

An Assessment Of Financial Management In Selected Municipalities Within The Ngaka Modiri Molema District Council

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ABSTRACT

This study investigates the poor financial performance of South African municipalities, which is often reflected in widespread disclaimer audit outcomes. The primary aim is to identify strategic financial management practices that can enhance the financial performance of municipalities within the NMMD Council. The Auditor General has pinpointed key vulnerabilities, namely procurement and irregular expenses, revenue management issues, and weaknesses in investment and asset management, all contributing to financial inefficiencies. Primary data was collected through semi-structured interviews with senior officers in selected NMMD municipalities using an exploratory case study design. The data was analyzed using NVivo 12 Pro. Key findings highlight the need for effective leadership and governance, emphasizing the importance of distributing power among financial officers to prevent fraud and corruption. Functional financial management systems, internal audit units, and effective audit committees are essential for sound financial management and governance. Addressing shortcomings in procurement processes and investing in human resource training is necessary to minimize non-compliance and enhance financial management. The study underscores the importance of continuous monitoring, risk management, and a zero-tolerance approach to corruption to ensure sustainable financial performance. Legal proceedings should address financial misconduct, with disciplinary actions taken against those found guilty. Municipalities will continue to fail unless consequence management is implemented and enforced.

KEYWORDS: Auditor General's Report, Unauthorised Expenditure, Irregular Expenditure, Fruitless and Wasteful Expenditure, Financial Management.

ABBREVIATIONS: NMMD: Ngaka Modiri Molema District; AGSA: Auditor-General of South Africa; MFMA: Municipal Finance Management Act; MPAC: Municipal Public Accounts Committee; CFO: Chief Financial Officer; SCM: Supply Chain Management; IDP: Integrated Development Plan; SDBIP: Service Delivery Budget Implementation Plan.

1. INTRODUCTION

The prevalence of disclaimer audit outcomes is a significant indicator of poor financial management in South Africa, particularly within municipalities. According to the AGSA, many municipalities struggle to deliver adequate services to communities due to ineffective financial management practices [1]. Globalization also affects local governments' strategic financial management, exacerbating issues like inadequate working capital management and poor cash flow, especially in debtor collection [1].

Deficiencies identified by the Office of the Auditor-General include compromised financial statement quality, non-compliance with procurement regulations, and the absence of preventive measures against unauthorized, irregular, fruitless, and wasteful expenditures. In cases of municipal dysfunction, provincial treasuries have intervened by appointing administrators under section 139 of the Constitution. These financial irregularities have become a focal point in national discourse, with substantial literature discussing instability and conflicts across various government levels. Many local municipalities in the North West province are currently dysfunctional and struggle to meet future financial obligations [2]. Citizens perceive these financial mismanagement issues as corruption, reflecting a lack of accountability and consequence management among financial managers.

The NMMD Municipality serves as a pertinent case study due to its history of poor financial management, and qualified audit reports [3]. Poor working capital management in these municipalities leads to insufficient cash flow, directly impacting service delivery [4]. Municipalities use the current ratio as a tool to assess short-term liquidity by comparing current assets and liabilities [5]. While municipalities are not profit-driven, they must generate revenue to meet short-term obligations and remain financially sustainable. The White Paper on Local Government [6] emphasizes the need for municipalities to have sufficient revenue sources to fulfill their responsibilities [6].

The severity of these financial management issues calls for immediate action to improve the financial status of North-West Province municipalities. Currently, 86% of these municipalities are classified among the 163 experiencing financial distress nationwide [7].

The National Treasury's in-year management system facilitates oversight of municipalities, helping to identify potential issues in financial administration [8]. Municipal management, councilors, and stakeholders play a crucial role in establishing and maintaining sound financial management principles [9].

Financial statements disclosed by the AGSA received qualified and disclaimer audit reports due to unauthorized, irregular, fruitless, and wasteful expenditures [8]. These deficiencies in accounting controls lead to irregular procurement, fraud, and corruption [3]. This indicates a lack of priority given to effective financial management in municipalities, resulting in serious mismanagement and poor governance [10]. During the AGSA's most recent audit period, a detrimental surge in unauthorized, irregular, fruitless, and wasteful expenditure was identified, prompting amendments to the Public Audit Act 25 of 2004 due to a lack of consequence management and accountability within municipalities.

2. PROBLEM STATEMENT

According to section 216 of the 1996 Constitution of South Africa, national legislation must establish measures to ensure transparency and expenditure control across all government spheres, including Generally Recognised Accounting Practices, uniform expenditure classifications, and adherence to treasury norms and standards. Sections 62(1)(d), 78(1)(c), and 81(1)(d) of the MFMA 56 of 2003 assign senior managers and accounting officers in municipalities the responsibility for financial administration, preventing unauthorized, irregular, fruitless, and wasteful expenditure [11].

In the North-West province, local government finances are under strain due to poor budgeting practices, non-payment by municipal debtors, and ineffective financial management, resulting in unauthorized and wasteful expenditure [11]. The AGSA reports that many municipalities fail to effectively implement procurement policies, leading to material irregularities such as payments for undelivered goods and services [1]. Despite regulations for emergency procurement of Covid-19 personal protective equipment (PPE) [12], there is widespread non-compliance with SCM regulations.

