, which are to be implemented by the administration of the municipality and should be monitored and reported. In relation to the SDBIP, a municipality is required to develop non-financial measurable performance objectives in the form of service delivery targets and other performance indicators. Service delivery targets relate to the level and standard of services being provided to the community and include targets for the reduction of backlogs in basic services. (National Treasury, 2006:82).

National Treasury (2005:8), provides that public information should deal with service delivery (output), rather than on how a municipality organises itself to do so. An example of this information would be the expansion and regularity of refuse removal services. An approach that is encouraged by Circular No. 13 of the MFMA is the utilisation of a performance scorecard to monitor service delivery.

3.8.2.1.4. Component 4: Ward information for expenditure and service delivery

There is a great benefit for the public when information in terms of what has been achieved is made available. This information may be broken-down into outputs of services as per the number of municipal wards (National Treasury, 2006:82). Municipalities may provide data on how the provisions of services are spread across the various wards, with details of the actual output and total expenditure incurred (National Treasury, 2005:10). For example, the number of new electricity connections. Principally, on the premises of a transparent and accountable municipality; access and availability to such information empowers communities together with their councillors to keep their municipality in line with its commitments and objectives. This information can be made available on the municipal website or other relevant mediums of communications.

3.8.2.1.5. Component 5: Detailed capital works plan broken down by ward over three years

The SDBIP should contain clear details about the capital infrastructure programmes of the municipality over a period of three (3) years per ward; with reconciliations to the budgeted capital expenditure estimates (National Treasury, 2005:10). The usefulness of information enables ward residents to clearly see the progress of capital infrastructure works in the ward. Essentially, this represents a more transparent process in which residents can assess the performance of the municipality against budgeted

commitments to the community. Such information should include: 'project number; name; the senior manager responsible; a short description of what the project will deliver; planned start date; planned completion date; actual completion date; and reasons for variances including if the project was completed but did not deliver to specification' (National Treasury, 2006:83).

Much like the IDP, the municipality needs to follow a consultative process in getting the SDBIP approved. Section 69 (3)(a) of the MFMA requires the accounting officer to submit a draft SDBIP to the mayor no later than fourteen (14) days, after the approval of the budget and drafts of the performance agreement as required in terms of Section 57 (1)(b) of the Municipal Systems Act (Act 32 of 2000),. Thereafter, the mayor would need approve the SDBIP no later than 28 days after the approval of the budget in accordance with Section 53 (1)(c)(ii) of the MFMA.

3.9. PREVALENT CHALLENGES IN MUNICIPAL EXPENDITURE MANAGEMENT

There are a number of prevalent challenges and constrains local government is faced with. These issues have an undesirable impact on municipal financial performance and the quality of service delivery. The researcher has identified a number of challenges that are linked to and have an impact on the effectiveness of expenditure management. However, these are not exhaustive, as others may exist but are not covered herein.

3.9.1. Leadership and accountability deficiency

When we conceptualise what leadership entails; we consider it to be a process by which those who are entrusted with responsibility to lead, do so with the objective of achieving the desired results (Mantzaris, 2014:90). Municipalities function in a politically intensive environment, and there is a very thin line that exists between the political will and leadership role that is played by management. Access to power and resources is often politicised at the level of ward committees and with the participation of citizens in the decision making process (Eglin & Ngamlana in Good Governance Learning Network (GGLN), 2015:38).

It can be submitted that sound leadership is a key driver of financial health and effective expenditure management. An off the beam style of leadership weakens the budget implementation approach towards achieving the desired results. The existing failure to 'investigate and condone' unlawful expenditure translates to an upward trend in the occurrence of irregular expenditure by local government (in 2016-17: it increased from

R16, 212 billion to R28, 376 billion, a 75% increase) (AGSA, 2018:2). This is also triggered by weaknesses in the administration and management of contracts. Not only do management roles diminish in their relevance, unresolved weaknesses in leadership are also proving to be detrimental to the administrative functions of a municipality and the oversight role played by the municipal council (AGSA, 2018:22). The lack of both the political and administrative leadership is a contributing factor to the lagging response in addressing risk areas and improving the status of internal control (AGSA, 2017:23). The inability to act promptly and initiate corrective measures is steeped in a culture of 'no consequences', often due to inadequate performance systems and processes" (AGSA, 2018:22).

3.9.2. Unspecialised and unskilled capacity

Without a competent human resources base, a municipality will not be able to meet its service delivery targets. The need for a skilled and specialised staff is a growing concern, specifically with the aim of establishing high performance and operational municipalities (Mohr & Fourie, 2008: 351; Mdlongwa 2014:39). The reality is, when capacity is not available in house, municipalities resort to contracting the services of consultants in order to bridge the skills gap. A total of 101 municipalities (42%) employed the services of consultants in preparing their 2016-17 financial statements. This resulted in a cost of R 757 million, which to the dismay of the AGSA did not yield the desired impact on the underlying records (AGSA, 2018:14). Vilakazi (2012:48) reveals that there is a skills shortage in the area of implementation and application of GRAP standards, which is more burdensome to rural municipalities, which are struggling to retain skilled individuals in the area of financial management.

This cost implication materialises to additional spending on labour; in the sense that it costs more for municipalities to do their jobs; whereas, those funds could have been directed to the enhancement of service delivery. The reliance on consultants is problematic, on the part of the costs that are associated with the services acquired in relation to the value-add from skills transfer. The vacancy of key leadership positions and the lack of appropriate competencies creates a performance breakdown which negatively impacts the stability of a municipality, at both a strategic and operational level. During the 2016-17 financial year, the AGSA noted a "12% increase in the senior management vacancy rate also contributed to the regression of the audit outcomes" (AGSA, 2018:55). The skills challenge further highlights the need for efforts and contributions made by SALGA and National Treasury in capacitating local government.

3.9.3. Non-compliance to policy and regulation

Municipalities operate within a regulated environment; wherein, they are required to comply with the applicable regulation and statutory guidelines. This is also carried out in conjunction with the internal policies of a municipality. The purpose of compliance must be exercised consistently and carried out in the various levels of authority and functions of a municipality. Presently, accountability within local government is in a vulnerable state; this is attributed to the malfeasance that is bred by non-compliance. From the audit outcomes of the 2016-17 financial year, the AGSA reported material non-compliance with key legislation at 86% of the municipalities (AGSA, 2018:15). To this effect, municipalities fall in the trap of accumulating wasteful and unauthorised expenditure, due to the failure of managing their budgets and the timely settlement of their creditors' accounts.

What is more, the 2016-17 audit review revealed that material compliance findings in supply chain management increased from 63% to 73% (AGSA, 2018:15). This was mainly unfolded by internal control weaknesses; wherein, procurement rules are being floated recklessly. It was identified that 1440 suppliers submitted false declarations on the part of any connection to the municipality or other public institutions; and to this, 82 municipalities failed to request such declarations (AGSA, 2018:15). Under no circumstances does non-compliance yield any benefit to a municipality, other than to put more cost pressure on the budget. Municipalities need to establish effective measures in preventing unwanted expenditure. Moreover, proper record keeping and contract management is instrumental in the assessment of maintaining expenditure within the acceptable and affordable limits.

3.9.4. Inadequate planning and poor budget alignment

Planning and budgeting go hand in hand. Inadequate planning produces poorly prepared budgets, thereby resulting in ineffective expenditure management. Municipalities are confronted by a challenge of a 'weak development planning capacity'; wherein, they struggle to develop quality plans within a five approach of the IDP (The Presidency, 2014:6). The failure to develop a well-coordinated plan with measurable targets in terms of what the intentions of the municipality are; raises a concern on the extent to which community needs are prioritised and the credibility of budget decisions regarding expenditure. The audit outcomes for the 2016-17 financial year; reported that material findings related to uncompetitive and unfair procurement processes at 67% of the municipalities, were mainly as a result of poor planning (AGSA, 2018:16).

The impact of inadequate planning is also linked to the failure of complying with the approved budget and ineffective cost containment measures within municipalities. During the 2016-17 financial year, the AGSA (2018:17) reported that the impact of poor performance planning and budgeting resulted in R12, 6 billion of unauthorised expenditure. This is a clear indication of the misalignment between municipal planning and budgeting. The inability to plan properly distorts the reliability of performance assessments which coincides with the rationality and true value of expenditure.

3.9.5. Weaknesses in internal control

Internal control is a critical component in the financial management system; it is instrumental for the maintenance of the budget and budget process. The essence of internal control is to ensure that a municipality remains on track with its objectives, by strengthening the alignment between the plan and approved budget. Deficiencies in internal control steers both non-performance and non-compliance, which also unfolds the risk of mismanagement and financial wrong-doing (Visser& Erasmus, 2002:277). The AGSA (2017:22) presents that weaknesses in internal control measures are a result of systematic failure to 'timeously detect deviations'.

The slight regression in internal control for the 2016-17 financial year, was alluded to a decline in the areas of leadership, governance and financial and performance management (AGSA, 2018:17). However, it still remains that not even 50% of the municipalities are able to account for a good result on the status of internal control across the three areas. The deficiency of internal control has a negative impact on the state of governance within a municipality. Consequently, weaknesses in internal control materialise into ineffective spending and widespread unlawful expenditure.

3.9.6. Financial constrain

Municipalities are exposed to a number of financial challenges; amongst these, they are also forced to deal with a culture of non-payment and a low revenue collection rate (Mdlongwa 2014:39; Kanyane, 2014:97). Municipalities are further pushed into volatile financial conditions wherein their budgets are strained from the accumulation of interest and penalties on outstanding payments. The problematic nature of overdue payments is attributed by AGSA as a failure of complying with the 30 days' payment period as required by the MFMA. To this effect, the accumulation of interest and penalties amounted to R187, 2 million during the 2016-17 financial year (AGSA, 2018:74). This kind of expenditure is classified as wasteful and fruitless because it adds no value to the

municipality and it also highlights the failure in taking the necessary actions to prevent it. Therefore, the management approach of keeping municipalities operational in such a manner is neither viable nor sustainable.

The danger of municipalities operating on a constant drive to accumulate expenditure, creates undesirable financial conditions resulting in overspending on the budget (unfunded mandates), which amounted to a total of R5, 6 billion for the 2016-17 financial year (AGSA, 2018:20). Consequently, this points to the reality that very little effort is being made to curb excessive spending and in retaining costs within the approved limits. In the context of financial health, financial stability and sustainability remains questionable for most municipalities. During the 2015-16 financial year, the AGSA determined that the “financial health of 65% of the municipalities were either concerning or requiring intervention (AGSA, 2017:12).”

3.9.7. Effects of ineffective expenditure management

In light of the above challenges, the researcher submits a general view of the effects that are most likely to materialise from ineffective expenditure management:

- *Unstable municipality:* Failure to implement robust mechanism to effectively manage expenditure will result in an unstable municipality. If expenditure is not monitored and managed within the approved budget, it will continue the cycle of budget deficits, financial wastage and unaffordable budgets choices. The inability to manage the budget is a threat to the financial health of a municipality and its ability to exist presently and in the future.
- *Service delivery collapse:* As a direct output of municipal spending; if a municipality cannot organise and optimise its resources, it will fail in achieving its service delivery targets. The collapse of service delivery will be unfolded by poor planning and costs determination (best price for services) and operational inefficiencies in the utilisation of resources. Ultimately, the collapse of service delivery also locks in the ability to generate revenue.
- *Public protest and civil unrest:* The community in making their frustrations known, will take to the streets and protest against the mismanagement of resources and non-performance by the municipality. Thus, the importance of a well-informed constituency is critical especially in a democratic and accountable society. Public participation and open systems are central to accounting for the budget. The legitimacy of decision making goes hand in hand with public confidence.

- *Corruption and maladministration:* There is nothing good that comes from corruption and maladministration. When public resources are not used for the purpose they were allocated for, it is a direct injustice to the recipients of public expenditure outcomes and a transgression to the law. Financial losses yield unwanted consequences for a municipality, not only in the short-term but also in the long term. Financial recovery may take years to achieve. As a result, it is a risk to the stability of the budget and accomplishment of performance targets, and also to the continuation and completion of programmes and projects.
- *Poor audit outcomes:* Municipalities will continue the culture of poor audit outcomes, for as long as they fail to ensure proper governance and accountability. Internal control mechanisms need to be strengthened and there should be a strong leadership backing in dealing with financial transgressions and recommendations made by the AGSA.
- *Skills exit:* The failure of municipalities to organise and manage themselves effectively will result in the persistence of non-performance. This reflects poorly on the image of local government as a whole, which is most likely to have a negative impact on attracting professionals and technical skills towards municipalities. As a result, municipalities are faced with the capacity burden of having to rely on the services of consultants.

3.10. WHY INTERNAL CONTROL MATTERS?

Internal control is a basic management function; it is at the heart of efficient and effective municipal financial management. Internal control is designed to enable the executive of a municipality to be able to plan, organise, direct and control its budget. According to CobiT (in Likas & Giriunas, 2012:147), “internal control is a process including norms, procedures, performance and organizational structure established to ensure reasonable guarantees so as to achieve the settled business goals and avoid undesirable events.” In the same vein, Verovska (2014:240) corroborates that the purpose of internal control is to enhance the competitive edge of an enterprise, improve its’ financial prospects with regards to financial stability and sustainability; and to increase investor confidence on the basis of disclosed financial records. Essentially, the aim of internal control is to achieve three (3) critical goals, namely; maintenance of efficient and effective operations, compliance with the relevant laws and regulation and to ensure the output of reliable financial reports.

Internal control activities are aimed at ensuring that the course of implementation yields the desired results. The Constitution, along with the Public Financial Management Act (Act 1 of 1999), Treasury Regulations, and the MFMA, are some of the relevant materials of legislation that address the issue of internal control and also provide legal guidance about it. Chapter 8 of the MFMA tasks the CFO with the responsibility of assisting and supporting the accounting officer with the development, implementation and maintenance of internal control procedures.

The value application of internal control can be identified through the following approaches (Bayyoud & Sayyad, 2015:157; Jones & Travis, 2015:4):

- *Preventative Controls*: This type of control is intended to prevent, deter and stop any unwanted events from taking place. By nature, preventative controls are proactive; such that, they are instrumental in preventing the occurrence of irregular, unauthorised and erroneous transactions. Essentially, this type of control facilitates the realisation of desired results and reinforces proper processes and procedures.
- *Detective Controls*: This kind of control is designed to detect the occurrence of errors and undesired events once they have taken place. Basically, detective controls are used to create an alert in the system and to provide timely information about what has transpired. Detective controls are an effective mechanism; wherein, they command the appropriate course of action on the basis of evidence that is collected (fact based data). This approach of control is effective in detecting issues such as fraud, inaccuracies, discrepancies, financial deviations and irregularities.
- *Corrective Controls*: Normally, this type of control follows after the results (as in information or evidence) have been gathered from detective controls. Corrective controls consider the “after the fact” of an error, problem or event; it moves to initiate the appropriate course of action in solving the problem in a timely manner. Also, corrective controls provide lessons learned that can be used to prevent the occurrence of further errors in the future.

Internal control functions within effective and well-structured processes that are designed and directed to achieve the desired results as the business of the day. The emphasis of performance is complemented by a transparent and accountable institutional setting. Moreover, the framework of internal control requires effective

policies and an efficient administrative capacity. Internal control efforts are established to provide reasonable assurance in achieving the following objectives (International Organization of Supreme Audit Institutions (INTOSAI), 1992:8):

- promoting orderly, economical, efficient and effective operations and quality products and services, consistent with the organisation’s mission;
- safeguarding resources against losses due to waste, abuse, errors, fraud, mismanagement and other irregularities;
- adhering to laws, regulation and management directives; and
- developing and maintaining reliable financial management data, and fairly disclosing that information in timely reports.

The abovementioned objectives are in alignment with the objectives set out by the Committee Sponsoring Organisations of the Treadway Commission (thereafter referred to as COSO), namely; operational objectives, reporting objectives and compliance objectives.

3.10.1. Components of internal control

There are five interrelated component of internal control. These components are also developed and conferred in the COSO guidelines; they are depicted in Figure 16 below and discussed thereafter:

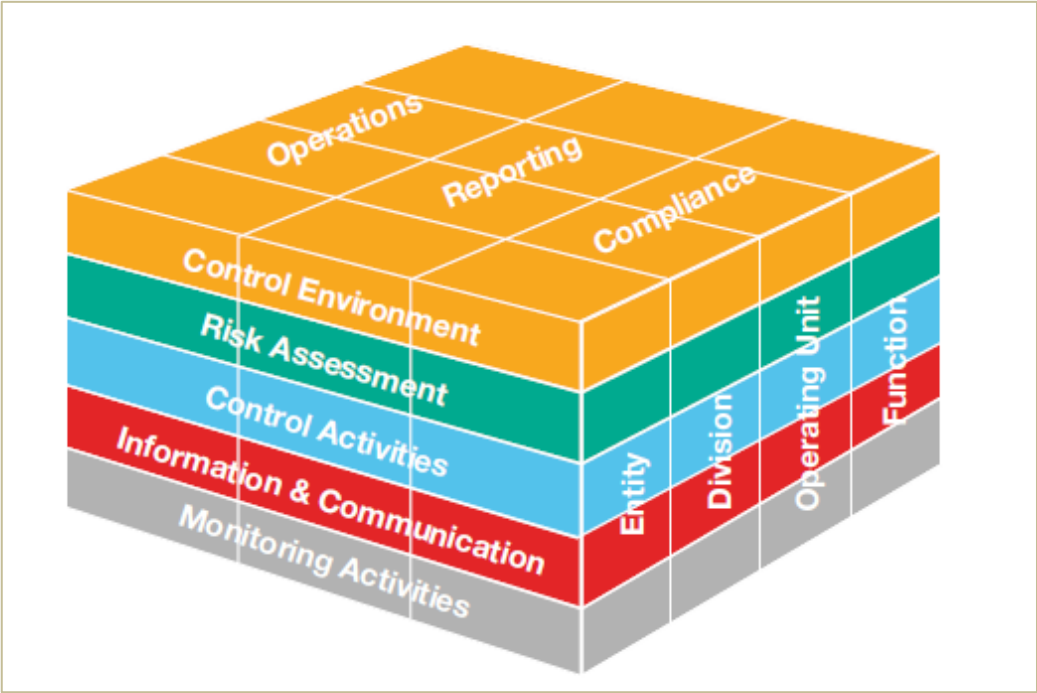


Figure 16: The COSO 2013 Framework - five integrated components of internal control (Source: Schandl & Foster, 2018:6)

3.10.1.1. The Control Environment

According to COSO (in KPMG, 2013:3), “the control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organisation”. Essentially, the control environment is the starting point of internal control; it sets the tone that drives the operational capacity of the organisation. It relates to the management and governance of an institution with regards to the awareness and shared understanding of; what needs to be done? (duties and responsibilities), how it is to be done? (policies and procedures) and who is responsible? (Audit Office – New South Wales, 2017:5; Schandl & Foster, 2018:7). Thus, the control environment encompasses both the management and ethical commitment which is established by policies and procedures, values and codes of ethics that are communicated and espoused by the organisation as a whole (Provasi & Riva, 2015:492 Verovska; 2014:243). Furthermore, a well-structured control environment creates an enabling setting that supports employees’ in achieving the goals of the institution and to identify that they are accountable for execution of their duties (Ncgobo & Malefane, 2017:77).

3.10.1.2. Risk assessment

Risk is an inherent factor, whether it is internal or external. Risk can be considered as any occurrence or event that poses a threat and has the likelihood of derailing or having a negative impact on the realisation of objectives by the organisation (Provasi & Riva, 2015:492). A risk assessment must be undertaken in order to ensure that the organisation is on the right track and remains in alignment with its mission and objectives (INTOSAI 2004:13). Thus, the process of a risk assessment is to identify risks and develop strategies that will assist in mitigating the risk. It is critical for the risk assessment to take place, at both strategic level and operation level (Audit Office – New South Wales, 2017:6)

Moreover, risk assessment is essential in enabling management to avoid undesired results and the negative impact resulting from ineffective results. In light of the potential risk factor, the control environment should be designed to create adaptable conditions of risk tolerance during the time of change and adjustment. Stemming from the risk assessment, management needs to consider possible changes that can be initiated in the internal and external environment and to take the appropriate measures in managing the impact (Schandl & Foster, 2018:7; Ncgobo & Malefane, 2017:77).

3.10.1.3. Control activities

Control activities are the actions set-up by policies and procedures to help ensure that management directives in mitigating risks to the achievement of objectives are implemented effectively (COSO in KPMG, 2013:3; Visser & Erasmus, 2008:292). Control activities by nature can either be preventive or detective; wherein, they are carried out at all levels of the organisation and within the various functions and processes of the institution (Audit Office – New South Wales, 2017:6; Schandl & Foster, 2018:7). Control activities include; approvals, authorisations, verification, reconciliations, reviews of performance, security of assets, segregating of duties and controls over information systems (COSO, in Ncgobo & Malefane, 2017:77).