The AGSA audit also highlights a consistent lack of proper financial and consequence management, with only 27 out of 257 municipalities across South Africa receiving clean audits in 2019-20. This failure to comply with legislation and ethical principles has eroded public confidence and trust [13]. Non-compliance with SCM regulations contributes significantly to irregular expenditure, which totaled R26 billion in 2019-20, with fruitless and wasteful expenditure reaching R3.47 billion [1]. The Public Audit Act 25 of 2004 requires accurate disclosure of irregular expenditure, followed by investigation, regularisation, recovery of losses, and disciplinary action.

In conclusion, urgent measures are needed to improve financial management within local municipalities. Misappropriation of funds has damaged local government finances and exacerbated poor service delivery in the North-West Province.

3. LITERATURE TO SUPPORT THE PROBLEM

South Africa operates as a democratic country with three spheres of government: national, provincial, and local. These spheres are outlined in the Constitution, with Chapter 7, section 151(2) vesting executive and legislative authority in municipal councils [14]. Recently, violent protests have erupted due to a lack of accountability and consequence management in local governments, with perceived corruption prevalent across all government levels [15]. Terms like "state capture" and "tenderpreneur" have emerged to describe these issues [15].

Municipal financial distress has been an ongoing issue, further exacerbated by the recent pandemic [16]. Zweni *et al.* [17] highlight the absence of a structured framework for managing municipal finances, leading to detrimental impacts on service delivery. Mismanagement of financial resources by municipal leaders has worsened the situation, emphasizing the need for adherence to the Constitution, Public Finance Management Act (PFMA), and Municipal Finance Management Act [17]. Despite these legal frameworks, municipal audit reports indicate regression rather than progress [18].

3.1. MUNICIPAL FINANCIAL MANAGEMENT DEFINITIONS

Effective municipal financial management fosters public trust and ensures the economical and transparent use of funds [19]. The national government prioritizes this to meet community needs and policy goals [17]. Improved financial practices and internal controls in local government enhance the accuracy of financial reports and the quality of public service [20]. These practices aim to prevent wasteful spending, fraud, corruption, and unauthorized expenditure [21].

Table 1. Meta-analysis: Definitions of municipal financial management.

Source	Definition
[22]	Financial management within municipalities can be seen as a strategy grounded in the initiative to optimise the quality of service delivery.
[23]	Academics have suggested that a financially robust municipality is one that adopts a risk-based approach to forecast financial shocks and establish a financial framework capable of enduring these transformations.
[24]	Financial management in local government is characterised as the development of a budgetary plan for the allocation of economic resources.
[25]	Effective financial management enables an organization to efficiently utilize its financial resources to achieve its goals.

[19]	To ensure sustainability within municipalities, it is essential to possess enough revenue to meet financial obligations.
[26]	Achieving effective financial management practices involves emphasising key functions. These components encompass financial reporting, internal controls, financial planning, and budgeting, as well as financial performance.
[27]	Competence in municipal finance is associated with the quality and effectiveness of the public financial management system.

3.2. HISTORICAL DEVELOPMENT OF MUNICIPAL FINANCE

In March 2020, South Africa declared a national state of disaster due to the COVID-19 pandemic under the Disaster Management Act 57 of 2002 [28]. The pandemic exposed inefficiencies in the public sector procurement system, particularly in the procurement of PPE. The United Nations Convention against Corruption noted that the pandemic created opportunities for corruption and maladministration in public procurement, a significant challenge for South Africa [29].

The South African economy, already in recession before the pandemic, suffered further setbacks. Moody's downgraded the country's credit rating to junk status, reflecting concerns about the government's ability to repay its debts. In response to the pandemic, the government introduced a R500 billion economic stimulus package, which included measures like the COVID-19 Loan Guarantee Scheme and social relief grants [31].

However, the pandemic strained national and local government finances, causing a significant decline in revenue collection. The government had to borrow from the IMF and other international lenders to finance these expenditures [31]. Auditor-General reports highlighted severe financial mismanagement and corruption, with local governments experiencing unauthorized, irregular, fruitless, and wasteful expenditures totaling R230 billion in 2019/20 [32].

The recent violent protests in Gauteng and KwaZulu-Natal further exacerbated financial and political instability in the country, highlighting a collapse in national governance and oversight [33]. Corruption and maladministration have led to dysfunctional and financially distressed municipalities, particularly in the North West province [2].

Municipalities struggle with consumer debt collection, poor financial management, and non-compliance with SCM regulations, contributing to irregular expenditures [1]. The Auditor-General's 2019/20 report revealed that only 27 out of 257 municipalities received clean audits, indicating a significant deterioration in local government finances [1].

Municipal revenue is often overstated due to poor debt-collection practices, with only about 40% of the reported revenue being recoverable [8]. This dependency on national government transfers underscores the need for effective financial management at the local level. The Auditor-General's reports call for improved oversight, accountability, and consequence management to address these issues [1].

In conclusion, the South African local governments must implement legislation and sound financial management practices to restore good governance. Municipal managers should ensure ethical leadership, accountability, and consequence management to combat non-compliance and improve service delivery.

3.3. KEY STAKEHOLDERS AND MUNICIPAL FINANCIAL MANAGEMENT FUNCTIONS

Local municipalities in South Africa can significantly improve service delivery by prioritizing sound financial accountability [34]. Section 195 of the Constitution mandates efficient, economical, and effective resource utilization, emphasizing accountability in public administration [35]. Political office-bearers play a critical role in preventing and rectifying financial mismanagement [36]. Accountability is a core responsibility for public sector employees and is crucial for planning and implementing effective service delivery [18]. Public accountability requires officials to take responsibility for their actions, even when these actions are incorrect or unlawful [37]. The Auditor-General has highlighted the deteriorating state of municipal financial accountability and recommends a concerted effort towards achieving clean administration [34].

3.3.1. ACCOUNTABILITY ROLE OF THE MUNICIPAL MANAGER

Table 2 outlines the accountability role of municipal managers, summarising views from various sources on their performance responsibilities.

Table 2. Meta-analysis: Accountability role of the municipal manager.

Source	Definition
[35]	The municipal manager bears responsibility and accountability for various aspects of municipal financial management, including revenue generation, expenditure control, asset management, settling of liabilities, and ensuring compliance with the Municipal Finance Management Act.
[38]	The accounting officer is responsible for ensuring that the municipality establishes and maintains effective, efficient, and transparent financial and risk management systems , as well as robust internal control mechanisms.
[39]	The municipal manager reports to the Council for the oversight of municipal bank accounts.

The research concludes that municipal managers' key activities, namely, revenue generation, expenditure control, asset management, and compliance with the Municipal Finance Management Act, are vital for sound financial management.

3.3.2. ACCOUNTABILITY ROLE OF THE CFO

Table 3 shows research on various sections of legislation regarding the accountability role of municipal CFOs.

Table 3. Meta-analysis: Role of the CFO.

Source	Definition
[30]	The CFO is appointed by the municipal council and directly reports to the municipal manager, being accountable for financial management.
[31]	The CFO is permitted, in compliance with the MFMA, 2003, to assign any of the delegated responsibilities to a staff member working in the budget and treasury office.
[32]	The CFO is required to support the municipal manager in overseeing, coordinating, and monitoring the financial administration of the municipality.

Based on the literature, CFOs are legally responsible for segregating duties in the budget and treasury offices and assisting the municipal manager in financial oversight.

3.3.3 INTERNAL CONTROL UNIT

Oyelakin and Abdullahi [40] emphasize that municipalities must implement internal controls to ensure transparency and financial accountability despite the executive challenges in budget preparation and implementation.

Table 4. Meta-analysis: Internal control.

Source	Definition
[41]	The purpose of internal controls is to guarantee the accuracy and trustworthiness of financial and managerial reports, as well as to ensure adherence to relevant laws and regulations , ultimately enhancing the overall integrity of the institution.
[42]	It is necessary to have effective internal control measures to mitigate risk within a municipality.
[21]	In South Africa, the National Treasury is responsible for overseeing and regulating financial controls and the legislative framework.
[26]	Internal control plays a crucial role in ensuring that municipalities utilize their financial resources effectively and has a significant impact on enhancing accountability within the organization.

The literature identifies internal control as pivotal in municipal management, coordinating efficient financial resource allocation to ensure accurate reporting and compliance with laws and regulations.

3.3.4 ACCOUNTABILITY ROLE OF THE SUPPLY CHAIN OFFICER

Improper procurement practices in South Africa contribute to public sector losses, hindering service delivery and economic growth [43]. Ethics and transparency are crucial in SCM, as discussed in Table 3.6.

Table 5: Meta-analysis: Accountability role of the supply chain officer.

Source	Definition
[43]	The supply chain is a network chain that integrates forward and backward logistics and feedback information flows. This facilitates the flow of raw materials, the manufacturing of products, and the exchange of information throughout the system.

From the above, it can be deduced that accountability in municipal procurement hinges on ethical practices and regulatory compliance, which are crucial for transparency and providing credible feedback to end-user departments.

3.3.5. MPAC

The MPAC, mandated by the Municipal Structures Act of 1998 (section 79), provides vital political oversight in municipalities. Its aim is to assist the council in holding the administration accountable and ensuring efficient resource use. However,

despite recommendations from internal audits and MPACs, their effective oversight is hindered by non-implementation, as highlighted by the Auditor-General [44].

Table 6. Meta-analysis: MPAC.

Source	Definition
[34]	MPACs were instituted in accordance with the prescripts of the Public Financial Management Act, MFMA and other relevant policies and regulations to conduct oversight functions over the executives.
[45]	<p>The functions of MPACs:</p> <ul style="list-style-type: none"> • Review the financial statements of all executive branches in municipal councils. • Scrutinise any audit reports associated with these statements. • Evaluate reports issued by the Auditor-General regarding the affairs of any municipal entity. • Review annual reports on behalf of the municipal council.

The MPAC oversees the executive, reviewing financial statements and auditing reports issued by the Auditor-General, as highlighted in the literature.