3.10.1.4. Information and communication

The internal control system is established and functions on the support of continuous information and communication, which is critical to the achievement of outputs and the day to day functioning of an organisation (Ncgobo & Malefane, 2017:78). The function and purpose of information and communication is important to the internal and external environment (Schandl & Foster, 2018:7). Essentially, management is guided by the information that is received by them from the various functions of the organisation, which they in turn are required to take decisions and communicate them to the organisation as the appropriate course of action in ensuring operational success (KPMG, 2013:5). Effective control mechanisms are a reflection of an effective control system; which is characterised by relevant and reliable information and the circulation of timeous internal and external communication (Provasi & Riva, 2015:493).

3.10.1.5. Monitoring

An effective internal control system is one which is actively monitored. Monitoring relates to on-going activities that are performed to ensure that issues relating to internal control are identified, evaluated and followed-up (Verovska; 2014:243). Monitoring efforts are aimed at ensuring that the internal control system and its activities achieve effective results. As stated by Provasi & Riva, (2015:494), the objectives of 'monitoring activities' are to; *conduct on-going or periodic assessment and, assess and report deficiencies*. Ncgobo & Malefane (2017:78), submit that it is a duty that is performed by public managers, wherein it must be ascertained that internal controls are understood and complied with.

In light of the aforementioned components, the deciding factor of effective internal control will be demonstrated by the shared commitment from the municipality as a whole, which is esteemed through a focused and intentional pursuit. The function of internal control is built into the management system, such that control activities carry the planned objectives of the organisation. Moreover, it espouses ethics and shared attitudes that are affirmed through institutional arrangements and the administrative culture. The inability to institute effective control measures will result in a 'distorted' view in accounting for performance and operational results.

3.11. CHAPTER SUMMARY

As enshrined in the Constitution, the role played by local government is to give priority to the needs that emulated from the grassroots level. Section 152 of the Constitution provides a clear directive of the functions under which local government was established:

- to provide democratic and accountable local government for local communities;
- to ensure the provision of services to communities in a sustainable manner; and
- to encourage the involvement of communities and community organisations in the matters of local government.

In fulfilling the abovementioned functions, the integration between municipal planning, management and administrative functions is fundamental to establishing an efficient and effective system in securing the accomplishment of the total objectives of a municipality. A municipality is responsible for ensuring that its financial management policy is complied with fully and implemented in accordance to proper operating processes and procedures.

Essentially, the leadership focus of a municipality sets the projection for success, with regards to the level of operational efficiency and the realisation of performance targets. There is a direct correlation between the effectiveness of leadership and the expenditure results of a municipality. Local government would benefit more financially if municipalities were to become self-sufficient and equipped with specialised, competent and technically sound workforce. An unfortunate reality is that, the effects yielded by non-compliance falls heavily on the constituency as recipients of public expenditure outcomes.

CHAPTER 4: RESEARCH METHOD

4.1. INTRODUCTION

The process of undertaking a research is broken into two main phases; namely; the planning phase and the execution phase. The research design is the beginning and end of the research process (Kothari, 2004:31). It is the initial point of departure; wherein, the researcher seeks to answers questions such as; 'what is the problem', 'what evidence is required to address the identified problem', and 'what did the research find' Sarantakos (2005:104). In order for the study to achieve its objectives, the research design must be kept simple and specific to what the needs of the study are. The purpose of a research design is to guide and direct the activities of the research, by ensuring that the researcher works towards a defined end. Essentially, research design connects the identified research problem with the empirical research (Van Wyk, 2012). Rugg & Petre (2007:62) opine that the effectiveness of a research design is revealed by the ability of a study to contribute knowledge on the basis of what it finds out.

Sarantakos (2055:104) outlines a basic criterion of what a research process entails:

- a) The research must follow a logical approach, in the form of steps that will guide the researcher from start to finish.
- b) These steps are identified as follows: firstly, choice of study and methodology; secondly, methodological construction of the study topic; thirdly, sampling; fourthly, collection of data; fifth, analysis and interpretation of data; and sixth, reporting of findings.
- c) The design of research model is developed before commencing with the research; however, flexibility can be exercised in certain contexts.
- d) The order in the process flow between the various stages varies according to the underlying paradigm.

Chapter 2 and Chapter 3 provided an extensive review of literature, which was essential in strengthening the purpose and significance of the study, also in contributing to the quality of the research results and findings. The following chapter will focus primarily on the empirical research design; with regards to the objective of inquiry and how the study was conducted. It covers the methodology of choice, data collection technique and consideration of ethical issues. This chapter is also instrumental in setting the path for the subsequent chapters (Chapter 5 and 6), along with the final conclusions reached by the researcher.

4.2. RESEARCH METHODOLOGY

The researcher employed a qualitative research methodology approach. A qualitative study is considered to be 'highly contextual', as it seeks to provide a comprehensive view or understanding of why and how a phenomena or complex reality takes place (Gray, 2004:320). In the same vein, a qualitative approach accepts that a phenomenon occurs in its natural setting, that is, in the real world, and it undertakes studying those phenomena in their complexity (Leedy & Ormrod, 2005:133; Miles & Huberman, 1994). The research was carried out in a descriptive manner for purpose of what the method of inquiry intended to achieve in relation to the defined objectives. For all intents and purposes, the pursuit of using a descriptive approach was to provide accurate and valid accounts (main issues) about the phenomena as it occurs.

4.2.1. Literature review

Literature review is an instrumental process that assists and guides the researcher through the chosen field of study, on the basis of consulting publications from experts within the related field (Brynard & Hanekom, 2012:31). Kumar (1999:26) clearly explains that the purpose of a literature review is to acquaint the researcher with the study area and for the researcher to assimilate themselves with information that is relevant and applicable to the research. Locke, Spirduso & Silverman (2007:63) concur with the above supposition and further note that it gives the researcher a voice to join and engage in the on-going conversation with other scholars in the similar field. Undeniably, literature is important in theory and in practice. For the purpose of developing research questions, a preliminary literature review was conducted by searching through the existing body of knowledge and studies conducted prior to this study one. This was carried out through the use of the internet (Google-scholar, Nexus Database System, SA ePublications) and the NWU - VTC campus library catalogue search (books, journals, theses and dissertations).

A further review of literature was conducted in providing context for the chapters that followed after Chapter 1. This was valuable in identifying ideas and issues about the research problem and how they relate to the literature. The usefulness of literature in Chapter 2 established the theoretical foundation of the research; it set the tone of reasoning in terms of how the researcher would further unpack the study. The chapter uncovered key details about financial reporting; wherein, it was defined as a systematic and logical approach in terms of how public institution plan, administer, manage and account for the operation of public resources.

Chapter 3 provided a more narrowed perspective of the research problem; this was on the basis of the context that was derived from Chapter 2. The chapter captured a comprehensive view of expenditure management in the context of local government; with consideration of the challenges and constraints that are prevalent in municipalities.

4.2.2. Research methods

Research methods are basic instruments that are required to successfully complete a study, such that they are directly linked to the data the researcher is interested in. The importance of employing research methods is qualified by Flick (2011:86), as “the data that you wish to work with.”

4.2.2.1. Data collection technique

In view of the type of study the researcher was undertaking, the researcher employed secondary data as the main data collection technique for the study. Secondary data involves extracting information that already exists; this includes information that is documented through various mediums such as government publications, articles, journals and books (Fox & Bayat, 2007:38; Kumar, 2014:124). In this regards, the research employed document analysis as the preferred method of data collection.

4.2.2.2. Document analysis

According to Bowen (2009:27) document analysis involves a systematic process of reviewing documents either printed or electronically. He further notes that document analysis, as an analytical method enables the researcher to “elicit meaning, gain understanding and to develop empirical knowledge”. Bailey (in Mogalakwe, 2006:221) refers to it as a method that uses analysis to review documents that contain information about the phenomena that has been chosen for the study. Sarantakos (2055:294-295) provides the following examples with regards to how document analysis can be used:

- *Descriptive analysis*: is concerned with summarising the data, identifying the main trends and presenting descriptive details or accounts.
- *Categorical analysis*: employs systematic analysis, wherein categories are developed before commencing with the study.
- *Exploratory analysis*: searches for differences, attributes and trends that are carried in the texts that capture the identity of the message that is relayed in the document.
- *Comparative analysis*: entails making comparisons across social issues, time, countries and cultures.

The rationale of using this kind of approach was determined by the researcher as being suitable for the focus of the research and the kind of data that was sought in completing the study. The use of documented materials was instrumental in enriching the theoretical framework in Chapter 2 and understanding of the extent to which prevalent challenges within municipalities have an impact on the management of expenditure in Chapter 3. In the context of Chapter 5, it is the base that informs the researcher in making accurate and valid representation of the research results and the reported findings in Chapter 6.

In terms of the documents that were analysed, the following sources were proposed as materials for data collection and analysis (in Chapter 1):

- Annual Financial Statements for the year ended
- Annual Reports
- Budget Report (Medium-Term Revenue and Expenditure Framework)
- ELM auditors reports from the Auditor General's Office
- ELM financial management and management reports
- Internal audit reports

Considering the serious nature and sensitivity of the kind of information that was required, not all of the above documents were collected. However, the researcher was able to access and gather the following documents; *the annual report; audited financial statements for the year ended, reported on by the AGSA; the annual performance scorecard and the budget report*. The aforementioned documents were collected from the 2011-12 financial year up until the 2016-17 financial year. The majority of the data was retrieved from the website of National Treasury and Emfuleni Local Municipality. With the assistance of officials from Emfuleni Local Municipality, the researcher was informed that some of the documents could not be made available due to the sensitivity of the information and for the reason that it was only for the Municipality's internal use.

4.2.3. Data processing, analysis and interpretation

Data processing is a critical process; it takes effect once all the data has been collected (Kumar 1999:200). During the process of data analysis and interpretation, the researcher needs to ensure that the instruments used for data collection obtain the desired information. As such, before processing the data, the researcher needs to establish that the data is consistent and complete (Kumar, 1999: 200). This is done in order to ascertain that the data is reliable and valid for use. It is important to note that

the analysis of data is based purely on the aggregate context and purpose of the study (Rugg & Petre, 2007:91); as such, the data that is collected must align with the objectives of the study. Ahmed (2010:6) presents that during the process of document analysis, the researcher takes the data that is collected and puts it into “constituent components”, such that the researcher is able to put the data into shape.

The researcher firstly started by assessing the data that was collected for completeness and consistency. In reviewing the data that was derived from the documents, the researcher sought to identify the common themes or patterns in determining their link to the investigated research problem. Burns (2004:589) provides that the purpose of content analysis is to assist the researcher in building context from “emergent themes”. The researcher employed a data analysis process that is described by Miles & Huberman (in Ahmed: 2010:6) as the “interactive model of qualitative data analysis”, which is based on three components, namely; “*data reduction, data display and data drawing and verifying conclusions*”.

In view of the voluminous and detailed nature of the documents that were consulted, the researcher commenced the process of analysis by reducing the information to manageable and specific data that fits the purpose of the study. From this, the researcher was able to identify and classify the data into components, which were then edited and categorised into themes. Miles and Huberman (in Ibrahim 2012:43) describe data reduction as, “a form of analysis that sharpens, sorts, focuses, discards and organises data in such a way that final conclusions can be drawn and verified.”

Data display takes place after data reduction, wherein the researcher organises the data into information (Ibrahim, 2012:43). From the defined themes, the researcher developed descriptive accounts by capturing the main issues which are directly linked to the research problem and the scope of the research questions. Narrative texts were developed to provide explanations about what is known with regards to the problem, and also by highlighting areas that need further analysis. Where applicable, the researcher made use of illustrative instruments; such as, tables and figures. The researcher generated meaning from the data on the basis of conclusions established through analysis. Lastly, in considering the qualitative design of the study, the researcher drew findings (Chapter 6) once all the data was analysed and verified; this was done in an interpretivist manner.

4.2.3.1. Validity and Reliability

Validity and reliability are essential principles that guide the research and research process. Validity in research is concerned with the relevance and accuracy of the study (Sarantakos, 2055:88). For the purpose of quality qualitative analysis, Gray (2004:342) submits that checks and balances should be in place to safe-guard data accuracy and the faithfulness of interpretation during analysis, so as to avoid fabrication and misinterpretation. Reliability measures the capacity of consistency that is achieved from the results, and is characterised by precision and objectivity (Sarantakos, 2005:88). The aim of reliability is to ensure the stability of findings (Gray, 2004:344).

For the purpose of validity, the researcher made use of ELM's audit report, audited financial statements and uniform financial ratios and norms. The aforementioned instruments are based on best financial practices and recognised accounting standards and principles. Therefore, the research results were informed by data that is tested and regulated, with the support of official information as prepared and disclosed by ELM and the AGSA. Fourie & Opperman (2011:568) submit that, financial ratios are instrumental in the analysis and interpretation of financial statements and other statistical information reported in the annual report. According to the MFMA Circular No. 71 (Act 56 of 2003), in assessing the financial health and performance of a municipality, financial ratios and norms are used to provide a holistic analysis of a municipality on the basis of its; financial position, financial performance and budget implementation (National Treasury, 2014:1-2).

4.3. ETHICAL CONSIDERATIONS

Ethical conduct in research is of utmost importance, for both the researcher and the study itself. Fox & Bayat (2007:48) indicate that all research is subject to ethical scrutiny and review. To this effect, we can also stand in agreement with Brynard et al., (2014:95) by stating that the guiding instrument of ethics is to measure the conduct of the study. The following ethical measures were undertaken in completing the research:

4.3.1. Ethical practice and the researcher

In maintaining the objectivity of the study, the researcher was guided and influenced by principles such as; accuracy, honesty, integrity and transparency. From the presentation of research results and findings of the study, the researcher remained committed to ensuring that the information that is disclosed is not distorted, fabricated or falsified.

Before commencing with the research, ethical clearance was obtained from the North West University - VTC. The highest consideration of ethical practice to academic writing was upheld by the use of an effective referencing system. The researcher was cautious not to plagiarise, as such, all sources that were used in the study were acknowledged and cited properly.

4.3.2. Ethical practice and the involved parties

The researcher is cognisant of the involvement of other parties, who are affected by the outcomes of the study; namely, Emfuleni Local Municipality and the North West University - VTC. The researcher understands and takes full responsibility in preventing any damage or legal ramifications that may be caused on both parties, due to the information that is presented and disclosed in the study. Before commencing with the research, the researcher took the necessary steps of informing Emfuleni Local Municipality about the study, this was done in a formal letter. The purpose of the study was motivated and stated as being purely academic. The municipality in a response letter acknowledged the study and provided the necessary support in assisting the researcher. In the pursuit of advancing the body of knowledge, the researcher maintains ethical practice during and after the research, and does so in a responsible and accountable manner.

4.4. CHAPTER SUMMARY

The research design is a central part of the entire research. It is through a clear and well considered plan that the researcher is able to undertake the research process effectively. From the selected method of study, the researcher is able to identify and determine the value of data, in terms of what is applicable and relevant to the purpose of the research. Essentially, the aim of this chapter was to establish a contextual plan for completing Chapter 5 and the conclusions reached in Chapter 6. The subsequent chapter is an assessment of the efficacy of financial reporting in managing expenditure at Emfuleni Local Municipality. Furthermore, in Chapter 6 the researcher discusses the research findings in relation to the observed phenomena, and concludes with a summary of chapters and practical recommendations.

CHAPTER 5:
RESEARCH RESULTS: THE EFFICACY OF FINANCIAL REPORTING IN
MANAGING EXPENDITURE AT EMFULENI LOCAL MUNICIPALITY

5.1. INTRODUCTION

From Chapter 2 we were able to establish that in order for a municipality to finance its mandate there are two main sources of revenue it relies upon; namely, its' own revenue which is generated through revenue collection instruments (such as rates and taxes) along with intergovernmental fiscal transfers. Municipal expenditure is classified into two categories, namely; operating expenditures and capital expenditures. Chapter 3 explored the subject matter of expenditure management, with an analysis of the prevalent challenges in Local Government. The chapter captured the significance of municipal planning instruments, which are employed by municipalities for the purpose of planning and allocating financial resources. The researcher also highlighted the importance of internal control as mechanism for achieving financial stability and sustainability. In the context of good practice, key drivers of effective expenditure management, namely; transparency, accountability, efficient information and communication processes need to be reinforced in the expenditure management system. These key drivers are instrumental in upholding institutional arrangements and strengthening the governance approach with regards to decision making.

The primary focus of this chapter is to investigate the efficacy of financial reporting in expenditure management at ELM and to assess the extent to which ELM is compliant with legislation in managing expenditure. As a qualitative study and for the purpose of the chosen research method, the researcher collected the necessary documents for analysis in accordance to the research questions stated in Chapter 1.

In alignment with the preferred method of data collection technique, the researcher commenced the process of analysis by conducting content analysis on ELM's annual report, audited financial statements, budget report and the Auditor General's audit report. For the purpose of conducting a comparative analysis, the researcher collected ELM's financial documents from the 2011-12 financial year up until the 2016-17 financial year. From the data that was collected and analysed, the researcher was able to develop descriptive accounts in the form of general themes in relation to the purpose of inquiry and what is understood about the research problem in the context of ELM. Moreover, this chapter also put into context the conclusion reached in Chapter 6.

5.2. AN OVERVIEW OF EMFULENI LOCAL MUNICIPALITY

The following section provides a historical background and an overview of ELM's administrative governance.

5.2.1. Historical background

Emfuleni Local Municipality (ELM) is one of three adjacent municipalities that constitute the Sedibeng District Municipality. It is the western-most nearby region of the District, which covers the whole southern territory of the Gauteng Province stretching out along a 120 kilometres pivot from east to west. It covers a region of 987.45 km². The Vaal River shapes the southern limit of ELM, which contributes to the municipality's tourism and different types of economic development opportunities. ELM shares its boundaries with Metsimaholo Local Municipality in the Free State toward the south, Midvaal Local Municipality toward the east, the City of Johannesburg metropolitan territory toward the north (ELM, 2015b:1; ELM, 2016b:1).

ELM is rich in history as it marks the South African War with the signing of the peace treaty in Vereeniging on 31st May 1902 that ended the Second Boer War. The Sharpeville Dedication and Show Center serves as a renowned legacy asset, which is also referred to as the Sharpeville Human Rights Precinct in remembering the events of 21st March 1960. This landmark was established in respect of the individuals who lost their lives on that fateful day, which was then followed by the momentous occasion of adopting the Constitution of the Republic of South Africa (Act 106 of 1996) in Sharpeville on 10th December 1996 (ELM, 2016b:1).

ELM is situated with access to a well-maintained road network, the N1 national road connecting Johannesburg and Bloemfontein, which passes through Emfuleni neighbourhood (ELM, 2015b:1). It has two central town areas, that is, Vereeniging and Vanderbijlpark. It's also prestigious for its involvement and contribution to the iron and steel industry in South Africa. ELM contains six huge peri-urban townships; namely Evaton, Sebokeng, Sharpeville, Boipatong, Bophelong and Tshepiso (ELM, 2016b:1; ELM, 2017b). The other ten small settlements areas that are suburban in nature, which are within six kilometres range of the aforementioned townships; they are, Bonanne, Steel Park, Duncanville, Unitas Park, Arcon Park, Sonlandpark, Waldrift, Rust-ter-Vaal, Roshnee and Debonairpark. Furthermore, what is evident is that a large portion of the residential areas in ELM requires extensive financial investment for development and environmental upgrading (ELM, 2017b).

5.2.2. Administrative governance of Emfuleni Local Municipality

In terms of Section 55 (2) of the Municipal Systems Act (Act 32 of 2000), the Municipal Manager is appointed as the Accounting Officer, whom in their duty is responsible and accountable for:

- a) all income and expenditure of the municipality;
- b) all assets and the discharge of all liabilities of the municipality; and
- c) proper and diligent compliance with applicable municipal finance management legislation.

Apart from functioning as the head of administration, the municipal manager serves as a link between ELM's administration and the political office bearer. The Municipal Manager through ELM's management implements decisions passed by Council and where also delegated, decisions of the Executive Mayor or the Mayoral Committee (ELM, 2014b:30). The Municipal Manager is largely responsible for the development and implementation of the municipal performance scorecard, which is also the basis of assessing his performance. The Municipal Manager upon completion of the IDP develops a Performance Plan with the Executive Mayor, which is agreed to with clear and measurable targets (ELM, 2016b:26).

ELM is divided into 9 Administrative Clusters, which are established for a specific function and with clear roles and responsibilities. The function of each cluster is to provide support to management and to ensure efficient service delivery to the community of Emfuleni. Each cluster is responsible for its own planning and budget, which must match the overall strategic plan of the Municipality. The SDBIP provides detailed information regarding the performance obligations of each cluster, which consists of objectives, indicators and targets that originate from and align with the IDP (ELM, 2015b:31).

In alignment with Section 56 of the Municipal Systems Act, the responsibility of the Senior Management Team (SMT) is to support and be accountable to the municipal manager. Within ELM, the SMT comprises a total of 12 professionals who are accountable for day to day operations, along with influencing and guiding the strategic direction of ELM. Furthermore, the SMT plays a critical role with regards to compliance, policy and strategic reports for Council approval. The sittings of meetings are conducted every week, bi-weekly and to the extent to which the SMT holds meetings to discuss reports that are recommended to the Mayoral Committee and Municipal Council for approval (ELM, 2014b:30).