3.3.6. ETHICAL ROLE OF COUNCILLORS

The primary challenge in South African local government is the absence of ethical leadership [46]. Political interference hampers municipalities' ability to fulfill duties, adversely affecting corporate governance [17]. According to the MFMA, municipal councils must manage finances in alignment with constitutional goals [35]. The King IV Report recognizes councils as municipal governance bodies [16]. Table 7 examines various authors' views on the ethical roles of councillors.

Table 7. Meta-analysis: Ethical role of councillors.

Source	Definition
[37]	A municipal council has the authority to grant approval for capital projects.
[19]	According to the Municipal Finance Management Act of 2003, the role of the political executive primarily involves approving the budget, monitoring the execution of the budget, and assessing the municipality's performance.
[16]	The municipal council bears the primary responsibility for recognizing, preventing, and resolving any instances of financial distress within the municipality as they occur.

Literature reviews highlight that councils hold the authority to approve budgets and capital projects. They ensure financial stability by continuously monitoring budget implementation, allowing for effective oversight of municipal financial performance.

3.4. LEGISLATIVE FRAMEWORK GUIDING MUNICIPAL FINANCIAL MANAGEMENT

The South African government is mandated to uphold robust SCM regulations to foster socio-economic progress and ensure ethical public procurement [47]. This framework aims to adhere to global quality standards while reforming procurement policies across all government levels [48]. Sibanda [49] emphasizes the pivotal role of tender processes in South African government procurement, which are crucial for ensuring financial viability and effective public expenditure [50].

Legislation such as the Public Finance Management Act of 1999 and section 217 of the Constitution underpin these efforts, requiring fair, transparent, and cost-effective procurement practices [47]. These principles are foundational to combatting corruption and inefficiencies in local government [14,51].

Historically, South Africa's procurement policies were discriminatory, but reforms, such as the Country Procurement Assessment Report from 2003 onward, have aimed to improve transparency and efficiency [52]. The Department of Cooperative Governance and Traditional Affairs, established in 2008, plays a critical role in policy development and monitoring implementation across provincial and local governments [53].

3.5. CONSTITUTION

In South Africa, municipal financial management is governed by stringent laws promoting transparency and accountability [21]. Despite these legal frameworks, the Auditor-General notes that only a few municipalities achieve clean audit reports

each year [34]. The 1996 Constitution of South Africa sets out principles of democratic governance, emphasizing accountability and transparency in public administration.

Table 8. Meta-analysis: Constitution.

Source	Definition
[37]	Section 1 of the Constitution serves as the foundational cornerstone for the principles guiding the municipalities . These principles aim to foster compliance, accountability, and transparency .
[16]	The Constitution must be applied in conjunction with the relevant legislative framework , which encompasses aspects such as local government legislation, corporative governance principles, and community engagement .
[38]	The Constitution empowers municipalities to establish robust governance and effective financial management . As a result, it provides the foundation for legislation that governs and oversees municipal finances .

Studies on municipal finance highlight the Constitution as pivotal for regulating municipal principles and legislation, ensuring effective financial management.

3.6. MFMA

The national government has enacted extensive legislation, including the MFMA (No 56 of 2003), to regulate municipal financial management. This Act outlines procedures for budgeting, revenue management, and asset oversight. Assessing municipal financial management evaluates progress in MFMA implementation [19].

Table 9. Meta-analysis: MFMA.

Source	Definition
[39]	The Act establishes norms and standards for financial management that prioritize transparency and accountability . It also delineates clear lines of responsibility for reporting regarding financial management and related issues.
[37]	The core objective of the MFMA is to modernise budgeting, accounting, and financial management practices with the purpose of establishing a sustainable financial foundation for local government .
[19]	In response to the deteriorating state of financial affairs in local government, the government introduced a comprehensive legislative and regulatory framework to provide guidance and control over municipal finances . As a result, the MFMA consolidates the essential financial management functions into a single piece of legislation .

The MFMA establishes norms and standards for financial management across various sectors, prioritizing transparency, accountability, and clear reporting hierarchies within municipalities. It consolidates key financial functions into a single legislative framework.

3.7. THE INTERRELATIONSHIPS BETWEEN STRATEGIC MANAGEMENT, FINANCIAL MANAGEMENT AND THE MUNICIPAL FINANCIAL MANAGEMENT PRACTICE

Financial management reforms globally aim to enhance public sector efficiency, transparency, and accountability. These reforms have fostered increased collaboration between municipalities and the private sector, necessitating robust accounting tools for comprehensive financial data [19,54]. Local governments in South Africa play a crucial role in daily service provision and are constitutionally mandated to drive economic and social development within their jurisdictions [19]. Effective public budgeting and financial management rely heavily on budgetary reports and financial statements while increasingly adopting new public management principles from the business sector [55,56]. Public financial management ensures the prudent use of public funds, influencing community well-being through policies that require financial disclosure, internal control, strategic planning, and performance management [26,57].

3.7.1. MUNICIPAL STRATEGIC PLANNING

Strategic management enhances public managers' competencies in decision-making and service delivery [58]. It integrates planning and goal execution to achieve organizational missions, mandates, and public value [59].

- **IDP**

The IDP, or term-of-office plan, outlines the municipal council's objectives for a five-year term. It guides the Medium-term revenue and expenditure framework, detailing service delivery goals within financial constraints [60].