The figure below illustrates Emfuleni Local Municipality's structure:

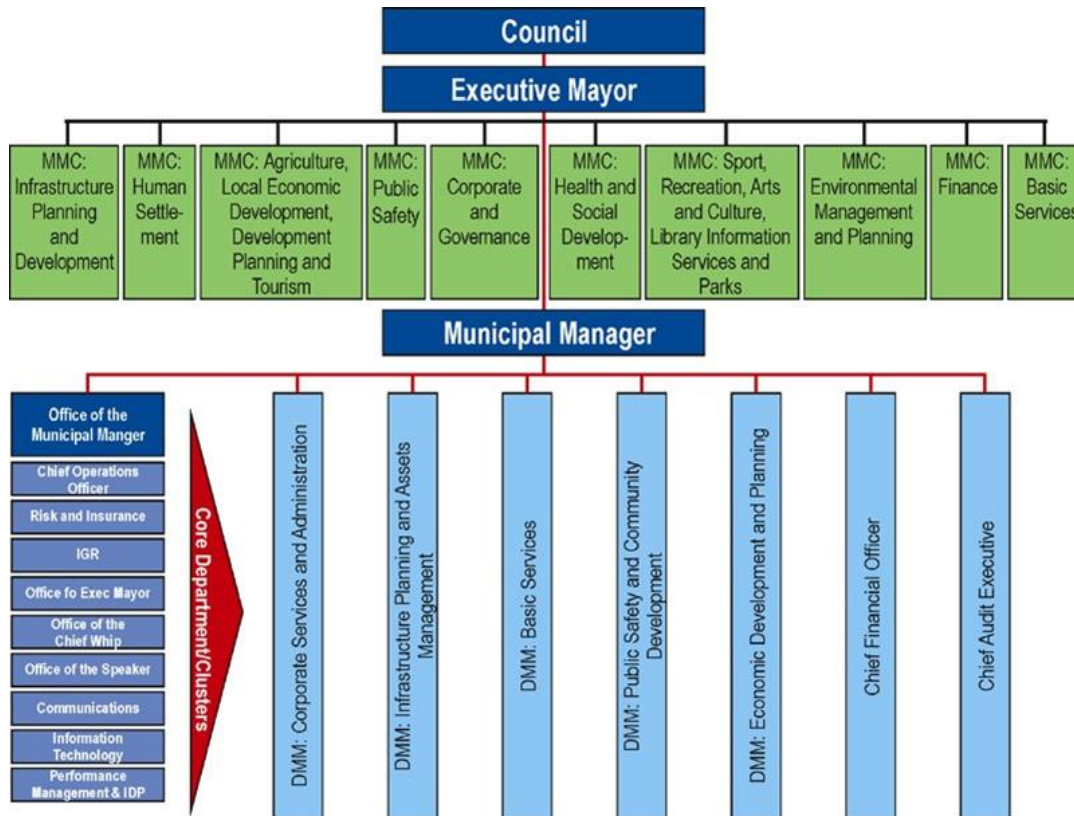


Figure 17: Emfuleni Local Municipality structure (Source: ELM, 2014b:30)

Figure 18 below illustrates the decision making process of ELM. The process flow indicates how decision making takes place at the various levels of authority, upon which Council resolution must be reached by majority vote.

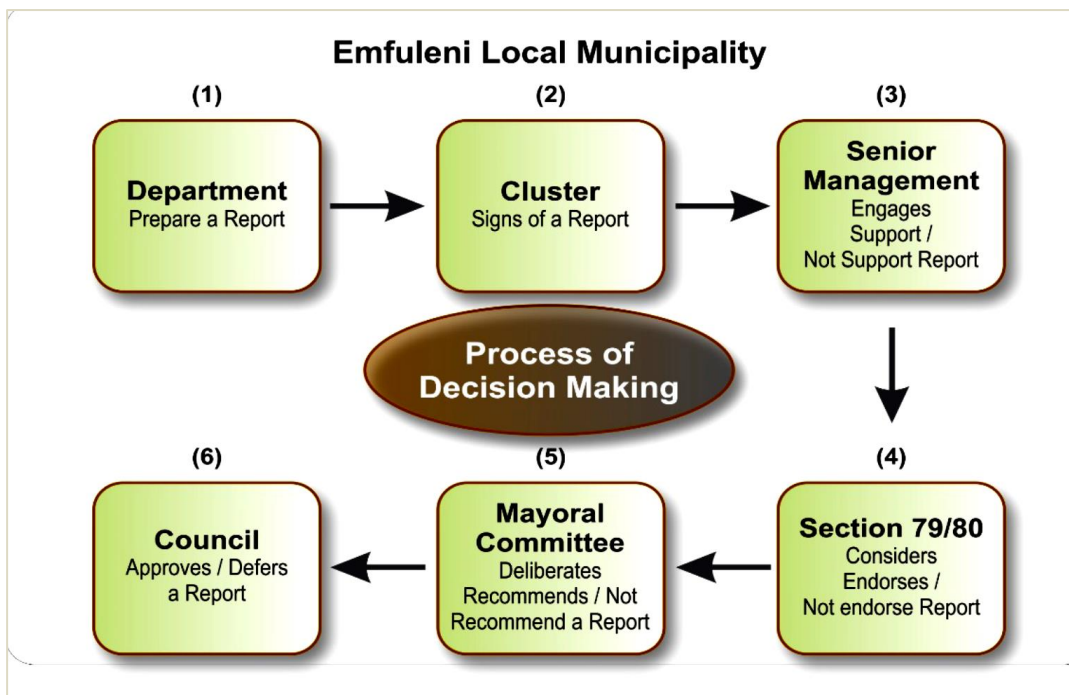


Figure 18: ELM Decision making process (Source: ELM, 2017b)

5.3. RESEARCH RESULTS: THE EFFICACY OF FINANCIAL REPORTING IN MANAGING EXPENDITURE AT EMFULENI LOCAL MUNICIPALITY

The following section will provide detailed information about the research results, on the basis of the data that was collected and analysed.

5.3.1. Theme 1: Financial and performance management

In considering the scope of financial governance at ELM, the focus of the budget as a communication tool is to ensure aggregate financial discipline wherein financial viability for the Municipality is prioritised. The efficacy of financial reporting requires an accounting system that is built and functions on the basis of best practices and accounting standards. Visser & Erasmus (2002:236) provides that, it is critical for an accounting system comply with the following fundamental requirements:

- provide timely and accurate information;
- demonstrate flexibility towards dealing with changes in voluminous activities and operating procedures without requiring drastic adaptation; and
- internal control measures must ensure protection of assets and provision of reliable information.

Financial and performance management are two key management functions that are interrelated. The analysis of these functions' brings under review the extent to which decision making within a municipality has been successful in delivering its performance obligations whilst keeping the municipality financially viable. In order for municipal officials to navigate through the commitments of a municipality, requires sound financial management and effective performance evaluation tools in reporting and accounting for the achieved results.

Quality information plays a critical role in reporting on the state of governance, with regards to financial administration and management. Based on ELM's audit reports, the AGSA has maintained a clear tone over the issue of material misstatements in ELM's financial statements. This has remained a consistent point in his findings, wherein he reports (ELM, 2017b; ELM, 2016b):

“The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of Section 122 of the MFMA.”

These material misstatements are subsequently identified by the auditors in the submitted financial statements and thereafter are rectified; and in so doing, result in the financial statements receiving an unqualified audit opinion.

The information management system of ELM has not been efficient in optimising its monitoring controls towards the enhancement of; collection, recording, processing and reporting of financial and performance information. The researcher observed that ELM's practice on performance reporting is still underlined by weaknesses that are precipitated by challenges relating to skills capacity, inadequate monitoring and reporting controls and inefficient internal communication and information processes. According to AGSA, the quality of ELM's performance reporting (on the basis of credibility) is devalued by deficiencies in the completeness, reliability and accuracy of information; hence, the existence of discrepancies between the reported performance in the annual performance report and the evidence provided to support the performance (ELM, 2017b). It is worth noting that reporting incorrect information yields no benefit to users of information and the reporting municipality.

ELM's management approach has not yielded effective budget performance results, due to inefficient planning and monitoring and evaluation competencies. Budget outcomes in relation to spending on the operating budget give an indication that ELM's expenditure system remains conditioned by weak control measures. To this effect, ELM's expenditure planning and management approach is acting on a 'weak' administrative system that has maintained the standard of overspending in account of the operating budget (based on ELM's financial performance, in 2015-16: 8.4%, 2014-15: 17.7% and 2013-14: 17.3% (ELM Financial Performance – www.muicipalmoney.gov.za). During the 2016-17 financial year, ELM had initially budgeted for an operational surplus of R 633 million; however, the Municipality ended the year with an operational deficit of R 769 million (which deteriorated from the 2015-16 financial year) (ELM, 2017b). Thus, the discrepancy between what ought to be happening, in contrast to the actual totals reveal that ELM is burdened by poorly implemented operational controls, which in turn carries the adverse risk of cash shortages, unachieved performance targets and unwanted financial losses.

Based on the above assessment, the financial and accounting practice of ELM is failing to capitalise on the Municipality's financial management policy. The utilisation of efficient monitoring and reporting tools are necessary in quantifying the link between financial reporting and the municipality's performance; in relation to the pursuance of objectives through expenditure. Thus, the underlying incentive for effective controls and quality information is to strengthen the implementation approach in achieving the desired results. Thereby, allowing ELM to leverage on its operational capacity in a sustainable manner and improve its financial viability.

5.3.2. Theme 2: Liquidity management

From the previous chapters the researcher was able to establish that the budget of a municipality is made up of two key components; namely, revenue and expenditure. According to Section 95 of the Municipal Systems Act, a municipality must have an effective revenue management system, which must be consistent with its credit control and debt collection policy. Constitutionally, in order for a municipality to fund its expenditure obligations, it requires a sufficient revenue source base. Essentially, the purpose of reporting on expenditure and revenue is for the accounting officer and the CFO to ensure revenue collection and conformance of expenditure to the approved budget. Therefore, all activities that pertain to the financial management system must be completely functional and maintained in accordance with the applicable rules and regulation. Table 6 below is an extract of ELM's statement of financial performance, which provides an overview on how the Municipality ended its financial year with regards to the operation of the budget.

	Financial Year			
	2015-16	2014/15	2013/14	2012/13
Total Revenue	5,276,218,461	4,911,630,423	4,639,758,663	4,054,191,327
Total Expenditure	(5,595,218,461)	(5,450,318,440)	(5,087,493,274)	(4,272,991,127)
Operating Deficit	(318,898,601)	(538,688,017)	(447,734,611)	(242,757,540)
Loss / gain on disposable asset	-	-	-	22,471,999
Fair value adjustments	32,685,328	(28,590,497)	268,959,581	148,357,174
Impairment loss/ reversal of impairment	-	-	-	(1,485,741)
(Deficit)/ Surplus for the year	(286,213,273)	(567,278,514)	(178,775,030)	(94,400,366)

Table 6: ELM's statement of financial performance for the financial year ended

* **Note:** The above figures are based on restated amounts from ELM's financial statements. When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason of reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Based on Table 6 on the previous page, it can be observed that ELM has been reporting the performance of its budget as a deficit. From the 2012-13 to 2015-16 financial year, total expenditure has exceeded total revenue, with the 2014-15 financial year closing with the highest deficit of R 567,278,514. As a result, this indicates ELM's inability to achieve a positive result on its financial performance for the year end. To this effect, financial viability at ELM is concerning. The impact of running a budget at a consistent deficit hampers ELM's objective of achieving financial stability, and also has a negative impact on its ability to secure its long-term obligations. In what can be classified as a financial performance crisis, ELM's financial vulnerability is inclined towards deteriorating due to the Municipality's inability to implement revenue enhancement strategies along with effective cost reduction measures. Also, such financial conditions present a potential threat to the efficient provision of basic services.

There are various factors that contribute to ELM's inability to secure revenue effectively. The researcher considers the following prevalent challenges as having an impact on the high level of operational expenditure, which further constrains ELM's revenue stream:

- *Increasing consumer debt:* Like most municipalities, ELM is no stranger to consumer debt which is attributed to a culture of non-payment for services (for example; water, refuse collection and electricity) rendered by the municipality. The issue of non-payment manifests when the projected revenue that is intended for the municipality is not received and is accounted for as a loss. As a result, increasing consumer debt poses a financial risk to ELM and it makes it difficult for the Municipality to invest in the improvement of service delivery.
- *High poverty level:* Socio-economic conditions play a significant role in terms of what the community of ELM can or cannot afford. As such, the raising level of poverty continues to persist due to high levels of unemployment in the region. In so doing, it pushes the Municipality into carrying the burden of cost in making basic services available. ELM in taking a socially responsive approach to the community supports poor household through the provision of Free Basic Electricity (FBE) to approximately 3411 consumers and access to 6 litres of water to approximately 1632 households (ELM, 2017b).
- *Growing population:* The population of ELM's has grown by 11782 (721663 in 2007) to a total of 733445 in 2016 (ELM, 2017b). The trend of a growing population results in the municipality having to make more services accessible in meeting the increasing demand. This challenge also exerts financial pressure on

ELM, wherein investment is required for the development of additional infrastructure. The impact of a growing demand and a limited revenue stream also contributes to service delivery backlog due to the difficulty ELM faces in meeting its current obligations.

- *Institutional arrangements*: In relation to institutional arrangements within ELM, high levels operational expenditure are attributed to operational functions and outsourced services in running the municipality. To this effect, the cost of services does not translate to the cost of service delivery. An example of this is the financial cost in acquiring consultants or private entities in the event of litigations and/or forensic investigations at ELM.

Furthermore, ELM has been bleeding financially from its two major revenue streams, namely; water distribution and electricity supply. During 2015-16 financial year ELM reported electricity distribution losses which amounted to R 304,409,250 (2014-15 was R 220,031,941) representing 20.1 % of its purchases (2014-15 was 15.5 %) (ELM, 2016b:55; ELM, 2015b:21). In respect of water distribution losses, ELM reported water distribution losses at a total of R 227,503,679 which represented 34% of its purchases and an increase of 1.10% from the previous financial year (ELM, 2016b:8). The cause behind these losses is attributed to faulty meters, ageing infrastructure and illegal connections. Failure to address these challenges will sink ELM into severe financial instability and unaffordable financial agreements with both state entities, Eskom and Rand Water.

5.3.2.1. Current ratio analysis

When we measure the liquidity of a municipality, we assess the manner in which it is able to meet its current liabilities (debt and payables) against its current assets (cash, inventory and receivables) (National Treasury - MFMA Circular No. 71, 2014:23; Paramasivan & Subramanian, 2009:21). Basically, the purpose of current ratio is to assess whether a municipality has a firm hold over its resources in terms of managing its operations. The formula for calculating current ratio is:

- Current assets ÷ current liabilities
- **Norm:** 1:5 to 2:1

Furthermore, the analysis of current ratio reveals the extent to which a municipality has effective governance measures in maintaining control over its present and future obligations, whilst adhering to regulatory requirements.

Table 7 and figure 19 below illustrates ELM’s current ratio range, on the basis of its financial position within a period of four financial years:

	Financial Year			
	2015-16	2014-15	2013-14	2012-13
Current assets	R 776,603,563	R 614,326,982	R623,214,321	R693,494,438
Current liabilities	R1,475,063,896	R1,136,430,687	R764,100,107	R703,647,831
Current Ratio	0.5	0.6	0.8	1.0

Table 7: An analysis of ELM’s current ratio (Sourced from: ELM’s year ended financial statements)

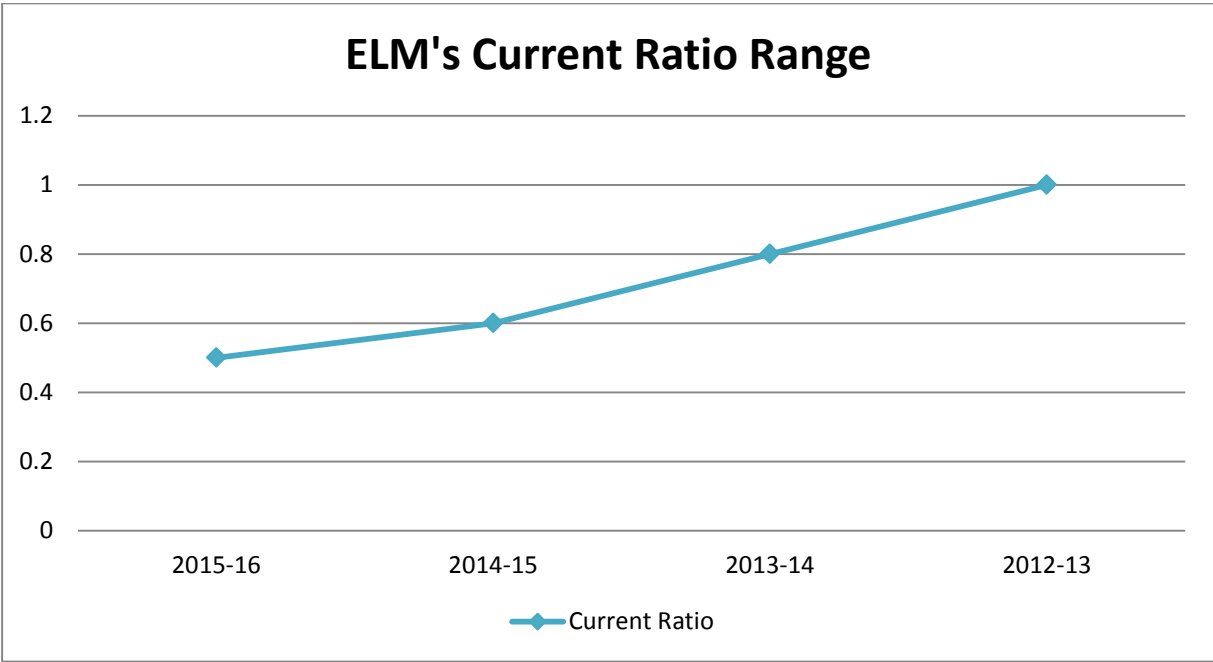


Figure 19: ELM’s current ratio range

Based on Table 7, ELM’s current liabilities have maintained the trend of exceeding current assets. To this effect, the Municipality has not been able to achieve the acceptable range of current ratio, of 1:5 to 2:1. Between the 2012/13 and 2015-16 financial year, the highest range for current ratio was 1.0 under the 2012-13 financial year, which is then proceeded by a downward trend till 2015-16. This result demonstrates ELM’s inability to effectively cover its current obligations whilst ensuring that its operational capacity remains within the desirable performance level. Furthermore, the occurrence of a high amount in current liabilities depicts the problematic state of liquidity and cash management at ELM; thus, bringing into question the availability of funding for ELM to cover its daily operations. Consequently, cash management challenges contribute to delays in settling due invoices, thereby resulting in the accumulation of interest and penalties on defaulting payments.

During the audit process of 2016-17, the AGSA made an alarming observation with regards to the uncertainty of financial sustainability at ELM. He reported the following;

“The municipality incurred a net loss of R 768,870,050 during the year ended 30 June 2017 and, as of that date; the municipality’s current liabilities exceeded current assets by R 1, 3521,421,846. As stated these conditions indicate the existence of material uncertainty that may cast significant doubt on the municipality’s ability to operate as a going concern.”

Based on the above point, ELM does not have effective operating control measures in relation to how its operating expenses are managed in contrast to what it budgets for. Undeniably, the condition of inadequate cash availability devalues the credit worthiness of ELM, on the part of fulfilling its financial obligation and to that of its creditors. It is worth noting, that the financial risk to ELM’s financial viability is aggravated by the failure of optimising its revenue collection streams in contrast to how it disburses its funds. The socio-economic conditions of ELM are not the most ideal, with high levels of unemployment, poverty and infrastructure constraints; the impact of ineffective cash management weighs heavily on the financial position of the Municipality, both presently and in the future. The challenge of liquidity management at ELM creates an undesirable state of affairs for management with regards to control and risk in dealing with future financial commitments and the security of service delivery in the region.

5.3.3. Theme 3: Institutional arrangements

From what was gathered from Chapter 3, institutional arrangements are referred to as the manner in which ELM is designed and organised institutionally, in order to achieve effective expenditure management. The institutional setting of a municipality defines the environment in which financial and performance management functions exist and are operational. The researcher considers 2 key components that are central to expenditure and expenditure management.

5.3.3.1. Leadership

The role of leadership is instrumental in communicating and ensuring the achievement of the municipality’s vision. ELM has a mayoral committee which functions as the political governance structure of the Municipality. It is headed by the Executive Mayor who is responsible for the development of the IDP and works with both the municipality and council (ELM, 2016b:22). Essentially, the function of an effective leadership structure is to strengthen the performance outcome of budget results, which need to be consistent with the policies of the municipality. Moreover, a strong leadership backing establishes the value of productivity for employees to achieve the desired results.

Between the 2013-14 and 2015-16 financial year, from his finding the AGSA cited his concerns over the lack of oversight by the accounting officer, which he labelled as ineffective on the part of financial and performance reporting and also with compliance to regulation (ELM, 2016b:8; ELM, 2015:6). Considering the quintessential role of leadership in keeping ELM on track with its obligations and compliant with regulation; over time the AGSA has also alluded to management's failure in implementing and monitoring the proposed action plan in addressing external and internal findings on performance reporting (ELM, 2017b). It can be submitted that the inability to maintain oversight and control over ELM's finances, not only has an impact on the financial performance and position of the Municipality but it also has a direct bearing on the operational activities of ELM.