- **SDBIP**

The SDBIP includes quarterly and monthly performance targets, assessing their alignment with achieved results. It covers financial and non-financial data, like timeframes and performance indicators, monitored by the municipal council and National/Provincial Treasuries [60].

3.7.2. MUNICIPAL BUDGETS

Historically, many municipalities have lacked robust budgeting, accounting, credit control, and financial reporting systems, hindering effective spending planning, expense record-keeping, debt management, and expenditure tracking [19]. Public budgeting mechanisms elucidate key concepts like budget cycles, formats, and performance enhancement strategies [17,61]. Transparent budgeting frameworks, as advocated by Jovanović and Vašiček [56], are crucial for public sector governance. Municipalities are mandated to operate within approved budgets, ensuring allocations align with public priorities and citizen input [39,62].

3.7.3. MUNICIPAL REVENUE MANAGEMENT

Revenue management includes invoicing, billing, debt collection, and oversight of cash and investments, which are crucial for municipal financial sustainability [19]. Zweni *et al.* [17] emphasize the link between budget management and municipal financial efficiency.

Table 10. Meta-analysis: Municipal revenue management.

Source	Definition
[63]	Local governments consistently spend more than they generate in revenue, and the deficit is typically covered by the central government through transfers.
[19]	Any adverse factors that impact revenue collection can significantly shape the financial stability of municipalities.

The literature shows revenue collection strategies are crucial for municipal financial stability. Many municipalities often rely on central government grants to cover deficits.

3.7.4 EXPENDITURE MANAGEMENT

Municipalities grapple with financial misappropriation, notably irregular expenditures, and staggering outstanding debts of R73 billion in the 2016/17 fiscal year [19,33].

Table 11. Meta-analysis: Expenditure management.

Source	Definition
[31]	<p>Types of expenditures:</p> <ul style="list-style-type: none"> • Unauthorised expenditure means overspending of the departmental budget, or if the expenditure does not relate to the purpose of the project. • Irregular expenditure is an expenditure that is not in accordance with relative legislation and regulations. • Fruitless expenditure and wasteful expenditure are ineffective activities that make no contribution to public benefit. • Projects not successfully completed. • Accounting officers can be held responsible and found guilty of financial misconduct. • Expenditure that was made in vain and could have been avoided if reasonable care had been taken.

Studies on municipal expenditure management indicate that municipalities incur non-project-related expenditures, which serve as a significant indicator of financial distress. Such expenditures contribute to adverse audit outcomes due to non-compliance with legislation and regulations.

3.7.5. FINANCIAL STATEMENTS AND REPORTING

Financial reporting enhances public understanding of fund utilization, influencing citizen willingness to pay rates [64]. Local government accounting differs from private sector practices [24,65]. Accrual accounting and high-quality financial reports improve public service quality [20]. However, operational and managerial deficiencies undermine the credibility of local government financial reports [66,67].

3.7.6. CONSEQUENCE MANAGEMENT

The national clean audit task team, led by the Hawks, addresses financial mismanagement in municipalities and oversees tender awards for improved service delivery [34].

Table 12. Meta-analysis: Consequence management.

Source	Definition
[21]	<p>Consequence management process:</p> <p>If the municipal official is implicated in the allegations of financial misconduct, it is mandatory to report such cases to the mayor and municipal manager.</p> <p>Once the preliminary investigation has been completed, the Municipal Finance Management Act mandates a municipality to report instances of financial misconduct that qualify as criminal offenses to the South African Police Services.</p> <p>The Municipal Manager can be held liable for financial misconduct if found guilty of committing an action that resulted in the municipality incurring unauthorized, irregular, fruitless and wasteful expenditures.</p>

Recent literature reviews on implementing consequence management for mismanagement and corruption in municipal financial affairs highlight the potential for criminal proceedings or disciplinary actions by the Financial Misconduct Board.

3.7.7. CHALLENGES OF MUNICIPAL FINANCIAL MANAGEMENT

Section 139 of the Constitution allows provincial governments to intervene in municipalities facing instability due to political interference, management deficiencies, and financial instability [35]. This often results in municipalities lacking sufficient revenue to meet statutory obligations [17,67].

Table 13. Meta-analysis: Challenges of municipal financial management.

Source	Definition
[46]	Nepotism, money laundering, and political interference with the tendering process within local government institutions have caused significant frustration among community members, leading to public demonstrations and protests.
[18]	A significant number of municipalities have been grappling with issues such as inadequate financial management, deficiencies in SCM, limited capacity, and an absence of medium- and long-term planning to meet residents' needs.
[16]	Certain causes of financial distress are not within the municipality's jurisdiction, but rather fall under the control of Parliament.
[19]	Persistent financial mismanagement has exerted substantial strain on the cash flow of numerous municipalities.
[46]	South Africa's 257 municipalities find themselves in a dire financial situation, with unethical leadership at the heart of the challenges.

The issues encompass delays in revenue processing, slow fund deposits, billing delays, inaccurate invoices, weak collection efforts, lax enforcement, inadequate training, poor controls, non-payment, ineffective credit control, weak indigent management, lacking revenue strategies, and rural tax base exclusion.

4. RESEARCH OBJECTIVES

To address the research problem and respond to the research questions, this study aims to accomplish the following objectives:

4.1 PRIMARY OBJECTIVE

To investigate and identify the strategic financial management attributes that will enhance the advancement of financial management within municipalities.

4.2 SECONDARY OBJECTIVES

These comprehensive secondary objectives will serve as a guiding framework for addressing the research questions. Kampi [68] purports that “these research objectives are not a re-statement of the research questions but relatively unfold the research problem”. Appendix A contains the list of interview questions that were posed to the selected targeted population to generate a deeper understanding of the research problem.

- **Secondary objective 1:** To assess the level of compliance with the credit control policy.
- **Secondary objective 2:** To ascertain the key substantive factors that lead to unauthorized, irregular, fruitless and wasteful expenditure.
- **Secondary objective 3:** To assess the extent to which the selected local municipalities comply with the supply chain policy.

5. RESEARCH METHODOLOGY

For this study, the most appropriate research design was the case study method, which provided a comprehensive overview of the research problem and facilitated a structured data collection procedure [69].

5.1. DATA COLLECTION AND RESEARCH INSTRUMENT

This study gathered information from both primary and secondary data sources. Primary data was collected through semi-structured interviews, while secondary data was collected by reviewing literature from various sources, including:

- Government statistical publications
- Publicly accessible websites
- Open access journals
- Newspapers and magazines

The study objectives guide the selection of a qualitative approach to address the research questions.

Table 1. The research process model employed in this study.

Research paradigm	Research design	Research approach	Target population	Sampling techniques
Pragmatism	Case study method	Qualitative approach	<p>1st target group: CFOs</p> <p>2nd target group: debt collection officers</p> <p>3rd target group: SCM officials</p> <p>4th target group: Internal audit function</p>	<p>1st target group: purposive sampling (semi-structured interviews)</p> <p>2nd target group: purposive sampling (semi-structured interviews)</p> <p>3rd target group: purposive sampling (semi-structured interviews)</p> <p>4th target group: purposive sampling (semi-structured interviews)</p>

5.2. TARGET POPULATION AND SAMPLING

The current study sampled four target population groups using a purposive sampling method to identify potential participants. This approach enabled the researcher to approach individuals and conduct open-ended individual interviews [70].

- The first target population comprises CFOs.

- The second target population comprises debtor managers.
- The third target population comprises supply chain managers.
- The fourth target population comprises internal audit managers.

Table 14. Sample size per municipality.

NMMD municipalities	CFOs	Debt collection officers	SCM officers	Internal audit	Total
Ditsobotla	1	1	1	1	3
Mafikeng	1	1	1	1	3
Ramotshere	1	1	1	1	3
Total sample size	3	3	3	3	12

5.3. DATA ANALYSIS

All interviews were recorded and transcribed, with the resultant transcripts sent to an independent analyst via email to aid in the analysis. Following data collection, the findings obtained from the semi-structured interviews were presented with the assistance of the NVivo 12 Pro software program, a qualitative data analysis computer software program developed by QSR International. Using NVivo 12 Pro, the study analyzed the audio recordings of interviewees, unstructured transcripts, images, videos, focus group discussions, mainstream media publications and journal articles [71].

6. RESULTS

Word Cloud Analysis

The word cloud is a graphical representation that displays up to 1,000 words in varying font sizes, where frequently occurring words from the interviews are shown in larger fonts. The words that were most frequently used include *management*, *systems*, *process*, *policy*, *plan*, *accounting*, *implementation*, *internal audit*, and *irregular expenditure*. Below is an explanation of each of the key terms:

6.1. MANAGEMENT

The word *management* within the word map identified several shortfalls that need to be addressed:

- **Poor Cash and Debt Management:** Inefficiencies lead to shortfalls in collections.
 - **Adherence to Ethical Standards:** Management activities must adhere to a code of ethical standards.
 - **Integrity, Accountability, and Transparency:** Management must act with integrity, accountability, and transparency.
 - **Political Interference:** Political interference often emerges during management processes.
 - **Lack of Capacity:** A lack of capacity results in governance failures, lack of accountability, and poor consequence management.
 - **Knowledge and Expertise:** Some management members lack the necessary knowledge and expertise.
 - **Working Capital Management:** Proper management of working capital is crucial for effective cash flow management.
- Addressing these shortfalls will enhance the attributes of financial management that promote better practices in municipalities.

6.2. SYSTEMS

The word *systems* also suggested several shortfalls that need to be addressed:

- **Oversight and Monitoring:** The Systems Act is responsible for the oversight and monitoring of implementation and enforcement, but gaps exist.
- **Internal Control and Audit Committees:** Effective internal control systems and functioning audit committees are crucial but often lacking.
- **Collection Policy:** Compliance with section 59 of the Systems Act requires an effective collection policy, which is not always implemented.
- **Revenue Collection Systems:** Municipalities lack effective revenue collection systems, and accounting officers often fail to ensure their proper function.
- **SCM Systems:** SCM systems must include a committee for competitive bidding, yet this process often lacks integrity.
- **Supply Chain Process Integrity:** Ensuring the integrity of the supply chain process remains a significant challenge.