The financial period between 2015-16 to 2017-18 proved to a true test for ELM, with the resignation of its former Mayor (Mr. Jabob Khawe) and the destabilisation of its leadership structure, drew into focus the undesirable state of crisis within ELM, which was marred by a paralysis of ineffective financial management. According to the Premier of Gauteng, ELM has been receiving institutional support from Provincial Treasury and the Local Government Department since 2015. However, with no valuable change being made at ELM resulted in a decision being taken to place ELM under administration. In explaining the reason behind the intervention, Gauteng Premier Mr. David Makhura explained that;

“The financial position of Emfuleni Local Municipality is continuing to deteriorate to a point where the municipality is not able - alone - to guarantee the provision of a minimum standard of services to communities without an intervention from the national or provincial government.”

(Source:<https://ewn.co.za/2018/06/11/makhura-places-emfuleni-municipality-under-administration>)

Based on the above statement, the issue of proper governance at ELM is one that is urgent; there is a need for financial leadership efforts to be accelerated towards the promotion of economic, efficient and effective use of resources at both strategic and operational level. Due to the fiscal risk that is associated with ELM's limited financial base coupled with a growing municipal debt, the need for effective leadership at ELM cannot be overemphasised. Money is the lifeline of a municipality, and without the effective capacity in managing it, will result in gross financial losses, misconduct and mismanagement. There is no incentive for poor leadership; poor leadership results in the unwanted collapse of service delivery and the municipality itself.

5.3.3.2. Internal control

The effectiveness of internal control is to provide assurance through the administration and management of a municipality, for the purpose securing the desired performance results and in meeting the needs of the community through expenditure. Table 8 below is the annual auditor general dashboard for 2016-17 financial year as developed by the audit cluster of ELM. The dashboard provides a summarised view on the status of the key drivers of internal control.

Status of key drivers of internal controls for 2016-17					
Leadership		Financial and performance management		Governance	
Effective leadership		Proper recording keeping		Risk management	
Oversight responsibility		Processing and reconciliation controls		Internal audit	
HR Management		Reporting		Audit committee	
Policies and procedures		Compliance			
Action Plans		IT system controls			
IT Governance					
IMPROVED		UNCHANGED		REGRESSED	
Good		Concerning		Intervention required	

Table 8: Annual AG dashboard for 2016-17 financial year (ELM, 2017b)

In essence to what the above dashboard reveals is a regression in key areas which are central to the function of internal control; namely, leadership, financial and performance management and governance. Based on the dashboard, the functions that fall under these three areas are labelled as either in a concerning state or needing intervention. Consequently, the weakened state of internal control within ELM creates undesirable

institutional conditions wherein the Municipality is unable to regulate its resources in a manner that is aligned to its plans and also achieves the desired performance results. The impact of these if they are not addressed as they should, will result in a complete internal control failure, such that ELM won't be able to exist and function on its own without support.

From his assessments, AGSA has maintained that deficiencies relating to internal control at ELM were as a result of 'findings associated with the annual performance report and findings relating to non-compliance with legislation' (ELM, 2016:20; ELM, 2017b). This is also concurred by the internal audit cluster at ELM, as the prevalence of 'system weaknesses'; which require the critical attention of management in addressing and bringing them to a desirable level (ELM, 2017b). However, the inability to improve audit findings on internal control at ELM is festered by the lagging response to change and non-commitment towards implementing the changes as required.

The researcher observed that the remedial approach, as stated in ELM's annual report by the internal audit cluster, 'is to identify system weaknesses and to submit recommendations to management' (ELM, 2017b). However, the researcher questions the extent to which recommendations are taken on board, fit into the institutional design and monitored for results, as to whether they yield the desired effect. When internal control fails, decision making within a municipality yields no value; such that it has no impact in its ability to prevent financial losses. The effort of instituting corrective measures remains a futile exercise if it is not implemented appropriately and evaluated thereafter. This too is an observation that has been bemoaned by the AGSA, in his view of ELM's delayed response to audit action plans.

5.3.4. Theme 4: Compliance

Municipalities exist and function within the parameters of the law. Compliance is the legal backing of sound decision making. Municipalities are not only required to execute their duties in a manner that conforms and adheres to the guidelines and requirements of the law, but they also need to demonstrate accountability. The researcher considers 3 critical compliance areas that have a direct impact on the effectiveness of ELM's expenditure management.

5.3.4.1. Contract management

Section 116 of the MFMA (Act 56 of 2003) establishes the basis of a contract, how it is issued and the manner in which it takes effect in a municipality. It further outlines the

terms under which the accounting officer, must take the necessary steps in ensuring the regularity of all contracts and the proper management of municipal records (Section 116 (2) of the MFMA). Proper contract management enables a municipality to plan for its resources and to effectively manage the entire supply chain process.

During the 2015-16 and 2016-17 financial year, the AGSA reported the following issues regarding ELM’s contract management (ELM, 2016b:20; ELM, 2017b):

- *Contracts were awarded to service providers whose tax matters had not been declared by the South African Revenue Service (SARS) to be above board, thus proven to be in contravention with SCM regulations.*
- *Contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.*

The manifestation of such inconsistencies in complying with regulation weakens the efficiency of the SCM unit and compromises the SCM system of ELM. To this effect, the failure to perform due process at the initial stage of the contractual agreement as the base of the supply chain process, contributes to the failure of lessening the opportunity for fraud and corruption from taking place at ELM. It cannot be denied that once due process has not been followed from the onset, the entire procurement process has been compromised; as such ELM as a municipality is culpable for financial misconduct.

Box 1 below, is an article that highlights contract management challenges at ELM:

<p>EMFULENI MUNICIPALITY SERVICE VEHICLES WITHHELD DUE TO NON-PAYMENT</p> <p>The embattled Emfuleni Local Municipality has been brought to its knees after a fleet of 158 rented vehicles including those from the waste, fire and traffic departments were withheld by a service provider due to non-payment yesterday. This brought the already slow service delivery to a complete halt in the municipality which has in recent weeks been unable to fix burst sewerage pipes, water leaks or collect refuse in most areas.</p> <p>Sowetan has established that the affected departments include parks, building control, finance, human resources, water and sanitation, roads and storm water and the office of the mayor. However, spokesperson Stanley Gaba said the service provider was paid R7-million yesterday and that all vehicles now remain in possession</p>
--

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

"The contract ended in March this year and the municipality has agreed to release the affected vehicles in batches back to the service provider over a period of three months, starting in September 2018," Gaba said. Gaba said the municipality had "discovered that the contract had been irregular and has since began a process to appoint a new fleet service provider".

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

By: Isaac Mahlangu

Box 1: Contract Management article (Source: Mahlangu, 2018)

The above article highlights two issues of deficiency within ELM; namely, financial diligence and internal control. Due to poor contract reporting and internal communication, ELM is bound legally and financially to an unaffordable contractual agreement. To this effect, ELM has to incur an avoidable cost due to the terms of an unlawful agreement. The implication of such an agreement does not only have legal ramifications for the Municipality, it also underlines the high risk to service delivery. Consequently, the lack of due diligence in contract management unfolds unwanted financial costs; firstly, from honouring the terms of an unlawful contract, and secondly, from future financial costs (for example, lawsuits and penalties). In addition to flouting regulation, the above case goes against best financial practices.

It is worth noting that, the agreement of a contract does not absolve a municipality from its duties, by transferring its' responsibilities to a services provider. This is because both parties represent different interests. The purpose of proper contract management is to protect the interests of the municipality and to formalise the relationship between the municipality and the service provider. In reference to the above article, the role of played by municipal officials is a critical aspect to consider; particularly, with the extent to which officials are skilled in the area of contract management. What ELM needs to be mindful of is what the municipality can afford and what is feasible for ELM?

5.3.4.2. Supply chain management

Supply chain management and contract management go hand in hand. A contract is the means through which goods and services are procured through the SCM system. The SCM system plays a central role in terms of how expenditure is administered and

managed in a municipality. During the audit review of the 2016-17 financial year, the AGSA reported the following material findings with regards to compliance under supply chain management (ELM, 2017b):

- *Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).*
- *Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulations 17(a) and(c).*

Similar non-compliance issues were reported in the previous year. As result, it cannot be denied that within the parameters of SCM regulation and ELM’s SCM policy, a culture of non-compliance is prevalent, which ends up falling on the back of the Municipality for failing to comply. The impact of non-compliance creates unwanted inefficiencies in ELM’s SCM system, and it also has a negative impact on the manner in which costs are managed through procurement processes. Table 9 below represents the amounts for deviations incurred from the 2013-14 financial year to 2016-17:

	Financial Year			
	2016-17	2015-16	2014-15	2013-14
Amounts procured through deviations	R 69,627,430	R 42,041,412	R 29,740,407	R 27,316,109

Table 9: ELM’s- amounts procured through deviations

Based on the above table procurement through deviations have increased on an annual basis; wherein, the total amount for the 2016-17 financial year is more than double from what it was in the 2013-14 financial year. Under 2016-17 financial year, the AGSA reported that majority of the irregular expenditure was as result of deviations which did not meet the requirements of SCM regulation 36(1) (ELM, 2017b). According to Regulation 36 of supply chain management, the occurrence of a deviation should be under exceptional circumstance, wherein reason(s) for it cannot be avoided. The problematic state of ELM’s compliance weaknesses also highlights the issue of failing to adhere to the requirements of competitive bidding. Moreover, ELM’s failure to prevent the occurrence of procurement deviations will continue to undermine the function of proper planning and transparency in the supply chain process.

The following are some of the inconsistencies that have been indicated by the AGSA, wherein ELM failed to follow proper procurement processes (ELM, 2017b):

- *No procurement process was followed in procuring goods and services at ELM, due to the failure of obtaining three (3) quotations.*
- *There were not written or approved reasons for the deviation from obtaining quotations.*
- *Invoices do not provide details (cost breakdown) in terms of how amounts were paid to service providers.*
- *There was no record of an agenda, attendance register, minutes from meeting held.*
- *There was no evidence provided to the AGSA to support or demonstrate that approval was granted to deviate from the procurement process for quotations.*

What the above points reveal is an institutional culture within ELM to circumvent proper procurement processes. This is mainly attributed to, the dismissal of following proper procedure, a transparency deficit and the lack of proper record keeping. These transgressions contravene the requirements of the law and the purpose of the supply chain management system in ensuring that budgeted funds are administered and managed effectively. Furthermore, the root of non-compliance within ELM will remain a wedge of contention; wherein, the breach of policy in relation to the management of expenditure is a risk to the financial viability of the Municipality.

5.3.4.3. Expenditure management

Section 65 (i) of the MFMA, tasks the accounting officer with the responsibility of ensuring effective expenditure management; subsection (2) outlines the steps which are to be undertaken by the accounting officer, who is to ensure that the municipality maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds. The MFMA clearly stipulates that moneys owed by the municipality are to be paid by the municipality within thirty (30) days of receiving the invoice (Section 65 (2) (e) of the MFMA).

Circular No. 72 of the MFMA prescribes the Creditors Payment Period, is applied as ratio that measures the average number of days it takes for trade creditors to be paid (National Treasury, 2014:16). The formula for calculating creditor payment period is:

- $\text{Trade creditors outstanding} / \text{credit purchases (operating and capital)} \times 365$
- **Norm:** 30 days

Table 10 below details ELM creditor’s payment period rate from the 2012-14 financial year up until the 2015-16 financial year:

		Financial Year				
		Norm	2016-17	2015-16	2014-15	2013-14
Creditors	30 days		226	158	66	68
Payment Period						

Table 10: ELM creditor’s payment period rate (Source: ELM, 2017b)

The chart below is a graphical representation of the above table.

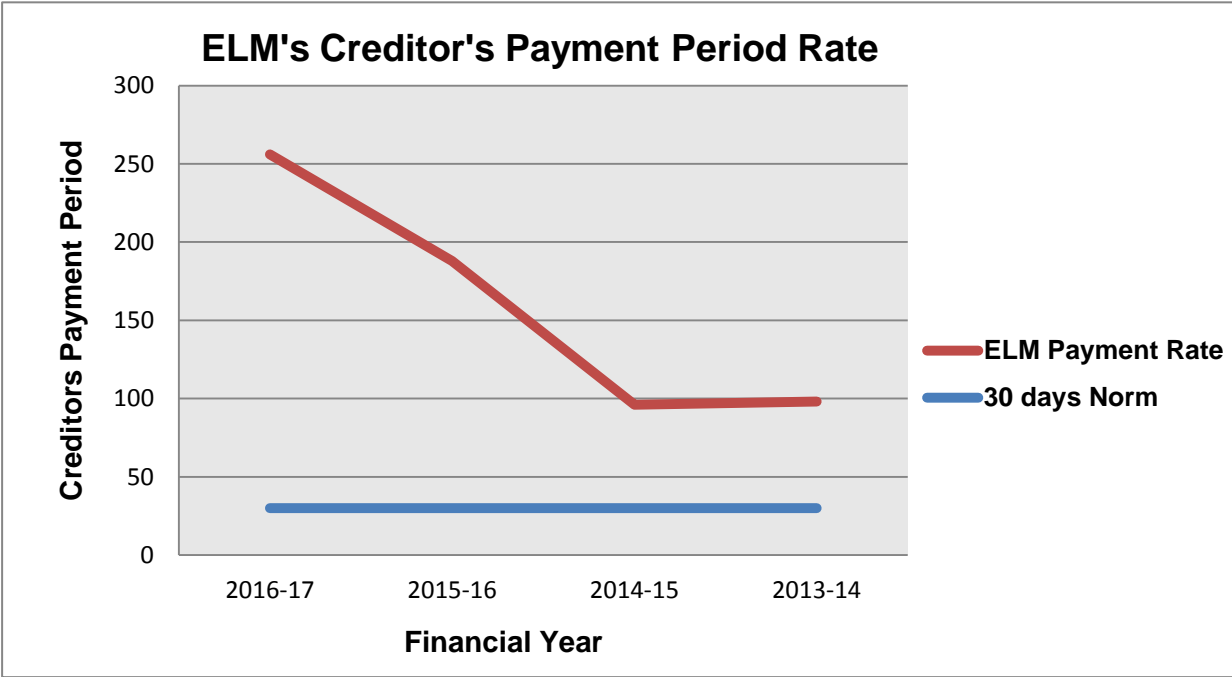


Figure 20: ELM creditor’ payment period rate

In reference to Table 10 above, ELM is failing to comply with the norm of 30 days payment period to its creditors. Based on Figure 20, the creditor’s payment system at ELM is not efficient and has been deteriorating from the 2013-14 financial year to 2016-17. From the 2015-16 financial year to 2016-17, ELM’s payment period rate has increased by 68 days and is also seven times more than the acceptable norm of 30 days. Conditions of internal inefficiencies in processing invoices in a timely manner and cash constraints at ELM are the main contributors to the payment predicament of the Municipality. The delay in settling invoices timeously brings into question the extent to which ELM has a firm control over its financial affairs. The MFMA Circular No. 71 provides the following key point, “a ratio that exceeds the norm indicates that the municipality may not be adequately managing its working capital or that effective controls are not in place to ensure prompt payments (National Treasury, 2014:16).”

Under the 2016-17 audit outcomes, the AGSA noted that the significant portion on the part of fruitless and wasteful expenditure is as of a result of interest acquired on overdue accounts (ELM, 2017b). As a result, ELM's noninterventionist approach in correcting this problem is a complete disservice to the Municipality, in the sense that ELM is failing to prevent the occurrence of avoidable costs that are prolonging the financial bleeding of the Municipality. The article below captures ELM's challenges in terms of fulfilling its financial commitments to its creditors, and in this case that of Rand Water for the Municipality's water supply.

RAND WATER THREATENS TO CUT WATER TO EMFULENI MUNICIPALITY OVER R419M DEBT

Rand Water has announced that it will once again reduce the bulk water supply to the Emfuleni Local Municipality after it failed to reach a settlement on the payment of the municipality's R419m debt. Rand Water's Justice Mohale said in a statement on Wednesday that the entity was taking action after the municipality failed to honour its recent agreements to settle its account. "Rand Water has now formally notified Emfuleni Local Municipality of its intention to commence the process of reducing its bulk water flow by 20% to the municipality," he said.

Rand Water started its negotiations with Emfuleni municipality in January after the municipality paid R150m in December. The situation at the municipality made headlines when water supply was cut at the beginning of the year during an intense heat wave in Gauteng. This led to protests in certain communities, including Palm Springs, over water supply.

Other areas that were affected by the January water cuts include Vanderbijlpark, Evaton West, Evaton, Evaton North, Lakeside, Sebokeng, Rustervaal and Roshnee. Mohale said this was a last-resort measure for Rand Water after all other mechanisms had failed. He added that Rand Water had informed Water and Sanitation Minister Gugile Nkwinti and Gauteng Premier David Makhura of its intentions. Emfuleni municipal spokesperson Makhosonke Sangweni said that he would release a statement later on Wednesday.

By: Lizeka Tandwa

Box 2: ELM's Rand Water Article (Source: Tandwa, 2018)

The researcher observes that as a public institution ELM is not financially viable, and this is attributed to the risk of financial debt it carries which is a threat to its operations and service delivery mandate. The article on the previous page highlights ELM's internal control weaknesses; with regards to, financial planning, information and reporting processes and the management of financial agreements. In an earlier section, it was observed that the budget is running at a deficit, which indicates that the budget in itself is unaffordable, as it exists on the recurring trend of current liabilities outweighing current assets. Furthermore, due to the unstable financial landscape, ELM's management needs to redefine its tone in taking responsibility of the Municipality's financial management outlook. Where ELM failed, a critical evaluation is needed in understanding why and how it did, also with a direct approach on how it will be rectified.

Moreover, the MFMA mandates that a municipality must by any means possible avoid the occurrence of irregular, unauthorised and fruitless and wasteful expenditure. However, in the event of such expenditure it provides clear guidelines in terms of how it is to be dealt with. According to the AGSA, during the audit review of the 2016-17 financial year; for the previous three financial years ELM has remained within the top ten contributors of unauthorised expenditure (due to overspending of the budget) and wasteful and fruitless expenditure (AGSA, 2018:35; AGSA, 2018:38).

Table 11 below is an illustration of ELM's expenditure pattern in relation to irregular, unauthorised and fruitless expenditure.

		Financial Year		
		2016-17	2015-16	2014-15
Type of Expenditure	Irregular	R 161,088,336	R 148,503,808	*
	Unauthorised	R 594,863,922	R 204,548,484	R 453,224,776
	Fruitless	R 59,883,003	R 14,047,205	R 5,748,821
	TOTAL	R 815,834,675	R 367,099,497	R 458,973,597

Table 11: ELM's irregular, unauthorised and fruitless expenditure pattern (Sourced from: ELM's audited financial statements)

** Note: The amount relating to irregular expenditure for 2014-15 financial was discovered under the 2015-16 financial year, for the total amount of R 20,845,313. The amount is included under the R 148,503,808 that was discovered under the 2015-16 financial year.*

The chart below is a percentage based representation unlawful expenditure in respect of Table 11 on the previous page:

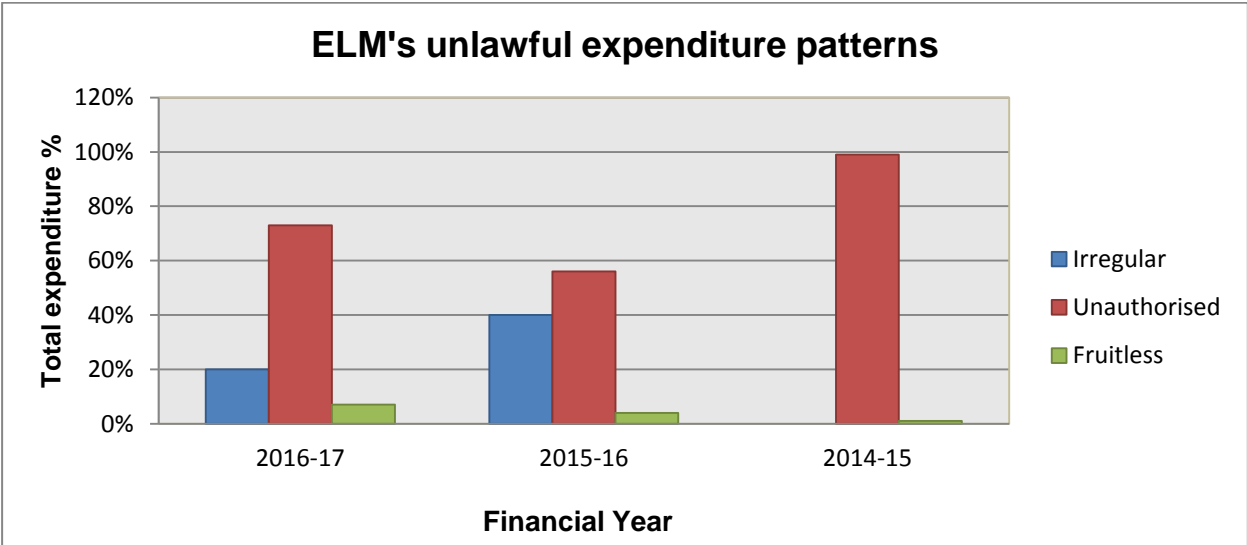


Figure 21: ELM’s irregular, unauthorised and fruitless expenditure pattern (Sourced from: ELM’s audited financial statements)

Based on the previous table and Figure 21, it is evident that ELM is failing to prevent unlawful expenditure. Between the 2014-15 and 2016-17 financial year, the total amount for unlawful expenditure is almost double the amount and a significant portion of it is attributed to the occurrence of unauthorised expenditure. What can be observed is that ELM is failing to keep to the approved budget, along with maintaining the Municipality’s spending within acceptable limits. The problematic nature of unauthorised expenditure is that it weighs heavily on efficiency of internal processes of ELM; on the basis of regularity and compliance in the Municipality’s processes and procedures in securing approval.

5.3.5. Theme 5: Accountability

The primary condition for using public resources is established on the obligatory requirement of demonstrating accountability. Accountability within a municipality must factor in the governance risk in relation to how financial resources have been utilised in achieving performance targets. Therefore, it is essential for a municipality retain a complete record of all its financial activities and investigations on cases that relate to fraud and misconduct, along with what actions (or decisions) were taken in addressing those issues. During the audit review of 2016-17, the AGSA reported the following concerns in relation to consequence management at ELM (ELM, 2017b):

- *Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by Section 32(2)(a) of the MFMA.*

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

Amidst the above concerns, ELM also reported varying investigations that were ongoing during the 2016-17 financial year; such as overpayment of a contractor, bribery allegations against a municipal official and tender irregularities (ELM, 2017b). It is worth noting that, an assessment of the value of any loss is critical in considering how negative results have an impact on the governance and administration of ELM. Thus, the quality of transparency is essential to the internal monitoring and reporting culture of ELM, and the extent to which the nature of a financial transgression (in any form) is fully investigated and dealt with accordingly.

5.4. CHAPTER SUMMARY

The primary objective of this chapter was to analyse and interpret the data collected, in order to complete the research. Based on the above discussion, it is evident that expenditure management challenges are prevalent within ELM and also the need for robust action is necessary in yielding tangible results. The researcher observes that ELM is struggling to remain above board with regards to how it administers and manages its expenditure. ELM has not been deliberate in changing the financial situation of the Municipality. In what the researcher has considered from the study's assessment; financial sustainability for ELM is a mammoth task in relation to first turning the tide on the state of financial stability at the Municipality. For that reason, it requires a complete commitment from both the political and administrative structure of the Municipality, in order to repair ELM institutionally and to ensure that the Municipality recovers financially. If a municipality fails to manage the one resource that enables it to exist and operate; it is without question that over time such a municipality will collapse and cease to exist.

The subsequent chapter is the final chapter of research; it establishes the findings and conclusion of the study, based on the theoretical framework and the research results that emanated from Chapter 5. Furthermore, the researcher provides practical recommendations.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1. INTRODUCTION

The focus of the previous chapter was to present the research results, with regards to the efficacy of financial reporting in managing expenditure at Emfuleni Local Municipality (ELM). The researcher sought to assess the extent to which ELM is compliant in managing its expenditure. Chapter 5 of the study provided a descriptive account of the research results, which were guided and supported by the review of literature in Chapter 2 and Chapter 3. Within the systems framework; the study recognised the importance of a functional management structure and effective internal processes and procedures, as a means through which financial resources are managed to achieve a desired end. In the context of expenditure management, the study identifies three fundamental mechanisms of effective management, namely; transparency, internal control and accountability. These instruments are essential to the adherence and enforcement of institutional arrangements, with regards to financial and performance management, compliance, and proper governance.

The purpose of this chapter is to conclude the study by presenting; the realisation of research objectives, outcome reached by the study and the theoretical findings of the research. Lastly, the chapter provides practical recommendations towards the enhancement of effective expenditure management at ELM.

6.2. REALISATION OF RESEARCH OBJECTIVES

The objectives of the research were realised in the following respect:

- The *first* objective was to identify the characteristic that encompass an efficient financial reporting system. This objective was realised in Chapter 2, wherein the six characteristics that encompass an efficient financial reporting system were identified and adequately discussed. These characteristics were identified as; relevant, reliable, understandability, timeliness, comparability and verifiability. The value application of these instruments is essential to the promotion of transparent and accountability public institutions.
- The *second* objective was to examine the challenges and constraints faced by Local Government with regards to expenditure management. This objective was realised in Chapter 3; wherein, various challenges were identified and adequately

discussed. The chapter also considered the effects that are brought about by these challenges. The study recognised that expenditure management challenges are not limited to budget results; they also unfold governance issues that relate to the entire administration and management of a municipality.

- The *third* objective was to evaluate the efficacy of ELM's financial reporting system in managing expenditure. This objective was realised in Chapter 5; wherein, focus was geared towards assessing the extent to which ELM is effective in its managing expenditure. The study's evaluation was conducted by means of utilising ELM's annual report and audited financial statements from different financial years. Chapter 5 also makes a direct reference to the opinions and evaluations reached by the AGSA, with regards to ELM's financial and performance activities.
- The *fourth* objective was to assess the extent to which ELM is compliant with regulation, in relation to how it manages expenditure. Based on the research results in Chapter 5, the study considered ELM's approach with regards to what the requirements of the law are, in contrast to how the Municipality actually conducts its affairs. Furthermore, careful consideration was also placed on the impact non-compliance has on the administration and management of expenditure at ELM. It was observed that non-compliance has a negative impact on the present and future financial standing of ELM. This objective is further advanced in the findings of the research.

6.3. OUTCOME OF THEORETICAL STATEMENT

From Chapter 1, theoretical statements were developed as predictive outcomes of the research. Based on the completion of data analysis and interpretation in Chapter 5 and the review of literature, the following result is established as the outcome of the study.

6.3.1. Predictive outcome of theoretical statement	Result
<ul style="list-style-type: none"> • Emfuleni Local Municipality's financial reporting system is effective in managing expenditure. 	Rejected
<ul style="list-style-type: none"> • Emfuleni Local Municipality has an ineffective financial reporting system in managing expenditure. 	Accepted

Table 12: Outcome of the theoretical statement

6.4. THEORETICAL FINDINGS

In alignment with the research questions set out in Chapter 1, the outcome of the study (see previous page) and the literature review in Chapter 2 and 3, the following section details the theoretical findings of the research:

- The review of literature in Chapter 2 provided detailed information regarding the importance of financial reporting within public institutions, along with the 6 characteristics that encompass an efficient financial reporting system. Within the legal framework of the Constitution, financial reporting is mandatory for purpose of ensuring responsible and accountable public institutions. In the context of Local Government, the MFMA provides specific details with regards to the reporting requirements that need to be fulfilled by municipalities.

The study was able to identify that ELM's financial reporting function is constrained by internal communication weaknesses which are prevalent in the preparation and disclosure of financial information (as required by Section 122 of the MFMA). Based on the AGSA's audit assessments, ELM is failing to comply with the requirements of proper reporting; such that, financial statements are submitted to the auditors with material misstatements. What is clear is that there is a lack of quality information control measures, with regards to how information is handled and processed. The occurrence of such inconsistencies weakens the quality of the disclosed information, on the part that it is deemed useful and relevant to information users.

- In order for a municipality to operate and remain financially viable, it requires an adequate inflow on monetary resources more than it does outflow. Based on the observed research results, ELM is not financially viable. At the time of completing the research, ELM was placed under administration, and was reported to be receiving support from both the Provincial Government and Local Government Department. ELM is struggling to keep up with its financial obligations. Based on its financial position and performance for the year-end, financial viability at ELM is presently out of reach. For the previous five financial years, ELM has maintained the result of running its operational budget as deficit. For the 2016-17 financial year, ELM ended the year with an alarming deficit of R 768, 807,050. Considering that ELM is unable to effectively carry out its own obligations, the continued regression in the outcome of budget results in a detrimental risk to the daily operations of the Municipality.

Based on its financial performance indicators; ELM has a cash coverage of 6 days, in contrast to the acceptable standard of more than three months. To this effect, ELM is not able to settle its day to day expense by making use of its cash reserves. From the results of ELM's financial position, the Municipality in the past 5 years ended the financial year with current liabilities exceeding current assets. Therefore, this clearly indicates that ELM accounts for more outflow on its finances than it does inflow. Consequently, the inability to enforce cost reduction measures at ELM will prolong the state of inadequacy in cash availability. Should the problem go unaddressed, ELM's current financial situation is more likely to remain unchanged or deteriorate with time.

- Revenue is the lifeline of a municipality; wherein, a municipality requires a stable revenue base, in order to meet its obligations and remain financially viable as an operating institution. ELM is also constrained by a weak revenue collection rate. The study observed that ELM is bleeding financially from its two major revenue sources, namely; its electricity and water supply. This is mainly due to technical and financial losses. At the time of completing the study, ELM was also experiencing challenges in settling the Municipality's debt with both Eskom and Rand Water. Considering ELM's cash availability challenge, the Municipality is failing to honour its payment obligations on both these accounts; wherein, the accumulation of penalties is also an additional cost pressure. Furthermore, this situation is exasperated by a culture of non-payment in the region of Emfuleni. Thus, resulting in a further financial loss for the Municipality.
- In relation to contract management, SCM and proper procurement process, ELM's system is compromised by the prevalence of non-compliance in the Municipality. The declining trajectory of procurement deviations reveals that ELM is not compliant with the SCM Regulation 36. The research observes that weaknesses in the control system are perpetuated by reactive control mechanisms rather than proactive ones. Due to inefficient communication, monitoring and reporting processes, ELM is failing to rid itself of non-compliance from unlawful contracts and improper procurement processes. What is clear is that ELM's control and reporting measures are not effective; such that, transparency operates under a restricted lens. As a result, the occurrence of financial wrong-doing remains undetected, until ELM is caught on the wrong side of illegal contracts, tender irregularities and financial losses.

- The MFMA is explicit on the requirement of preventing the occurrence of unlawful expenditure. Due to the Municipality's financial problem, ELM is failing to comply with 30 days creditor's payment period. As a result, the Municipality falls into the trap of fruitless and wasteful expenditure, which could have been avoided. Based on the research results the occurrence of fruitless and wasteful expenditure at ELM is regressing. In addition, the accumulation of irregular and unauthorised expenditure is also contributing to the financial burden of ELM, particularly with the conformance of expenditure to the approved budget.

Consequently, the inability of ELM to enforce compliance, strains the budget and negatively impacts budget results. In relation to the PEM objectives set out in Chapter 3, ELM has not been able to:

- achieve financial discipline on the basis of the actual budget results, in contrast to the approved budget;
 - secure value for money in terms of the actual costs that are linked to strategic priorities; and
 - achieve optimal utilisation of budgeted resources, by retaining spending within the acceptable limits.
- Institutional capacity is essential in driving the financial success of a municipality. As it was established in Chapter 3, institutional arrangements constitute the manner in which a municipality is designed and organised to achieve its goals. The study was able to identify that the occurrence of non-compliant activities relating to expenditure management at ELM, was as a result of poorly implemented controls and the lack of enforcement. Institutionally, ELM's expenditure management approach is marred by systematic weaknesses, which deflect on the importance of proper governance and also contravenes the internal policies of the Municipality.

In addition to the state of affairs, ELM is facing governance challenges with regards to the efficiency and effectiveness of the Municipality's management capacity. The study makes a deliberate reference to the role of human resource capacity; in respect of, municipal officials who fail to perform their duties within the parameters of the law. Due to deficient controls, ELM is prone to falling into the claws of financial mismanagement. As a result, the financial risk remains with ELM, by reason of financial losses attributed to a persisting culture of circumventing the law and its processes.

6.5. AREAS FOR FURTHER RESEARCH

The following areas are proposed for future study:

- Firstly, an inquiry into the effectiveness of the oversight role played by municipal councils as the political structure of a municipality. Considering that municipalities operate under an environment that is fuelled by political contest and public bargaining. A study can be conducted into the effectiveness of the municipal leadership, in relation to the soundness of decision making by the political structure. The researcher recognises the critical role political will plays to the improvement of municipal financial performance and accountability.
- Secondly, an investigation into the application of data and information management systems as means of strengthening transparency in the municipal supply chain management system. E-governance systems are instrumental in developing technical, research and data driven competencies in a municipality. Therefore, in advocating for financially sound and sustainable municipalities, the establishment of a transparent and open-systems is necessary in promoting accountability at the different levels of authority.

6.6. RECOMMENDATIONS

The following section provides practical recommendation in improving expenditure management at ELM. These recommendations are informed and guided by the research results presented in Chapter 5:

6.6.1. Integrated Financial Management Information System (IFMIS)

ELM interacts with various stakeholders, who have a vested interest in the affairs of the Municipality, and also with how municipal decisions affect everyday life for the general public. As such, the disclosure of information plays a critical role in accounting for the use of public resources along with the outputs linked to it. Considering the number of reports a municipality is required to submit, full disclosure of its affairs is of paramount importance, even to the extent that negative results have a negative impact on the on the governance and administration of the municipality.

The study recommends that ELM must leverage on the existence of its' Information Technology (IT) system, by developing an Integrated Financial Management Information System (IFMIS). According to Jared, Migiro & Mutambara (2017:37), "an IFMIS is an information system that enables efficient resource allocation, improves

management decision making through availing timely financial and other information to aid in accelerating economic growth.” Essentially, an integrated systems contributes to the efficiency of a municipality, through improved management capabilities, processes and procedures, in relation to how resources are prioritised and used.

Moreover, the IFMIS also promotes the effectiveness of reporting, on the basis of quality preparation and disclosure of audited financial statements (Selfano, Peninah & Sarah, 2014:33). According to Barata & Cain (in Hendriks, 2012:2) the IFMIS approach enables management to:

- Control aggregate spending and the deficit.
- Prioritise expenditure across policies, programmes.
- Projects to achieve efficiency and equity in the allocation of resources.
- Make better use of budgeted resources, namely, to achieve outcomes and produce outputs at the lowest possible cost.

6.6.2. Expenditure control strategy

Based on the results of the research, the study observes that ELM needs to change its management approach in order to remedy the Municipality’s financial situation and to effectively address its cash flow challenges. The study recommends that ELM should develop an expenditure control strategy in alignment with the expenditure management policy that is in place. In order for this to be binding to the Municipality, the strategy must be adopted by the political and administrative structure of ELM. The strategy needs to be long-term with a clear goal of what the Municipality intends to achieve. There should be stage-gates in place with measurable targets, for the purpose of monitoring and reporting on ELM’s progress. A key focus of the strategy is that it must deal decisively with issues of cost cutting measures, affordability of the budget and waste prevention.

6.6.3. Capacity Building - Training and Development

Training and development is a practical approach for capacitating a municipality to operate in a more efficient and effective manner. ELM needs to re-evaluate its institutional setting, in terms of identifying areas that are driving the Municipality to remain unchanged or regress. The anticipated success of ELM is vested in a human resource base that is knowledgeable in the requirements of the law and also acts accordingly in carry out assigned responsibilities. ELM should lead from within, in terms of reskilling and educating its employees. The Municipality needs to establish an

environment of collaboration and ownership across its various clusters, with a shared vision of rehabilitating the Municipality on a path to financial excellence. There are various methods that ELM can make use of without outsourcing; for example, staff interviews, focus groups, meetings with senior management and workshops.

6.6.4. Political will - Commitment to change

The role and influence of the political will is critical to ELM in achieving the desired results. The political structure is not only instrumental in ensuring that ELM is above board with law, but it must also promote the efficient and effective management of the Municipality. The municipal council needs to re-energise its commitment to ensuring that the financial situation at ELM improves. As the political structure, it needs to provide its' unwavering support to administrative structure of ELM, particularly with function of leadership and the tone it sets in daily operations of the Municipality. In the context of formal processes and procedures, the position of ELM's political structure needs to be clear on matters that relate to; leadership, proper governance and oversight. Moreover, in the promotion of transparency and accountability, there should be a focused and practical approach in dealing with financial transgressions, along with the enforcement of rules and proper procedure.

6.7. CONCLUSION

Expenditure management is a critical function in the development and implementation of a budget. As a management approach, it is defined and enforced by policy. The manner in which decisions are taken to utilise public resources, should not be undertaken with the one-sided view of spending money. Municipalities need to place before them, what is feasible and a true reflection of the municipality's needs and priorities. The study observes that an efficient financial reporting system contributes to effective municipal governance. In order for expenditure to be managed effectively, requires an environment that is regulated and structured by a robust code of ethics and best financial practices. The scope of decision making should reflect management's commitment in ensuring the efficient and effective use of resources.

The need for ownership and accountability in municipal leadership is urgent now, more than ever. When non-compliance and mismanagement occur, it reveals itself from within the municipality. Municipalities need to be deliberate in implementing their budgets; such that, there should be a focused approach from management in maintaining the scope of the approved budget. In all that the study has considered,

compliance takes effect through enforcement; particularly, with reporting, internal control and the function of accountability. The highest regard for transparency should be esteemed within every process and procedure of a municipality. Proper record keeping measures and a quality reporting culture needs to be maintained throughout the entire management system and functions of the municipality. A municipality will not be efficient or effective in managing its' budget, if it is seen to be back-peddling on compliance and accountability.

REFERENCE LIST

Ababio, E. 2007. Bloodhounds on municipal financial management: What goes awry? *Journal of Public Administration*, 42(5):3-14. <https://journals.co.za/content/jpad/42/5/EJC51556> Date of accessed: 26 March 2015.

Adams, K. M., Hester, P. T., Bradley, J. M., Meyers, T. J. & Keating, C. B. 2014. Systems Theory as the Foundation for Understanding Systems. *Systems Engineering*, 17(1):112-123. <https://onlinelibrary.wiley.com/doi/10.1002/sys.21255>. Date of access: 26 March 2015

Adediran, S. A., Alade, S. O. & Oshode, A. A. 2013. Reliability of Financial Reporting and Companies Attribute: The Nigerian Experience. *Research Journal of Finance and Accounting*. 4(16):108-114. ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online). <https://www.iiste.org/Journals/index.php/RJFA/article/view/8291> Date of access: 06 February 2016.

Ahmed, J. U. 2010. Documentary Research Method: New Dimensions. *Indus Journal of Management & Social Sciences*, 4(1):1-14. https://www.researchgate.net/publication/227441751_Documentary_Research_Method_New_Dimensions Date of access: 26 August 2016.

Allen, R. & D. Tommasi. 2001. *Managing Public Expenditure: A Reference Book for Transition Countries*. OECD: Paris. <http://www1.worldbank.org/publicsector/pe/oecdpehandbook.pdf>. Date of access: 27 November 2017.

Amagoh, F. 2008. Perspectives on Organisational Change: Systems and Complexity Theories. *The Innovation Journal: The Public Sector Innovation Journal*, 13(3):1-14. <https://www.innovation.cc/peer-reviewed/amagoh3dec2008jag2rev1.pdf>. Date of access: 26 March 2015.

Anderson, J. E. 2011. *Public Policymaking: An Introduction*. 7th edition. Boston: Wadsworth

Ansari, S. 2004. Teaching note: Systems Theory and Management Control. <https://faculty.darden.virginia.edu/ansaris/systems%20theory%20and%20mcs-tn.pdf>. Date of access: 26 March 2016.

Barata, K. & Cain, P. 2001. Information, not technology, is essential to accountability: Electronic records and public-sector financial management. (In Hendriks, C.J., 2012. Integrated Financial Management Information Systems: Guidelines for effective implementation by the public sector of South Africa. SA Journal of Information Management, 14(1):1-9. <http://dx.doi.org/10.4102/sajim.v14i1.529>. Date of access: 20 November 2018)

Bayyoud, M. & Sayyad, N. A. 2015. The Impact of Internal Control and Risk Management on Banks in Palestine. International. Journal of Economics, Finance and Management Sciences, 3(3):156-161.doi: 10.11648/j.ijefm.20150303.12. <http://www.sciencepublishinggroup.com/journal/paperinfo.aspx?journalid=173&doi=10.11648/j.ijefm.20150303.12> Date of access: 21 November 2018

Binza, S. M. 2005. The Evolution of South African Local Governments: The Politics of Memory. Journal for contemporary history, 30(2):69-87. <https://journals.co.za/content/contemp/30/2/EJC28355> Date of accessed: 20 July 2018.

Bovaird, T. & Loffler, E. 2009. Public Management and Governance. New York: Routledge

Bowen, G. A. 2009. Document Analysis as a Qualitative Research Method. Qualitative Research Journal, 9(2):27-40. http://ngsuniversity.com/pluginfile.php/134/mod_resource/content/1/DocumentAnalysis.pdf Date of access: 26 August 2016.

Brynard, P.A. & Hanekom, S.X. 2012. Introduction to Research in Management Related Fields. Pretoria. Van Schaik Publishers.

Burns, B. B. 2004. Introduction to research methods. 4th edition. London: SAGE

Byrnyard. D. J., Hanekom, S. X. & Brynard, P. A. 2014. *Introduction to research*. 3rd edition. Pretoria: Van Schaik

Campos, J. E. 2001. What is Public Expenditure Management (PEM)?. The Governance Brief: A Quarterly Publication. The Governance Unit Strategy and Policy Department: Asian Development Bank. <http://www1.worldbank.org/publicsector/anticorrupt/FlagshipCourse2003/GovernanceBrief-Issue.pdf> Date of access: 27 November 2017.