Addressing these shortfalls will help mitigate the qualified audit outcomes observed in previous years. The word *systems* within the word map contribute to answering the research question regarding systems in place to address compliance with municipal regulations.

6.3. PROCESS

The word *process* within the word map revealed several shortfalls that need to be addressed:

- **Ethics and Honesty in Procurement:** There is a failure to implement and reinforce new standards of ethics and honesty in the procurement process.
- **Public Participation:** The annual public participation event is neglected, resulting in limited and ineffective community involvement.
- **Bid Adjudication Rules:** The bid adjudication process does not strictly adhere to established rules and procedures.
- **Oversight by CFO and Revenue Manager:** Inadequate oversight of procurement processes by the CFO, with insufficient assistance from the revenue manager, leads to poor accountability and efficiency.
- **Resource Acquisition:** Methods for acquiring necessary resources are not clearly specified or optimized.
- **Risk-Based Audit Plan:** The absence of a risk-based audit plan in procurement processes prevents the identification and mitigation of potential risks.
- **Compliance with Regulations:** There is a failure to ensure that procurement processes are fully compliant with treasury and procurement regulations.
- **Testing and Integrity of Processes:** Regular testing of the integrity of the supply chain process is neglected, resulting in unmet compliance and performance standards.
- **Compliance with SCM Policies:** Procurement processes do not consistently align with new SCM policies.

The process word map contributes to addressing the research question regarding the merits of ethics and honesty in the procurement process among municipal officers who are directly involved.

6.4. POLICIES

The word *policies* identified several shortfalls that need to be addressed:

- **Lengthy Policy Implementation:** The process of implementing policies effectively is not only time-consuming but also inefficient.
- **Compliance with Regulations:** Although policies comply with both SCM and procurement regulations, practical challenges and non-compliance issues persist.
- **Oversight and Monitoring:** There is inadequate oversight and monitoring of policy implementation and enforcement, especially concerning credit policies.

Addressing these shortfalls contributes to answering the research question relating to measures put in place to ensure that the supply chain policy is approved and fully implemented according to the council resolutions.

6.5. PLAN

The word *plan* within the word map indicated several shortfalls:

- **IDP and Service Delivery:** The IDP, which should guide the creation of service delivery and budget plans, is not effectively integrated or utilized, leading to insufficient community engagement in driving these plans.
- **Community and Internal Engagement:** A robust process for community engagement and internal budget discussions with various departments is lacking, resulting in poor alignment of planning and execution.
- **Commitment to Performance Reporting:** The administration is not sufficiently dedicated to performing and reporting on identified performance indicators.
- **Strategic and Operational Planning:** The strategic plan is poorly aligned with the annual operational plans and thus fails to effectively address the municipal overview and developmental objectives.
- **Risk-Based Audit and Budget Implementation:** There is inadequate incorporation of a risk-based approach into the budget implementation plan, and measurable outputs and performance indicators are not sufficiently established or monitored.
- **High-Level Risk Assessment and Strategic Goals:** A comprehensive high-level risk assessment is lacking, and the revision of strategic plans fails to effectively address and integrate the strategic goals and objectives of the municipality.

The word *plan* within the word map contributes to answering the research question about the strategic financial management objectives the municipality aspires to achieve during the current financial year.

6.6. IMPLEMENTATION

The word *implementation* within the word map identified several shortfalls that need to be addressed:

- **Treasury Guidelines:** Implementation of National Treasury guidelines on handling unauthorised, irregular, and wasteful expenditure is insufficient and not effectively enforced.
- **Equitable Treatment in Supply Chain Policy:** The supply chain policy does not ensure equitable treatment of all service providers and potential providers.

The *implementation* word map contributes to answering the research question related to the processes, ensuring that the budget is distributed according to the approved IDP and SDBIP.

6.7. ACCOUNTING

The word *accounting* within the word map highlighted several shortfalls that need to be addressed:

- **Financial Reporting Accuracy:** Accurate financial reporting and statements that comply with all applicable legal requirements and corporate governance standards are often not ensured.
- **Completeness of Financial Statements:** Expenditure disclosed in the annual financial statements is frequently incomplete and inaccurate. Financial statements are not prepared in accordance with Generally Recognised Accounting Practices, resulting in qualified audit opinions from the outset.
- **Accounting Staff Skills:** There is a significant lack of proper skills among accounting staff.

The *accounting* word map helps answer the research question regarding accountability for drafting and enforcing compliance with policies and procedures.

6.8. IRREGULAR EXPENDITURE

The word *irregular expenditure* within the word map identified several issues:

- **Ongoing Challenges with Expenditure:** Fruitless and wasteful expenditure continues to be a pervasive issue in municipalities.
- **Misrepresentation of Expenditure:** Irregular and fruitless expenditures often do not accurately reflect their true nature, potentially due to misrepresentation by bidders.
- **Need for Continuous Monitoring:** A lack of continuous monitoring and evaluation hampers effective management of expenditure issues.

The *irregular expenditure* word map contributes to answering the research question on implementing consequence management in relation to irregular, fruitless and wasteful expenditure.