Chan, J. L. 2008. International Public Sector Accounting Standards: Conceptual and Institutional Issues. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.468.1087&rep=rep1&type=pdf> Date of access: 18 March 2017

Cloete, F. & De Coning. 2010. Improving public policy. 3rd Edition. Pretoria: Van Schaik.

Conceptual Framework Task Force. 2012. Measuring Financial Performance in Public Sector Financial Statements. Consultation Paper 2. <https://www.frascanada.ca/-/media/frascanada/public-sector/documents/measuring-financial-performance-in-public-sector-financial-statements-dc.pdf?la=en>. Date of access: 18 November 2017.

Cornell, C. C. & Jude, N. 2015. The Systems Theory of Management in Modern Day Organizations - A Study of Aldgate Congress Resort Limited Port Harcourt. International Journal of Scientific and Research Publications, 5(9):1-7. <http://www.ijsrp.org/research-paper-0915/ijsrp-p4554.pdf>. Date of access: 20 August 2017

Crythorne, D. L. 2006. Municipal Administration. The Handbook. 6th edition. Cape Town: JUTA

Dane, F. C. 2011. Evaluating Research: Methodology for people who need to Read Research. California: SAGE

De Beer, L. 2001. GAMAP: The case in question. Auditing SA. (p. 15-16, 26). <https://repository.up.ac.za/handle/2263/15161?show=full> Date of access: 20 May 2018.

De Renzio, 2004. Why Budgets Matter: The New Agenda of Public Expenditure Management. ODI Briefing Papers. May 2004. Overseas Development Institute: London. <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2023.pdf> Date of access: 20 August 2018.

Department for International Development (DFID). 2001. Understanding and reforming public expenditure management: Guidelines for DFID. Version 1. <https://www.eldis.org/document/A17799> Date of access: 15 October 2017.

Diamond, J. & Khemani, P. 2005. Introducing Financial Management Information Systems in Developing Countries. IMF Working Paper. (WP/05/196).

<https://www.imf.org/external/pubs/ft/wp/2005/wp05196.pdf>. Date of access: 20 May 2018.

Djurović-Todorović, J. & Djordjević, M. 2009. The Importance of Public Expenditure Management in Modern Budget Systems. *Economics and Organization*, 6(3):281-294. <http://facta.junis.ni.ac.rs/eao/eao200903/eao200903-08.pdf>. Date of access: 27 November 2017.

Du Toit, D., Knipe, A., Van Niekerk, D., Van der Walddt, G. & Doyle, M. 2002. *Service excellence in governance*. Cape Town: Heinemann

Eglin, R & Ngamlana, N. 2015. Responsive planning and responsible implementation: improving good local governance in the Integrated Development Planning process. (In Good Governance Learning Network. In Pursuit of Responsible and Responsive local Governance (p38-45). https://www.ggln.org.za/images/solg_reports/SoLG_2015.pdf Date of access: 27 February 2019.

Emfuleni Local Municipality (ELM). 2012a. Annual Financial Statements for the year ended 30 June 2012 (audited). <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2fDocuments%2f05%2e%20Annual%20Financial%20Statements%2f2011%2d12%2f02%2e%20Local%20municipalities%2fGT421%20Emfuleni&FolderCTID=&View=%7b84CA1A01%2dEF8A%2d4DE0%2d8DC4%2d47D223CB5867%7d> Date of access: 18 January 2018.

Emfuleni Local Municipality (ELM). 2012b. Annual Report 2011/12. <http://www.emfuleni.gov.za/images/docs/reports/1112/ar/chapter1.pdf>

Emfuleni Local Municipality (ELM). 2013a. Annual Financial Statements for the year ended 30 June 2013 (audited). <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2fDocuments%2f05%2e%20Annual%20Financial%20Statements%2f2012%2d13%2fAudited%2f02%2e%20Local%20municipalities%2fGT421%20Emfuleni&FolderCTID=&View=%7b84CA1A01%2dEF8A%2d4DE0%2d8DC4%2d47D223CB5867%7d>. Date of access: 18 January 2018

Emfuleni Local Municipality (ELM). 2013b. Annual Report 2012/13. http://www.emfuleni.gov.za/images/docs/reports/ar1213/ar1213_part1.pdf. Date of access: 20 May 2015

Emfuleni Local Municipality (ELM). 2014a. Annual Financial Statements for the year ended 30 June 2014 (audited). <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2fDocuments%2f05%2e%20Annual%20Financial%20Statements%2f2013%2d14%2fAudited%2f02%2e%20Local%20municipalities%2fGT421%20Emfuleni&FolderCTID=&View=%7b84CA1A01%2dEF8A%2d4DE0%2d8DC4%2d47D223CB5867%7d> Date of access: 18 January 2018.

Emfuleni Local Municipality (ELM). 2014b. Annual Report 2013/14. <http://www.emfuleni.gov.za/images/docs/reports/ar1314/ar1314.pdf> Date of access: 20 March 2015.

Emfuleni Local Municipality (ELM). 2015a. Annual Financial Statements for the year ended 30 June 2015 (audited). <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2fDocuments%2f05%2e%20Annual%20Financial%20Statements%2f2014%2d15%2fAudited%2f01%2e%20Locals%2fGT421%20eMfuleni&FolderCTID=&View=%7b84CA1A01%2dEF8A%2d4DE0%2d8DC4%2d47D223CB5867%7d>. Date of access: 18 January 2018

Emfuleni Local Municipality (ELM). 2015b. Annual Report 2014/15. http://www.emfuleni.gov.za/images/docs/reports/ar1415/ar_1415_report.pdf Date of access: 20 August 2016

Emfuleni Local Municipality (ELM). 2016a. Annual Financial Statements for the year ended 30 June 2016 (audited). <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2fDocuments%2f05%2e%20Annual%20Financial%20Statements%2f2015%2d16%2fAudited%2f02%2e%20Local%20municipalities%2fGT421%20Emfuleni&FolderCTID=&View=%7b84CA1A01%2dEF8A%2d4DE0%2d8DC4%2d47D223CB5867%7d> Date of access: 18 January 2018.

Emfuleni Local Municipality (ELM). 2016b. Annual report 2015/16. <https://www.emfuleni.gov.za/images/docs/reports/ar1516/ar201516.pdf> Date of access: 27 November 2017.

Emfuleni Local Municipality (ELM). 2017a. Annual Financial Statements for the year ended 30 June 2017 (audited). <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2fDocumen>

ts%2f05%2e%20Annual%20Financial%20Statements%2f2016%2d17%2fAudited%2f02%2e%20Local%20municipalities%2fGT421%20Emfuleni&FolderCTID=&View=%7b84CA1A01%2dEF8A%2d4DE0%2d8DC4%2d47D223CB5867%7d. Date of access: 18 January 2019.

Emfuleni Local Municipality (ELM). 2017b. Annual report 2016/17. <https://www.emfuleni.gov.za/images/docs/reports/ar1617/ar201617.pdf> Date of access: 18 January 2019.

Ferrante, J. 2008. *Sociology: A global Perspective*. 7th edition. Belmont: Wadsworth

Financial Accounting Standards Board (FASB). 2008. *Statement of Financial Accounting Concepts No. 1. Objectives of Financial Reporting by Business Enterprises*. https://www.fasb.org/resources/ccurl/816/894/aop_CON1.pdf Date of access: 28 March 2018.

Flick, U. 2011. *Introducing Research Methodology. A beginner's guide to doing a research project*. London: SAGE

Fourie, D. 2006. The Application of Good Governance in Public Financial Management. *Journal of Public Administration*, 41(2.2):434-442. https://repository.up.ac.za/bitstream/handle/2263/3903/Fourie_Application%282006%29.pdf?sequence=1&isAllowed=y Date of access: 28 March 2018.

Fourie, D. 2007. Financial Control Measures Enhancing Good Governance. *Journal of Public Administration*, 42(7):733-743 https://repository.up.ac.za/bitstream/handle/2263/4520/Fourie_Financial%282007%29.pdf?sequence=1&isAllowed=y Date of access: 28 March 2018.

Fourie, M. L. & Opperman, L. 2007. *Municipal Finance and accounting*. Pretoria: Van Schaik

Fourie, M. L. & Opperman, L. 2011. *Municipal Finance and accounting*. 2nd edition. Pretoria: Van Schaik

Fox, W. & Bayat, M. S. 2007. *A Guide to Managing Research*. Cape Town: JUTA

Fozzard, A & Foster, M. 2007. *Changing Approaches to Public Expenditure Management in Low-income Aid Dependent Countries*. Discussion Paper No. 2001/107.

<https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2209.pdf>

Date of access: 20 August 2018.

Friedman, B. & Neuman Allen, K. (2011). Systems theory. In J. Brandell (Ed.), Theory and practice of clinical social work (p. 3-18). New York: The Free Press. <http://sk.sagepub.com/books/essentials-of-clinical-social-work/i939.xml>. Date of access: 28 August 2016.

Garg, R. 2012. Issues & Importance of Accounting Standards in Accounting Practices. Asian Journal of Multidimensional Research, 1(5):117-127. [https://www.tarj.in/images/download/ajmr/AJMR%20OCTOBER%202012%20PDF/AJMR%20OCTOBER%202012%20\(COMPLETE\)%20PDF/10.13,%20RAJESH%20GARG,.pdf](https://www.tarj.in/images/download/ajmr/AJMR%20OCTOBER%202012%20PDF/AJMR%20OCTOBER%202012%20(COMPLETE)%20PDF/10.13,%20RAJESH%20GARG,.pdf) Date of access:18 January 2018.

Ghiasi, M. 2014. The Role of Public Expenditure Management in the Budget Systems. International SAMANM Journal of Marketing and Management, 2(2):1-19. <http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=4797ED6A08C362376A10757A122EADEA?doi=10.1.1.686.6905&rep=rep1&type=pdf> Date of access: 28 November 2017.

Gildenhuys, J. S. H. 1997. Introduction to local financial management. A South African perspective. Pretoria: Van Schaik

Gildenhuys, J. S. H. 1997. Public Financial Management. Pretoria: Van Schaik

Gray, D. E. 2004. Doing research in the real world. London: SAGE Publications

Hemus, C., Wingard, C., Van Wijk, U. & Becker, H. 1996. Gaap Handbook. Pretoria: UNISA <http://hdl.handle.net/10500/19405> Date of access: 28 August 2018.

Hendriks, C.J., 2012. Integrated Financial Management Information Systems: Guidelines for effective implementation by the public sector of South Africa. SA Journal of Information Management, 14(1):1-9. <http://dx.doi.org/10.4102/sajim.v14i1.529>. Date of access: 20 November 2018

Herath, S. K. & Albarqi, N. 2017. Financial Reporting Quality: A Literature Review. International Journal of Business Management and Commerce, 2(2):1-14. <https://www.researchgate.net/publication/314236476> Date of access: 20 August 2016

Heywood, A. 2002. Politics. 2nd edition. New York: Palgrave Macmillan

Ibrahim, A. M. 2012. Thematic Analysis: A Critical Review of its Process and Evaluation. West East Journal of Social Sciences, 1(1):39-47. <https://www.westeastinstitute.com/wp-content/uploads/2012/10/ZG12-191-Mohammed-Ibrahim-Alhojailan-Full-Paper.pdf> Date of access: 20 June 2016.

Independent Regulatory Board for Auditors (IRBA). 2011. South African Auditing Practice Statement (SAAPS) 2. Financial Reporting Frameworks and the Auditor's Report. <https://www.irba.co.za/upload/SAAPS%20%20-%20Reporting%20Frameworks.pdf> Date of access: 28 August 2017.

International Accounting Standards Board (IASB). 2006. Preliminary Views on an improved conceptual framework for financial reporting. (In Krambia-Kapardis, M & Clark, C. 2010. Public Sector Financial Reporting. A user needs study in Cyprus. Cyprus: PrintpXpress LTD. p. 2-3). https://www.icjce.es/images/pdfs/INTERNACIONAL/documentos/cyprus_public_sector_financialr.pdf Date of access: 23 May 2016.

International Accounting Standards Board (IASB). 2008. Exposure Draft on an improved Conceptual Framework for Financial Reporting Chapter 1 & Chapter 2.

International Organization of Supreme Audit Institutions (INTOSAI). 1992. Guidelines for Internal Control Standards. <http://www1.worldbank.org/publicsector/pe/befa05/internalcontrolstandards.pdf> Date of access: 11 June 2018.

International Public Sector Accounting Standards Board (IPSASB). 2010. Consultation Paper - Conceptual Framework for General Purpose Financial by Public Sector Entities: Reporting Elements and recognition in financial statement. https://www.ifac.org/system/files/publications/exposure-drafts/IPSASB-CP_Elements-Recognition-Phase_2.pdf Date of access: 23 May 2016.

International Public Sector Accounting Standards Board (IPSASB). 2017. Handbook for International Public Sector Accounting. <https://www.ifac.org/publications-resources/2017-handbook-international-public-sector-accounting-pronouncements>. Date of access: 30 January 2018.

International Public Sector Accounting Standards Board. (IPSASB). 2010. Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity. Conceptual Framework Exposure Draft 1. Toronto: International Federation of Accountants (IFAC). https://www.ifac.org/system/files/publications/exposure-drafts/IPSASB-ED_Conceptual_Framework_Phase_1.pdf Date of access: 23 May 2016

Ismail, N., Bayat, S. & Meyer, I. 1997. Local Government Management. Johannesburg: International Thomson Publishing

Jaarat, K. J. 2015. Capital Maintenance Considering Accepted Accounting Practices According To International Financial Reporting Standards (IFRSS). Proposing A New Concept Of Capital Maintenance. International Journal of Economics, Commerce and Management, 3(10):657-672. <http://ijecm.co.uk/wp-content/uploads/2015/10/31041.pdf> Date of access: 05 June 2018.

Jared, O.O., Migiro, S. & Mutambara, E. 2017. Integrated Financial Management Information System: a conceptual framework for Migori County, Kenya. Public and Municipal Finance (hybrid), 6(1), 37-45. Doi:10.21511/pmf.06(1).2017.04. https://businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/8591/PMF_2017_01_Jared.pdf Date of access: 28 January 2019.

Johnson, R. A., Kast, F. E. & Rosenzweig, J. E. 1964. Systems Theory and Management. Management Science, 10(2):367-384. <https://www.jstor.org/stable/2627306> Date of access: 28 March 2016.

Jones, C. & Travis, T. 2015. Internal Control Concepts and Applications for Business Operations at the University of Illinois. Presented at: 2015 Business Leadership Conference. https://www.audits.uillinois.edu/UserFiles/Servers/Server_700/File/ICT/BLC-2015%20Internal%20Controls.pdf Date of access: 28 August 2017.

Kanyane, M. 2014. Exploring Challenges of Municipal Service Delivery in South Africa (1994 – 2013). Africa's Public Service Delivery and Performance Review, 2 (I), 90-110. www.apsdpr.org/index.php/apsdpr/article/download/45/44 Date of access: 28 March 2018.

Kasim, B. B. 2016. Effect of Public Expenditure Management on Accountability And Development In Nigeria. *European Journal of Business and Social Sciences*, 5(5):30-40. <http://www.ejbss.com/recent.aspx/>. Date of access: 28 August 2018.

Khalo, T. 2007. Municipal Financial Management. (In G. Van der Waldt (Ed.), *Municipal Management: Serving the people*. Cape Town: JUTA. p.185-202)

Khalo, T. 2013. Accountability and oversight in municipal financial management: The role of municipal public accounts committees. *Journal of Public Administration*, 48(4): 579-593. <https://journals.co.za/content/jpad/48/4/EJC14943>. Date of access: 28 March 2017.

Kothari, C. R. 2004. *Research Methodology. Methods and techniques*. New Delhi: New Age International Publishers

KPMG. 2013. COSO Internal Control - Integrated Framework (2013). <https://home.kpmg/content/dam/kpmg/pdf/2016/05/2750-New-COSO-2013-Framework-WHITEPAPER-V4.pdf> Date of access: 20 November 2018.

Kramer, N. J. T. A. 1975. Relevance of systems theory for management science. *Annals of systems research*, 4:93-108. <https://pure.tue.nl/ws/files/4331896/334289.pdf> Date of access: 14 January 2016.

Kumar, R. 1999. *Research Methodology. A step by step guide for beginners*. New Delhi: SAGE

Kumar, R. 2014. *Research Methodology. 4th edition*. London: SAGE

Lakis, V. & Giriūnas, L. 2012. The Concept of Internal Control System: Theoretical Aspect. *Ekonomika*. Vol, 91(2):142-152. <http://www.journals.vu.lt/ekonomika/article/view/890/412> Date of access: 22 August 2018.

Laszlo, A. & Krippner, S. 1998. *Systems Theories: Their Origins, Foundations, and Development*. (In J.S. Jordan (Ed.), *Systems Theories and A Priori Aspects of Perception* Amsterdam: Elsevier Science. p. 47-74). <https://pdfs.semanticscholar.org/c3ff/b9d6569f94d7e6bf92bb39c9c85bd1e86c80.pdf> Date of access: 14 January 2016.

Le Houerou, P. & Taliercio, R. 2002. Medium Term Expenditure Frameworks: From Concept to Practice. Preliminary Lessons from Africa. Africa Region Working Paper Series No.28.

<http://www1.worldbank.org/publicsector/LearningProgram/Le%20Houerou-Taliercio.pdf>
Date of access: 28 August 2018.

Le Roux, L. 2006. Parliamentary oversight of public expenditure management: A focus on the security services. African Security Review, 15(4):33-4.
<http://www.tandfonline.com/doi/abs/10.1080/10246029.2006.9627619> Date of access: 05 March 2018.

Leedy, P. D. & Ormrod, J. E. 2010. Practical Research: planning and design. 9th edition. New Jersey: Pearson

Locke, L. .F, Spirduso, W. W. & Silverman, S. J. 2007. Proposals that work. A guide for planning dissertations and grant proposals. 5th edition. California: SAGE

Mafunisa, J. 2007. Safeguarding ethics and accountability in the public sector. (In Moeti (Ed.), Public Finance Fundamentals. Cape Town: JUTA. p.98-110)

Mahlangu, I. (2018, August 16). Emfuleni municipality service vehicles withheld due to non-payment. <https://www.sowetanlive.co.za/news/south-africa/2018-08-16-emfuleni-municipality-service-vehicles-withheld-due-to-non-payment/> Date of access: 15 February 2019.

Managa, A. 2012. Unfulfilled promises and their consequences: A reflection on local government performance and the critical issue of poor service delivery in South Africa. Policy brief 76. African Institute of South Africa (AISA). <http://www.ai.org.za/wp-content/uploads/downloads/2012/05/No.-76.-Unfulfilled-promises-and-their-consequences.-A-reflection-on-local-government-performance-and-the-critical-issue-of-poor-service-delivery-in-South-Africa.pdf> Date of access: 28 March 2018

Mantzaris, E. 2014. Municipal financial management to fight corruption and enhance development. A holistic approach. African Journal of Public Affairs, 7(2):82-92
https://repository.up.ac.za/bitstream/handle/2263/58122/Mantzaris_Municipal_2014.pdf?sequence=1&isAllowed=y Date of access: 28 March 2018

Manyathela, C. 2018. Makhura Places Emfuleni Municipality under Administration: Gauteng Premier David Makhura says the municipality has been facing major

economic, financial and service delivery problems. *EWN*: June 11. <https://ewn.co.za/2018/06/11/makhura-places-emfuleni-municipality-under-administration>
Date of access: 15 February 2019.

Mdlongwa, E. T. 2004. Local government at the heart of poor service delivery. <http://psam.org.za/research/1460540011.pdf> Date of access: 28 May 2017

Mendoza, 2007. Benchmarking Study: Local Financial Management Framework for Good Governance. 45th Annual Conference and Meeting. Philippine Economic Society Nov, 14-16. https://phileconsoc.files.wordpress.com/2013/03/mendoza_benchmarking-ppt.pdf Date of access: 23 May 2017.

Miles, M. B. & Huberman, A. M. 1994. How to Get a PhD. Milton Keynes: Open University Press

Miller, G. J. 1990. Efficiency as a Competing Principle in Public Financial Management. *Public Productivity & Management Review*, 13(4):333-351. <http://www.jstor.org/stable/3380896>. Date of access: 26 March 2015.

Moeti, K. 2011. Public finance fundamentals. Cape Town: Juta & Co

Mogalakwe, M. 2006. The Use of Documentary Research Methods in Social Research. *African Sociological Review*, 10(1):221-230. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.454.5260&rep=rep1&type=pdf> Date of access: 28 August 2016.

Moindze, M. 2009. Public Financial Management Course: Budget Expenditure Classification and the New Fiscal Governance. Ecole Nationale d'Administration de Madagascar. <https://blog-pfm.imf.org/files/budget-expenditure-classification-and-the-new-fiscal-governance.pdf>. Date of access: 20 May 2017.