6.9. INTERNAL AUDIT

The word *internal audit* within the word map identified several shortfalls that need to be addressed:

- **Internal Audit Policy:** The MFMA mandates the creation of an internal audit policy, but it has not been established or effectively implemented.
- **Functionality of Internal Audit Unit:** The municipality lacks a fully functional internal audit unit to support the scope, objectives, and findings of audit reviews.
- **Internal Control Systems:** Inadequate internal control systems fail to safeguard assets and ensure proper operation of municipal systems.
- **Integration of Procedures:** Internal audit procedures are not effectively integrated into the overall management framework of the municipality.

The *internal audit* word map contributes to answering the research question regarding the standing audit committee and its establishment according to the current internal audit policy.

7. CONCLUSIONS

The following conclusions can be drawn from the present study:

- The financial statements are not prepared according to the required standards of Generally Recognised Accounting Practices.
- The debt management unit sometimes deviates from implementing the debt collection and credit control policy, which negatively impacts liquidity and deters municipalities from paying their debt accounts on time.
- The financial department has failed to maintain sufficient cash flow to support its core operational activities, indicating that poor working capital management is the main reason for financial constraints in municipalities.
- Financial misappropriation leads to irregular, fruitless, and unauthorized expenditures.
- The SCM unit is grappling with political interference, influencing bid committees and manipulating existing regulations.
- Deficiencies in the implementation of consequence management are characterized by the unaccountability of senior

managers.

- Poor human resources stem from a lack of knowledge or disregard for legislation and processes by councilors and officials, along with a failure to appoint suitably qualified personnel to strategy positions.

8. RECOMMENDATIONS

Improving the management of municipalities in South Africa is crucial for enhancing service delivery and avoiding irregular, fruitless, and wasteful expenditure. Here are several suggestions for municipalities to achieve these goals:

8.1. EFFECTIVE LEADERSHIP AND GOVERNANCE

Municipalities must ensure that bid specification, evaluation, and adjudication committees are with individuals possessing the necessary technical, administrative, and financial skills. Distributing power among financial department officers helps protect against fraud, bias, and other acts leading to corruption, irregular, unauthorised, or wasteful expenditure. Municipalities must appoint capable and qualified leaders committed to public service and strong governance. Responsibilities and delegation of powers should align with governing policies and procedures to facilitate good governance.

8.2. TRANSPARENCY AND ACCOUNTABILITY

Municipal managers must take responsibility for consequence management, ensuring accountability and promoting transparency in the use of public resources. Strengthening municipal public account committees, disciplinary boards, and investigation processes will further enhance transparency and accountability in handling public funds.

8.3. FINANCIAL MANAGEMENT

Achieving municipal objectives requires a functional financial management system, an internal audit unit, internal control systems, and an effective audit committee. Regular audits should be conducted to identify and prevent irregular, fruitless, and wasteful expenditures.

8.4. REVENUE COLLECTION

The study suggests that credit control procedures, such as sending statements, notices of demand, written warnings, penalties for unpaid debts, and service disconnections, are essential for enforcing debt payments. Municipalities should introduce digital tools for billing and utilise modern technology to facilitate easier account payments for customers.

8.5. PROCUREMENT AND SCM

Procurement processes must be transparent and free from manipulation of SCM regulations. Procurement policies should be developed, adhered to, and monitored by the bid specification, evaluation, and adjudication committees.

8.6. CAPACITY BUILDING

There is a need to upskill human resources to understand and comply with legislative frameworks, minimising non-compliance with municipal policies. Training and capacity building for municipal employees are essential for improving their skills and knowledge in financial management.

8.7. SERVICE DELIVERY PLANNING

Comprehensive service delivery plans should align with municipal resources and community needs. Strategic plans should be developed to regularly assess the effectiveness of service delivery programs.

8.8. RISK MANAGEMENT

Municipalities should oversee the implementation of all policies and procedures, with dedicated risk management units identifying potential risks and developing strategies to mitigate them. An internal audit function should regularly assess financial and operational risks, and a post-audit action plan should address irregular and wasteful expenditures.

8.9. MONITORING AND EVALUATION

Constant monitoring and evaluation ensure that actions to prevent irregular, fruitless, and wasteful expenditures are promptly detected. Policies should be continuously updated to align with current regulations and changing processes in South Africa.

8.10. FEEDBACK MECHANISMS

Monthly feedback on financial performance and expenditure should be communicated to stakeholders. Quarterly feedback on operational performance should be provided, with actions taken if targets are not met as per the SDBIP.

8.11. PERFORMANCE AUDITING

Investigate the methods and criteria used to conduct performance audits in municipalities, including selecting audit targets

and performance measures. The roles of external audit agencies, internal audit teams, and citizen oversight should be examined in evaluating municipal management.

8.12. ZERO TOLERANCE FOR CORRUPTION (CONSEQUENCE MANAGEMENT)

Promote a culture of zero tolerance for corruption through compliance support, workshops, awareness campaigns, and appropriate consequences for wrongdoing. Legal proceedings should address financial misconduct, with disciplinary actions taken against those found guilty. Municipalities will continue to fail if consequence management is not implemented and enforced.

CONFLICT OF INTEREST

None.

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