Ncgobo, P. & Malefane, S. R. Internal controls, governance and audit outcomes. Case of a South African municipality. *African Journal of Public Affairs*, 9(5):74-88. https://www.researchgate.net/publication/331868564_Internal_controls_governance_and_audit_outcomes_Case_of_a_South_African_municipality Date of access: 20 November 2018.

New Zealand. Controller and Auditor General. 2016. Improving financial reporting in the public sector. <https://www.oag.govt.nz/2016/financial-reporting/docs/financial-reporting.pdf> Date of access: 28 May 2017.

Nsingo, S. 2007. Provision of goods and services, and key sources of government revenue. (In Moeti (Ed.), Public Finance Fundamentals. Cape Town: JUTA. p.18-39)

Nsingo, S. 2007. Role players in public management. (In K. Moeti (Ed.), Public Finance Fundamentals. Cape Town: JUTA. p. 40-52).

Otrusinova, M. & Pastuszkova, E. 2012. Concept of 3 E's and Public Administration, 2(6):171-178. <http://naun.org/main/UPress/saed/16-119.pdf> Date of access: 28 August 2018.

Palmer, K. T. & Whiry, D. F. 1982. The environment of public financial management: an economic perspective. Southern Review of Public Administration, 6(3): 282-294. <http://www.jstor.org/stable/40860139> Date of access: 26 March 2016.

Pattanayak, S. 2016. Expenditure Control: Key Features, Stages, and Actors. Technical notes and Manuals. (TNM/16/02) IMF: Washington. <https://www.imf.org/external/pubs/ft/tnm/2016/tnm1602a.pdf> Date of access: 28 March 2018.

Pauw, J. C., Woods, G., Van der Linde, G. J. A., Fourie, D. & Visser, C. B. 2002. Managing Public Money. A system from the south. Sandown: Heinemann

Pauw, J. C., Woods, G., Van der Linde, G. J. A., Fourie, D. & Visser, C. B. 2009. Managing Public Money: systems from the South. 2nd edition. Sandton: Heinemann

Performance. International Journal of Systems Applications, Engineering & Development, 2(6):171-178. <http://naun.org/main/UPress/saed/16-119.pdf>. Date of access: 28 March 2018.

PricewaterhouseCoopers (PWC). 2010. King's Counsel. Internal financial controls. Corporate Governance Series. <https://www.pwc.co.za/en/assets/pdf/pwc-steering-point-king3-ifc.pdf> Date of access: 20 October 2018.

Prinsloo & Roos. 2011. Auditing performance. A step by step approach. 2nd edition. Pretoria: Van Schaik

Provasi, R. & Riva, P. 2015. The Updated COSO Report. *Journal of Modern Accounting and Auditing*, October 2015, Vol. 11, No. 10, 487-498. https://www.researchgate.net/publication/283776875_The_Updated_COSO_Report_2013. Date of access: 10 September 2018.

Reddy, P. S. 1996. *Readings in Local Government Management and Development. A Southern African Perspective*. Cape Town: Juta & Co.

Ritzer, G. 2012. *Sociological Theory*. 8th Edition. New York: Mc Graw Hill

Roberts, C., Weetman, P. & Gordon, P. 2005. *International Financial Reporting. A Comparative Approach*. 3rd Edition. England: Pearson Education Limited

Roberts, J. 2003. *Managing public expenditure for development results and poverty reduction*. London: Overseas Development Institute. <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2668.pdf> Date of access: 28 March 2018.

Rugg, G. & Petre, M. 2007. *A gentle guide to research methods*. New York: McGraw-Hill

Sarantakos, S. 2005. *Social Research*. 3rd edition. New York: Palgrave Macmillan

Schandl, A. & Foster, P. L. 2018. *2013 COSO Integrated Framework: An Implementation Guide for the Healthcare Provider Industry*. Crowe LLP: <https://www.crowe.com/-/media/Crowe/LLP/folio-pdf/COSO-Article-Update-HC-19005-002A.ashx?la=en-US&hash=9E2AD77AEDD029E10F2EA515F292C8297ABDAC10>. Date of access: 28 November 2018.

Schiavo-Campo, S. 2007. *The budget and its coverage*. (In Shah, A. *Public Sector Governance and Accountability Series. Budgeting and Budgetary Institutions*. Washington: The World Bank. p. 53-87). <https://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf> Date of access: 29 June 2017.

Schick, A. 1998. *A Contemporary Approach to Public Expenditure Management*. The World Bank. <http://documents.worldbank.org/curated/en/739061468323718599/pdf/351160REV0Contemporary0PEM1book.pdf> Date of access: 28 March 2017.

Schwella, E., Burger, J., Fox, W. & Muller, J. J. 1996. Public Resource Management. Cape Town: Juta & Co

Scott, D. 2008. Financial reporting by municipalities in South Africa in terms of GAMAP/GRAP versus the IMFO standard. Southern African Business Review, 12(3):1-23. <https://journals.co.za/content/sabr/12/3/EJC92881>. Date of access: 23 May 2016

Scott, J. 2009. A Matter of Record: Documentary Sources in Social Research. Cambridge, UK: Polity Press

Selfano, O. F., Peninah, A. & Sarah, C. 2014. Integrated Financial Management Information System and Its Effect on Cash Management in Eldoret West District Treasury, Kenya. International Journal of Business and Social Science, 5(8):31-37. https://ijbssnet.com/journals/Vol_5_No_8_July_2014/4.pdf Date of access: 11 January 2019

Shall, A. 1999. Budget Reform: An Evaluation of the Implementation of Performance Budgeting in the Department of Health, Mpumalanga. (In Siswana, T. 2007. Leadership and governance in the South African Public Service: An overview of the public finance management system. Pretoria:UP (Thesis - PhD). <https://repository.up.ac.za/bitstream/handle/2263/28035/Complete.pdf?sequence=9&isAllowed=y>. Date of access: 28 March 2018.

Siswana, T. 2007. Leadership and governance in the South African Public Service: An overview of the public finance management system. Pretoria: UP (Thesis - PhD). <https://repository.up.ac.za/bitstream/handle/2263/28035/Complete.pdf?sequence=9&isAllowed=y> Date of access: 28 March 2018.

South Africa. 1996. Constitution of the Republic of South Africa, Act 108 of 1996.

South Africa. 1999. Public Finance Management Act, 1 of 1999. Pretoria: Government Printers.

South Africa. 2000. Municipal Systems Act 32 of 2000. Pretoria: Government Printers

South Africa. 2000. Preferential Procurement Policy Framework Act, 5 of 2000, Pretoria: Government Printers.

South Africa. 2003. Municipal Finance Management Act, 56 of 2003. Pretoria: Government Printers.

South Africa. 2004. Public Audit Act, 25 of 2004. Pretoria: Government Printers.

South Africa. Auditor General Office. 2014. Media release. Pretoria: Auditor General

South Africa. Auditor General Office. 2015. Media release. Pretoria: Auditor General

South Africa. Auditor-General Office. 2013. Consolidated general report on the audit outcomes of Local Government 2011-12. https://www.agsa.co.za/Portals/0/MFMA2011-12Extracts/MFMA_2011-12_consolidated_reports/AGSA_MFMA_CONSOLIDATED_REPORT_2011_12.pdf
Date of access: 20 June 2017.

South Africa. Auditor-General Office. 2014. Consolidated general report on the audit outcomes of Local Government 2012-13. https://www.agsa.co.za/Portals/0/MFMA%202012-13/2012_13_MFMA_Consolidated_general_report.pdf Date of access: 20 June 2017.

South Africa. Auditor-General Office. 2016. Consolidated general report on the audit outcomes of Local Government 2014-15. <http://www.agsa.co.za/Portals/0/MFMA%202014-15/Section%201-9%20MFMA%202014-2015/fullReportMFMA2014-15.pdf> Date of access: 20 June 2017.

South Africa. Auditor-General Office. 2017. Consolidated general report on the audit outcomes of Local Government 2015-16. <http://www.agsa.co.za/Portals/0/Reports/MFMA/201516/GR/1.%202015-16%20MFMA%20-%20Consol%20GR%20-%20Complete%20Document.pdf> Date of access: 20 June 2017.

South Africa. Auditor-General Office. 2018. Consolidated general report on the audit outcomes of Local Government 2016-17. http://www.agsa.co.za/Portals/0/Reports/MFMA/201617/GR/MFMA2016-17_FullReport.pdf Date of access: 28 August 2018.

South Africa. Department of Cooperative Governance and Traditional Affairs (CoGTA). 2009. State of Local Government in South Africa: An overview report. Pretoria: CoGTA.

<http://www.sadelivery.co.za/files/delivery/resources/State%20of%20LG%20Report%20-%2020%20Oct%202009.pdf> Date of access: 20 May 2015

South Africa. Department of Provincial and Local Government (DPLG). 2000. IDP Guide-Pack. General Overview. <http://toolkit.cidb.org.za/Shared%20Documents/PG1-S06%20IDP%20Guidepack.pdf> Date of access: 08 March 2018

South Africa. Municipal Structures Act, 117 of 1998. Pretoria: Government Printers

South Africa. National Treasury (NT) & Department of Cooperative Governance and Traditional Affairs (CoGTA). 2014. Joint Media Statement by the Minister of Finance and Cooperative Governance and Traditional Affairs (CoGTA) on the Consolidated General Report on Local Government Audit Outcome for 2012/13. http://www.treasury.gov.za/comm_media/press/2014/2014073001%20-%20Joint%20Treasury%20CoGTA%20Statement.pdf. Date of access: 20 May 2015

South Africa. National Treasury. 2000. Best Practice Guideline. In year management, monitoring and reporting. <http://www.treasury.gov.za/legislation/pfma/guidelines/Guide%20on%20In-%20Year%20Management,%20Monitoring%20and%20Reporting.pdf> Date of access: 20 June 2017.

South Africa. National Treasury. 2005. MFMA Circular No. 13. Service Delivery and Budget Implementation Plan. <http://mfma.treasury.gov.za/MFMA/Circulars/MFMA%20Circular%20No%2013%20-%20Service%20Delivery%20and%20Budget%20Implementation%20Plan%20-%2031%20January%202005.pdf>. Date of access: 24 May 2018.

South Africa. National Treasury. 2006. A guide to Municipal Finance Management for Councillors. https://www.ndlambe.gov.za/index.php?option=com_docman&task=doc_download&gid=74&Itemid= Date of access: 24 May 2017.

South Africa. National Treasury. 2006. Local Government Budgets and Expenditure Review: 2001/02 - 2007/08. <http://www.treasury.gov.za/publications/igfr/2006/lg/7.%20Chapter%206%20-%20Financial%20management%20and%20MFMA%20implementation.pdf>. Date of access: 20 May 2015.

South Africa. National Treasury. 2013. Departmental Financial Reporting Framework Guide. Chapter 1 - The Financial Reporting Framework and the Preparation Process <https://oag.treasury.gov.za/Publications/01.%20Annual%20Financial%20Statements/03.%20For%20Prov.%20And%20Nat.%20Departments/For%20Fin%20Years%202005%20to%202013/For%20fin.%20Year%20ending%2031-03-2013/Preparation%20Guide/Chp%2001%20The%20Financial%20Reporting%20Frame%20work%20October%202012.pdf> Date of access: 23 May 2016.

South Africa. National Treasury. 2014. MFMA Circular No. 71. Uniform Financial Ratios and Norms. <http://mfma.treasury.gov.za/Circulars/Documents/Circular%2071%20-%20Financial%20Ratios%20and%20Norms%20-%2017%20January%202014/MFMA%20Circular%20No%2071%20Financial%20Ratios%20and%20Norms%20-%2017%20January%202014.pdf> Date of access: 28 August 2018.

South Africa. National Treasury. Chief Financial Officers Handbook for Municipalities. <https://oag.treasury.gov.za/Publications/14.%20Handbooks/Chief%20Financial%20Officers%20Handbook%20-%20Departments.pdf>. Date of access: 20 June 2017.

South Africa. National Treasury. MFMA Circular No. 86. Municipal Budget Circular for the 2017/18 MTREF. <http://mfma.treasury.gov.za/Circulars/Documents/Forms/AllItems.aspx?RootFolder=http%3a%2f%2fmfma%2etreasury%2egov%2eza%2fCirculars%2fDocuments%2fMFMA%20Circular%2086%20%2d%202018%20MTREF%20%2d%208%20March%202017&FolderCTID=0x012000E772703726E2A8479752CF24A134692B> Date of access: 28 August 2018.

South Africa. Parliament. 2011. Budget Analysis Manual. <https://www.parliament.gov.za/storage/app/media/BusinessPubs/BudgetAnalysisManual.pdf> Date of access: 22 May 2017.

South Arica. 1996. The Constitution of the Republic of South Africa Act 108 of 1996

Tandwa, L. 2018. Rand Water threatens to cut water to Emfuleni municipality over R419m debt. News24: April 11. <https://www.news24.com/SouthAfrica/News/rand-water-threatens-to-cut-water-to-emfuleni-municipality-over-r419m-debt-20180411> Date of access: 15 February 2019.

Tasios, S. & Bekiaris, M. 2012. Auditor's perceptions of financial reporting quality: the case of Greece. *International Journal of Accounting and Financial Reporting*, 2(1):57-73.

https://www.researchgate.net/publication/230995985_Auditor's_perceptions_of_financial_reporting_quality_the_case_of_Greece. Date of access: 20 November 2017.

The Presidency. 2014. Outcome 9: Responsive, Accountable, Effective and Efficient Developmental Local Government System. <http://www.thepresidency-dpme.gov.za/keyfocusareas/outcomesSite/MTSF%201/Outcome%209%20Local%20Government%20MTSF%20Chapter%20.pdf> Date of access: 22 August 2018.

Tommasi, D. 2009. Strengthening Public Expenditure Management in Developing Countries. Sequencing Issues. <https://europa.eu/capacity4dev/file/10164/download?token=-GU3HCXi> Date of access: 20 August 2018.

Valentinov, V. 2014. The Complexity-Sustainability Trade Off in Niklas Luhmann's Social Systems Theory. *Systems Research and Behavioural Science*, 31:14-22. doi: 10.1002/sres.2146.

https://www.researchgate.net/publication/259849607_The_Complexity-_Sustainability_Trade-Off_in_Niklas_Luhmann's_Social_Systems_Theory Date of access: 14 September 2017.

Van Beest, F., Braam, G. & Boelens, S. 2009. Quality of Financial Reporting: measuring qualitative characteristics. NiCE Working Paper 09-108 (April 2009). Nijmegen Center for Economics (NiCE). Institute for Management Research: Radboud University Nijmegen https://www.ru.nl/publish/pages/516298/nice_09108.pdf. Date of access: 28 August 2016.

Van der Waldt, G. & Du Toit. 1991. *Managing for excellence in the public sector*. 2nd edition. Cape Town: Juta

Van der Waldt, G. 2002. Key challenges for local government – the road whereto? *Word in Action*, Summer 2002. No. 382. Bureau for Scholarly Journals. PU for CHE. <https://repository.nwu.ac.za/bitstream/handle/10394/13519/Key%20local%20government%20challenges.pdf?sequence=1&isAllowed=y> Date of access: 20 November 2018

Van der Waldt, G., Van Niekerk, D., Doyle, M., Knipe, A. & Du Toit, D. 2002. Managing for results in government. Cape Town: Heinemann

Van der Walt, C. 2007. Municipal Structures. (In G. Van der Waldt (Ed.), Municipal Management. Serving the People. Cape Town: JUTA. p. 68-80).

Van Wyk, B. 2012. Research designs and methods: Part 1. Postgraduate enrolment and throughout. University of the Western Cape (PowerPoint Presentation) https://www.uwc.ac.za/Students/Postgraduate/Documents/Research_and_Design_I.pdf
Date accessed: 20 November 2018.

Van Wyk, H. A. 2007. Is the transformation of public sector financial reporting in South Africa's provincial governments on track? *Meditari Accountancy Research*, 15(2):65-75. <https://www.emeraldinsight.com/doi/pdfplus/10.1108/1022252920070001>. Date of access: 28 May 2016.

Venter, A. & Landasberg, C. 2006. Government and politics in the new South Africa. 3rd edition. Pretoria: Van Schaik

Venter, A. 2007. Integrated Development Planning as an Approach to Sustainable Development. (In G. Van der Waldt (Ed.), Municipal Management. Serving the People Cape Town: JUTA & Co. p. 94-107).

Verovska, L. Internal Control System as Continuous Basis of Efficient and Stable Company Development. *Regional Formation and Development Studies*, 3(8): 240-246. <http://journals.ku.lt/index.php/RFDS/article/view/584/pdf>. Date of access: 28 May 2018

Vilakazi, S. 2012. A case study on the challenges faced by municipalities in implementing the new Generally Recognised Accounting Practices standards. Stellenbosch: USB. (Mini-dissertation - MBA) Date of access: 04 March 2017

Visser, C. B. & Erasmus, P. W. 2002. The Management of Public Finance: A Practical Guide. Cape Town: Oxford Southern Africa

Visser, C.B. & Erasmus, P. W. 2002. The Management of Public Finance: A practical Guide. Cape Town: Oxford University Press Southern Africa

Von Bertalanffy, L. 1950. An Outline of System Theory. *The British Journal for the Philosophy of Science*, 1(2):134-164. <http://dx.doi.org/10.1093/bjps/l.2.134>. Date of access: 28 May 2016.

Von Bertalanffy, L. 1968. *General System Theory Foundations, Development, Applications*. New York: George Braziller. https://monoskop.org/images/7/77/Von_Bertalanffy_Ludwig_General_System_Theory_1968.pdf Date of access: 28 May 2016.

Von Bertalanffy, L. 1972. The History and Status of General Systems Theory. *The Academy of Management Journal*, 15(4):407-426. <http://www.jstor.org/stable/25513> Date of access: 18 January 2016.

Von Hagen, J. 2007. Budgeting Institutions for Better Fiscal Performance. (In Shah, A. *Public Sector Governance and Accountability Series. Budgeting and Budgetary Institutions*. Washington: The World Bank. p.27-49). <https://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf> Date of access: 28 June 2017.

Wilfred, O. & Salome, A. L. 2014. Integrating Quality Management Systems in Public Sector Financial Reporting Framework: A Developing Country's Nightmare. *IOSR Journal of Business and Management*, 16(3):43-53. <http://iosrjournals.org/iosr-jbm/papers/Vol16-issue3/Version-3/F016334353.pdf> Date of access: 18 October 2016.

World Bank. 1998. *Public Expenditure Management Handbook*. Washington. The World Bank. <http://www1.worldbank.org/publicsector/pe/handbook/pem98.pdf> Date of access: 18 November 2017.

APPENDICES

Annexure A: Letter of Research Consent to ELM



PO BOX 1174, Vanderbijlpark
South Africa 1900
Tel: (016) 910-3111
Fax: (016) 910-3116
Web: <http://www.nwu.ac.za>

3 November 2016

Emfuleni Local Municipality

Corner Klasie Havenga and Frikkie Meyer Boulevard
Box 3 Vanderbijlpark
Gauteng
1900

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH AT EMFULENI LOCAL MUNICIPALITY

Dear Sir/ Madam

My name is Lerato Libate, currently completing my Masters Degree in Public Management and Governance at North West University- Vaal Triangle Campus. The title of my research study is: *“Assessing the efficacy of financial reporting in the expenditure management at Emfuleni Local Municipality”*.

The study will be using document analysis research method, which entails the process of reviewing and analysis of documents about the phenomena that is being studied. In practice, this form of data technique will support the researcher in gathering background information, conducting a comparative analysis and identifying the main issues about the chosen area of study.

Subject to the approval of the Research Ethics Committee-BaSSREC; I am hereby by writing to the Emfuleni Local Municipality seeking approval and endorsement from the Municipality in conducting my study. In collecting the necessary documents for my research, I will require interaction with the Finance Department in terms of sourcing out the relevant documents for my study. I will not be conducting any interviews, surveys or questionnaires to management or employees of Emfuleni Local Municipality. The study will rely purely on the use of existing documents for review and analysis.

In relation to the period I will require to gather my data, I would like to request access permission into the Municipality from **Mid November 2016 to March 31st 2017**. The end date (March 31st 2017) is tentative, as I may complete my work before then, however I am marking the date as a contingency, by taking in account that I'm a part-time student and also considering that we are approaching the end of year for the festive break. Furthermore, it is important that I schedule an appropriate time to collect the required documents so that it won't be of any inconvenience to those who will be supporting me in my research.

I would highly appreciate your full and complete support in completing my research at the Municipality. The interests of the study are purely academic and in practicing due diligence as a researcher, I will conduct the study with respect, honesty and integrity. Upon completion of my study, I undertake the responsibility of providing Emfuleni Local Municipality with a bound copy of the full research report. Should you require any further information, please do not hesitate to contact me on 0725401247 or libate.faith@gmail.com.

Thank you for your time and consideration to this matter.

Yours Sincerely,



Lerato Libate (Researcher)

Student No: 22452214

Annexure B: ELM's Confirmation of Research Approval



Office of the Deputy Municipal Manager:
Corporate Services
Training and Development

Tel: +27 16 440-7742/3
Fax: +27 16 950-5243
E-mail: solr@emfuleni.gov.za

P.O. Box 3

Vanderbiljpark, 1900

Web: www.emfuleni.gov.za

Date: 05 November 2016

Ref: J.S. Roets

File: 10/11/1

To whom it may concern

RE: Confirmation of Research Approval viz. Lerato Libate

This servesto confirm that Ms. Lerato Libatehas been granted permission by Emfuleni Local Municipality (ELM) to conduct an academic pilot research as set out.

ELM is granting research access to its premises and relevant Department(s) to Ms. Libate and her associates for that purpose only. This research access will terminate immediately upon the completion of the research period as stipulated.

Ms. Libatewill also abide by the rules and regulations that govern all ELM employees whilst on the premises. This includes any confidentiality obligations that may be required to be observed in publication of the mini dissertation.

Breach of any such prescripts will result in immediate termination of the research access and any concomitant mitigating steps may be taken where necessary.

ELM would also welcome a copy of the completed dissertation as a *quid pro quo* if possible.

ELM wishes Ms. Libatewell in her research endeavor.

Approved/Not Approved

Sol Roets (Manager – Training)

07/11/2016
Date

Annexure C: ELM's audited financial statements for the year ended 30 June 2016

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current assets			
Cash and cash equivalents	2	125,122,613	123,981,682
Trade and other receivables from exchange transactions	3	241,751,301	182,152,806
Trade and other receivables from non-exchange transactions	4	213,648,777	187,538,842
Inventories	5	28,791,545	29,246,303
VAT receivable	6	109,930,720	91,407,349
		719,244,956	614,326,982
Non-current assets			
Property, plant and equipment	7	9,866,227,839	10,079,416,847
Investment property	8	1,402,059,106	1,374,629,394
Intangible assets	9	17,961,105	19,541,268
Heritage assets	10	90,316	90,316
Sanlam shares		16,279	17,912
		11,286,354,647	11,473,695,737
Total Assets		12,005,599,603	12,088,022,719
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	1,295,362,121	1,073,847,673
Unspent conditional grants and receipts	13	7,840,806	30,526,258
Borrowings	14	4,268,305	3,933,883
Finance lease	15	-	538,770
Provision	16	22,993,073	27,584,103
Bank overdraft	2	48,666,507	-
		1,379,130,812	1,136,430,687
Non-current liabilities			
Consumer deposits	12	44,884,636	42,380,899
Borrowings	14	11,625,599	15,893,904
Provision	16	202,522,883	176,047,579
Employee benefit obligation	39	208,836,970	205,905,970
		467,870,088	440,228,352
Total liabilities		1,847,000,900	1,576,659,039
Net assets		10,158,598,703	10,511,363,680
Reserves			
Self insurance reserve	48	24,220,470	25,578,843
Accumulated surplus		10,134,378,233	10,485,784,837
Total Net Assets		10,158,598,703	10,511,363,680

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	17	3,403,178,196	3,197,645,784
Rental of facilities and equipment	18	12,005,429	6,517,256
Trade and other licenses		99,170	11,079
Actuarial gain		7,950,831	7,599,228
Other income	20	136,269,140	85,673,034
Interest income	19	44,666,223	40,590,223
Dividends received	19	3,025	3,025
		3,604,171,814	3,338,039,629
Revenue from non-exchange transactions			
Property rates	21	598,394,248	541,509,036
Interest received		2,048,470	2,693,546
Donations		15,529,613	28,470,957
Fines	23	128,278,156	143,679,865
Transfer revenue			
Government grants & subsidies	22	884,953,489	857,237,386
		1,629,203,976	1,573,590,794
Total revenue from non-exchange transactions		1,629,203,976	1,573,590,794
Total revenue		5,233,375,790	4,911,630,423
Expenditure			
Employee related costs	24	(920,375,699)	(859,642,035)
Remuneration of councillors	25	(47,012,902)	(45,330,968)
Depreciation and impairment		(475,374,580)	(464,241,089)
Finance costs	26	(66,222,538)	(53,489,074)
Debt Impairment		(726,687,941)	(860,468,114)
(Loss)/Gain on sale of assets		1,869,772	(11,575,486)
Repairs and maintenance		(126,351,499)	(87,358,639)
Bulk purchases	27	(2,169,425,555)	(1,977,384,598)
Contracted services		(115,004,308)	(239,795,848)
Imputed interest		12,059,418	6,696,068
General expenses	28	(986,399,446)	(857,728,657)
		(5,618,925,278)	(5,450,318,440)
Total expenditure		(5,618,925,278)	(5,450,318,440)
Operating deficit		(385,549,488)	(538,688,017)
Fair value adjustments		32,784,473	(28,590,497)
(Deficit)/surplus for the year		(352,765,015)	(567,278,514)

Annexure D: ELM's audited financial statements for the year ended 30 June 2015

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

	Note(s)	2015	2014 Restated*
Assets			
Current assets			
Cash and cash equivalents	2	123,981,683	123,794,515
Trade and other receivables from exchange transactions	3	182,152,808	248,735,518
Trade and other receivables from non-exchange transactions	4	198,078,011	204,616,195
Inventories	5	29,246,303	27,364,703
VAT receivable	6	81,313,057	18,703,300
		614,771,862	623,214,231
Non-current assets			
Property, plant and equipment	7	10,116,258,096	10,200,716,863
Investment property	8	1,374,629,394	1,404,705,167
Intangible assets	9	19,555,060	19,950,166
Heritage assets	10	90,316	90,316
Sanlam shares		17,912	16,673
		11,510,550,778	11,625,479,185
Total Assets		12,125,322,640	12,248,693,416
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	1,026,639,324	731,095,922
Unspent conditional grants and receipts	13	30,526,258	28,596,472
Borrowings	14	3,933,883	3,657,602
Finance lease	15	538,770	750,111
Provision	16	27,584,103	-
		1,089,222,338	764,100,107
Non-current liabilities			
Consumer deposits	12	42,380,899	37,404,062
Borrowings	14	15,893,904	19,827,787
Provision	16	176,047,579	86,475,690
Employee benefit obligation	39	205,905,970	203,336,970
Finance lease	15	-	538,770
		440,228,352	347,583,279
Total liabilities		1,529,450,690	1,111,683,386
Net assets		10,595,871,950	11,137,010,030
Reserves			
Self insurance reserve	47	25,578,843	6,374,692
Accumulated surplus		10,570,293,107	11,128,635,338
Total net assets		10,595,871,950	11,137,010,030

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	3,315,170,338	2,987,009,709
Rental of facilities and equipment	18	6,516,662	11,633,519
Interest income	19	40,590,221	39,410,982
Dividends received	19	3,025	6,050
Trade and other licenses		11,079	6,770
Other income	20	85,870,304	47,525,238
Actuarial gain		7,599,228	10,414,552
Total revenue from exchange transactions		3,455,760,857	3,096,006,820
Revenue from non-exchange transactions			
Property rates	21	541,509,038	469,446,918
Interest received		2,693,548	298,246
Donations		28,470,957	84,271,926
Fines	23	143,684,514	153,353,108
Reversal of impairment		-	29,281
Transfer revenue			
Government grants & subsidies	22	857,237,384	836,352,364
Total revenue from non-exchange transactions		1,573,595,441	1,543,761,843
Total revenue		5,029,356,298	4,639,758,663
Expenditure			
Employee related costs	24	(856,534,597)	(824,136,051)
Remuneration of councillors	25	(45,330,967)	(42,735,848)
Depreciation and impairment		(463,850,663)	(477,059,423)
Finance costs	26	(47,247,701)	(27,818,590)
Debt Impairment		(979,290,586)	(781,535,833)
Repairs and maintenance		(86,910,780)	(137,956,627)
Bulk purchases	27	(1,977,384,598)	(1,875,519,633)
Contracted services		(235,160,509)	(105,127,032)
Imputed interest		6,696,068	3,576,232
(Loss)/gain on sale of assets		(11,575,486)	(88,308,316)
General expenses	28	(845,314,063)	(730,872,153)
Total expenditure		(5,541,903,882)	(5,087,493,274)
Operating deficit		(512,547,584)	(447,734,611)
Fair value adjustments		(28,590,497)	268,959,581
(Deficit)/surplus for the year		(541,138,081)	(178,775,030)

Annexure E: ELM's audited financial statements for the year ended 30 June 2014

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of financial position as at 30 June 2014

	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	126,376,022	127,649,348
Trade and other receivables from exchange transactions	3	242,445,019	282,265,533
Trade and other receivables from non-exchange transactions	4	160,522,516	179,616,190
Inventories	5	27,358,741	24,041,347
Value added tax receivable	6	61,750,522	79,922,014
		<u>618,452,820</u>	<u>693,494,436</u>
Non-Current Assets			
Property, plant and equipment	7	10,177,016,740	10,516,529,722
Investment property	8	1,372,942,709	1,108,346,697
Intangible assets	9	19,950,179	21,529,169
Heritage assets	10	357,975	346,517
Sanlam shares		308,750	225,500
		<u>11,570,576,353</u>	<u>11,646,977,605</u>
Non-current assets held for sale and assets of disposal groups	11	16,745	16,745
Total Assets		<u>12,189,045,918</u>	<u>12,340,488,788</u>
Liabilities			
Current Liabilities			
Trade and other payables	12	746,473,270	667,595,253
Unspent conditional grants and receipts	14	28,596,471	31,229,144
Borrowings	15	3,657,602	3,435,772
Finance lease liability	16	-	1,387,662
		<u>778,727,343</u>	<u>703,647,831</u>
Non-Current Liabilities			
Consumer deposits	13	37,404,062	33,938,710
Borrowings	15	19,827,787	23,485,389
Provisions	17	86,475,690	121,036,959
Employee benefit obligation	39	203,336,980	202,217,470
		<u>347,044,519</u>	<u>380,678,528</u>
Total Liabilities		<u>1,125,771,862</u>	<u>1,084,326,359</u>
Net Assets		<u>11,063,274,056</u>	<u>11,256,162,429</u>
Net Assets			
Reserves			
Self-insurance reserve	47	85,250,753	56,288,567
Accumulated surplus		10,978,023,303	11,199,873,842
Total net assets		<u>11,063,274,056</u>	<u>11,256,162,429</u>

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

	Note(s)	2014	2013 Restated
Revenue			
Revenue from exchange transactions			
Service charges	18	2,987,009,710	2,591,388,035
Rental of facilities and equipment	19	11,633,519	11,195,309
Finance income	20	39,410,982	35,278,982
Trade and other licenses		6,770	12,907
Dividends received	20	6,050	3,025
Other income	21	58,187,072	64,570,033
Total revenue from exchange transactions		<u>3,096,254,103</u>	<u>2,702,448,291</u>
Revenue from non-exchange transactions			
Property rates	22	469,446,918	410,973,552
Interest received - SARS		298,246	-
Donations		81,851,117	63,675,135
Fines	24	153,353,108	34,648,500
Government grants & subsidies	23	836,352,364	842,445,849
Total revenue from non-exchange transactions		<u>1,541,301,753</u>	<u>1,351,743,036</u>
Total revenue		<u>4,637,555,856</u>	<u>4,054,191,327</u>
Expenditure			
Employee related costs	25	(822,788,230)	(754,322,663)
Remuneration of councillors	26	(42,735,849)	(26,661,222)
Depreciation and amortisation	7	(476,075,878)	(503,716,807)
Finance costs	27	(27,575,854)	(32,425,322)
Debt impairment	3	(781,535,834)	(457,427,988)
Repairs and maintenance		(138,496,895)	(104,668,557)
Bulk purchases	28	(1,874,698,247)	(1,803,669,344)
Contracted services		(105,054,297)	(82,591,790)
Imputed interest		3,576,232	-
General expenses	29	(744,254,530)	(507,507,434)
Total expenditure		<u>(5,009,639,382)</u>	<u>(4,272,991,127)</u>
Operating deficit		<u>(372,083,526)</u>	<u>(218,799,800)</u>
(Loss)/gain on disposal of assets		(88,196,640)	(22,471,999)
Fair value adjustments		267,362,508	148,357,174
Impairment loss/ reversal of impairments		29,281	(1,485,741)
		<u>179,195,149</u>	<u>124,399,434</u>
(Deficit)/Surplus for the year		<u>(192,888,377)</u>	<u>(94,400,366)</u>

Annexure F: ELM's audited financial statements for the year ended 30 June 2013

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of financial position as at 30 June 2013

	Note(s)	2013 R	2012 Restated R
Assets			
Current assets			
Cash and cash equivalents	2	127,704,348	127,785,784
Trade and other receivables from exchange transactions	3	282,265,533	292,068,214
Trade and other receivables from non-exchange transactions	4	182,502,193	156,960,216
Inventories	5	24,041,347	20,536,147
Value added tax receivable	6	71,544,737	70,478,041
		<u>688,058,158</u>	<u>667,828,402</u>
Non-current assets			
Property, plant and equipment	7	10,461,937,668	10,722,315,073
Investment property	8	1,105,804,584	976,217,000
Intangible assets	9	20,784,914	24,110,495
Heritage assets	10	346,517	459,280
		<u>11,588,873,683</u>	<u>11,723,101,848</u>
Non-current assets held for sale and assets of disposal groups	11	16,745	16,745
Total assets		<u>12,276,948,586</u>	<u>12,390,946,995</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	12	667,692,097	672,387,678
Unspent conditional grants and receipts	14	31,229,144	21,339,251
Borrowings	15	3,435,772	5,268,984
Finance lease liability	16	2,235,990	23,161,407
		<u>704,593,003</u>	<u>722,157,320</u>
Non-current liabilities			
Consumer deposits	13	33,938,710	33,537,913
Borrowings	15	23,485,389	26,920,992
Finance lease liability	16	-	1,050,316
Provisions	17	121,036,959	114,185,811
Employee benefits obligations	40	202,217,470	185,624,273
		<u>380,678,528</u>	<u>381,319,305</u>
Total liabilities		<u>1,085,271,531</u>	<u>1,083,476,625</u>
Net assets		<u>11,191,677,055</u>	<u>11,307,470,370</u>
Net assets			
Reserves			
Self-Insurance reserve		56,288,587	29,516,971
Accumulated surplus		11,135,388,468	11,277,953,399
Total net assets		<u>11,191,677,055</u>	<u>11,307,470,370</u>

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

	Note(s)	2013 R	2012 Restated R
Revenue			
Revenue from exchange transactions			
Service charges	18	2,591,388,035	2,201,818,620
Rental of facilities and equipment	19	11,195,309	11,439,141
Finance income	20	35,278,982	31,340,173
Trade and other licenses		12,907	13,008
Dividends received	20	3,025	9,532
Other income	21	65,360,215	74,945,585
Total revenue from exchange transactions		<u>2,703,238,473</u>	<u>2,319,566,059</u>
Revenue from non-exchange transactions			
Property rates	22	410,973,552	351,966,028
Donations		42,376,223	20,000
Fines	24	34,648,500	36,769,542
Government grants & subsidies	23	842,445,849	847,805,070
Total revenue from non-exchange transactions		<u>1,330,444,124</u>	<u>1,236,560,640</u>
Total revenue		<u>4,033,682,597</u>	<u>3,556,126,699</u>
Expenditure			
Employee related costs	25	(754,322,663)	(722,194,589)
Remuneration of councillors	26	(26,661,222)	(25,133,150)
Depreciation and amortisation	7	(513,855,529)	(801,147,512)
Impairment loss/ reversal of impairments		(1,485,741)	(5,027,629)
Finance costs	27	(32,425,322)	(21,976,265)
Debt impairment	3	(457,427,988)	(314,129,108)
Repairs and maintenance		(102,622,181)	(115,207,059)
Bulk purchases	28	(1,803,669,344)	(1,574,332,701)
Contracted services		(82,581,445)	(82,414,745)
Grants and subsidies paid		-	(18,178,673)
General expenses	29	(508,975,317)	(404,159,109)
Total expenditure		<u>(4,284,026,752)</u>	<u>(4,083,900,540)</u>
Operating deficit		<u>(250,344,155)</u>	<u>(527,773,841)</u>
(Loss)/gain on disposal of assets	30	(23,527,860)	(4,815,330)
Fair value adjustments		158,078,699	1,416,869,972
		<u>134,550,839</u>	<u>1,412,054,642</u>
(Deficit)/Surplus for the year		<u>(115,793,316)</u>	<u>884,280,801</u>

Annexure G: ELM's financial statement notes on Unlawful expenditure - 2017

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the annual financial statements

	2017 R	2016 R
31. Unauthorised, irregular, fruitless and wasteful expenditure		
Unauthorised expenditure		
Opening balance	192 819 928	874 864 383
Unauthorised expenditure	594 863 922	204 548 484
Less: approved/condoned by Council in respect of the previous financial year	-	(874 864 383)
Less: approved/condoned by Council in respect of the current financial year	-	(11 728 556)
	787 683 850	192 819 928
Details of unauthorised expenditure		
Political office	-	85 648
Municipal manager's office	-	11 337 773
Financial services	257 661 832	66 629 972
Corporate services	217 077 414	-
Basic services	68 535 981	124 596 657
Agriculture, economic development planning and human settlement	724 088	28 543
Public safety and community development	50 864 607	1 869 892
	594 863 922	204 548 485
Irregular		
Opening balance	148 503 808	-
Irregular-current	161 088 336	127 658 495
Irregular - prior year	-	20 845 313
Less: approved/condoned by Council	-	-
	309 592 144	148 503 808
Fruitless & wasteful expenditure		
Opening balance	19 796 026	5 748 821
Fruitless and wasteful expenditure	58 243 259	14 047 205
Fruitless and wasteful expenditure - prior	1 639 744	-
	79 679 029	19 796 026

During the current financial year interest amounting to R58 243 259 was incurred due to late payment of accounts and R1 639 744 was incurred in the current period but relating to the previous financial year.

Annexure H: ELM's financial statement notes on Unlawful expenditure - 2016

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the annual financial statements

	2016 R	2015 R
31. Unauthorised, irregular, fruitless and wasteful expenditure (continued)		
Unauthorised expenditure		
Opening balance	874,864,383	421,729,606
Unauthorised expenditure	204,548,484	453,134,777
Less: approved/condoned by council in respect of previous financial year	(453,134,777)	-
Less: approved/condoned by council in respect of current financial year	(11,728,556)	-
	614,549,534	874,864,383
Details of unauthorised expenditure		
Political Office	85,648	-
Municipal Manager's Office	11,337,773	-
Financial Services	66,629,972	230,981,431
Basic Services	124,596,657	77,890,541
Agriculture, Economic Development Planning and Human Settlement	28,543	-
Infrastructure Planning and Assets Management	1,869,892	2,753,099
Public Safety and Community Development	-	141,599,705
	204,548,485	453,224,776

The over expenditure is mainly attributed to debt impairment, depreciation, personnel costs, finance cost and general expenditure.

Unauthorised expenditure amounting to R453 134 777 relating to the previous financial year was condoned by Council as well as R11 728 556 being a portion of the unauthorised expenditure incurred during the current financial year.

Irregular

Opening balance	-	-
Irregular- Current	127,658,495	-
Irregular - Discovered in 2015/16 relating to prior year	20,845,313	-
Less: Approved/condoned by Council	-	-
	148,503,808	-

An amount of R127 658 495 was incurred as irregular due to non-compliance with SCM regulations.

An amount of R20 845 313 relating to the previous financial year was discovered as irregular in the current financial year as a result of non-compliance with SCM regulations.

Fruitless & wasteful expenditure

Opening balance	5,748,821	4,611,934
Fruitless and wasteful expenditure	14,047,205	1,136,887
Less: Approved/condoned by Council	-	-
	19,796,026	5,748,821

During the current financial year interest amounting to R10 668 728, was incurred due to late payment of accounts, as well as interest and penalties amounting to R2 462 729 incurred due to prior periods input VAT that was claimed by the Municipality but denied after audit by SARS.

Included in the restated opening balance for 2015/2016 was interest incurred due to late payments of SALA pension fund and various other creditors

Annexure I: ELM's financial statement notes on Unlawful expenditure - 2015

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the annual financial statements

2015

2014

30. Correction of error (continued)

This relates to two invoices for professional services rendered by PWC in the previous financial year which were not accounted for.

Loss/gain on disposal

This relates mainly to roads and sanitation assets which were derecognised and replaced in the previous financial year. The loss resulting from the derecognition was not accounted for.

General expenses

This mainly relates to expenditure relating to Eskom and E-toll invoices which were previously not accounted for.

Fair value adjustment

The correction is mainly due to the adjustment of fair value of shares and stands in Powerville which were previously held for sale and are brought back to the asset register.

31. Irregular, fruitless and wasteful expenditure

Opening balance	4,611,934	4,504,002
Fruitless and wasteful expenditure	1,136,887	107,932
	<u>5,748,821</u>	<u>4,611,934</u>

Interest amounting to R1 136 887, was incurred due to late payment of accounts.

32. Unauthorised expenditure

Opening balance	421,729,606	-
Unauthorised expenditure	453,134,777	421,729,606
Less: approved/condoned by council in respect of previous financial year	-	-
	<u>874,864,383</u>	<u>421,729,606</u>

2014/15

Unauthorised expenditure

Financial services: R230 981 431

Basic services: R77 890 541

Public safety and community development: R141 599 705

Infrastructure planning and administration management: R2 753 099

2013/14

Unauthorised expenditure

Municipal management: R2 545 041

Financial services: R273 265 009

Basic services: R14 429 693

Public safety and community development: R131 489 862