

**THE NEGATIVE FACTORS THAT ARE AFFECTING SOUND FINANCIAL
MANAGEMENT PRACTICES AT GREATER LETABA LOCAL MUNICIPALITY
IN LIMPOPO PROVINCE**

By

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DECLARATION

“I declare that: THE NEGATIVE FACTORS THAT ARE AFFECTING SOUND FINANCIAL MANAGEMENT PRACTICES AT GREATER LETABA LOCAL MUNICIPALITY IN LIMPOPO PROVINCE is my own work, that all sources used or quoted have been indicated and acknowledged by means of complete references, and that this mini-dissertation was not previously submitted by me for a degree at another university”.

Matawane Hunadi Phokanoka

Date:

ABSTRACT

This study mainly focuses on the negative factors that are affecting sound financial practices in the Greater Letaba Local municipality. Greater Letaba municipality fails to achieve a clean audit opinion because of a number of negative factors that affect its sound financial management practices. The municipality partially adheres to financial management policies and legislation which underpin good financial management practices, for example the Auditor General South Africa's (AGSA) report reflects non-adherence to Supply Chain Management (SCM) regulations and also to GRAP standards.

These factors include poor record keeping, lack of accountability, none compliance to legislations and poor financial management activities and practices. Audit opinions are either regressing or remaining unchanged and a clean audit is still not achievable at this stage. The municipality's audit opinion did not change in the past two financial years. The audit opinion remained qualified.

The study employed a qualitative research approach whereby interviews were conducted with Letaba Municipal Officials that are directly involved in financial management practices to collect data. Data were also collected through review of relevant and current literature in the topic under investigation. One of the major findings of the study is that there are a number of vacancies in the critical positions such as in the finance department. The other finding is that the employees do not implement the sound management practices that they are trained for.

Therefore, this study recommends that strategies for effective financial management practices should be developed and implemented at Letaba Municipality. Furthermore it investigates the negative factors that are affecting sound financial management in the municipality.

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to the Almighty God and acknowledge that it was not by my power nor by my strength it was by the Spirit of the Lord that I was able to complete my studies.

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DEDICATION

I dedicate this study to my beloved children, Mapheme and Ofentse Phokanoka. You had been pillars of my strength. The support I received from my beloved sister Mosadiseleme and my niece Madimetja was overwhelming. You really gave me courage and I was able to press on and ran my race. I love you guys and may God bless you abundantly.

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ACRONYMS

MFMA	Municipal Finance Management Act
AGSA	Auditor General South Africa
AFS	Annual Financial Statement
PFMA	Public Finance Management Act
IDP	Integrated Development Plan
NT	National Treasury
PT	Provincial Treasury
COGTA	Cooperative Governance and Traditional Affairs
MBRR	Municipal Budget Reporting and Regulations
MTREF	Medium Term Revenue Expenditure Framework
SDBIP	Service Delivery Budget Implementation Plan
MM	Municipal Manager
CFO	Chief Financial Officer
IMFO	Institute for Municipal Finance Officer
MPAC	Municipal Public Accounts Committee
SALGA	South African Local Government Association
SCM	Supply Chain Management
UIF	Unauthorised Irregular Fruitless
GRAP	Generally Recognised Accounting Practice

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CHAPTER 1

1. BACKGROUND AND OVERVIEW OF THE STUDY

1.1 INTRODUCTION

Chapter 1 introduces the study on factors negatively affecting sound financial practices in Greater Letaba Local Municipality. The Constitution of South Africa (1996) established a three-sphere system of government. Local Government was established as a separate sphere and given primary responsibilities for service delivery. The municipality must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community (South African Constitution, 1996).

Sound financial management practices are essential to the long-term sustainability of municipalities (Johnsen, Meklin, Oulasvirta & Vakkuri, 2001). Weak or opaque financial management results in the misdirection of resources and increases the risk of corruption. The key objective of the Municipal Finance Management Act (MFMA) (2003) is to modernise municipal financial management in South Africa so as to lie a sound financial base for the sustainable delivery of services.

Since 2008, National Treasury has been giving specific attention to strengthening municipal budgeting and reporting practices. Key initiatives have been the introduction of the Municipal Budget and Reporting Regulations in 2009, the enforcement of in-year financial reporting processes and firmer management of conditional grants in accordance with the annual Division of Revenue Act. These reforms have been supported by strengthening the National Treasury's local government database and by publishing an increasing range of local government financial information on the National Treasury's website.

The chapter gives a background to the study, the problem statement and the objectives of the study, research questions, research methodology, ethical considerations and the outline of the chapters.

1.2 STUDY AREA

South Africa has 9 provinces and Greater Letaba municipality is situated in the Limpopo Province. The municipality is one of the five local municipalities that falls under Mopani District. Greater Letaba Municipality is a summer rainfall area with temperatures that are 3-4 degrees Celsius lower than Tzaneen which is about 17km away.

The largest rainfall in the area was in the year 2000 when about 3,200 mm of rain was measured. Greater Letaba Municipality has a very low risk of malaria during summer as the place cools down in temperatures at night.

The area is adorned with naturally evergreen mountains and forests which are appealing to tourists. Greater Letaba Local Municipality is characterised by contrasts such as varied topography, population densities (low in the south, relatively dense in the north-east), and prolific vegetation in the south (timber) and sparse vegetation in the north (Bushveld). The availability of natural resources such as dams, tourist attractions, nature reserves and proximity to intensive economic activities creates opportunities for economic spin-offs.

The 'gates' to the municipal area are considered to be Sekgopo in the west, Modjadjiskloof (previously Duiwelskloof) in the south, Mamaila Kolobetona in the north and Makgakgapatse in the east. There are 130 rural villages within the municipal area.



Figure 1.1. The map of Greater Letaba municipality (www.municipalities.co.za)

1.3 MOTIVATION/ RATIONALE

The role of the Provincial Treasury is to monitor and support the municipalities on financial matters. According to MFMA's section 71, the accounting officer of a municipality must, by no later than 10 working days after the end of each month, submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget. After the municipality has submitted the section 71 reports, Provincial Treasury (PT) scrutinise and assess the submission of the section 71 report on a quarterly basis and send the assessment to the office of the Chief Financial Officer. While monitoring and supporting the municipality, the researcher was interested and wanted to understand their financial management process and also to close the knowledge gap.

1.4 SIGNIFICANCE OF THE RESEARCH

The study will benefit different stakeholders. Researchers will benefit from the study as it might lead to further research topics. Policy makers will be able to develop and review the policies in relation to financial management. The municipality itself will get insight into the

factors that negatively affect their endeavour to achieve sound financial management practices. They can also gain knowledge that can assist them in developing various strategies for effective financial management. The community members as well will be able to understand the financial status of the municipality

1.5 PROBLEM STATEMENT

The problem or question is defined as the axis around which the whole research effort revolves. The statement of the problem must first be expressed with the utmost precision, it should then be divided into more manageable sub problems. Such an approach clarifies the goals and directions of the entire research effort (Leedy, 2010). Municipalities are facing challenges in administration and financial management. According to the Auditor General Report (2015), Greater Letaba Local Municipality obtained a qualified audit report on the basis of the following opinions:

- Irregular expenditure: The municipality did not investigate and evaluate the full extent of the irregular expenditure that was incurred in 2014 financial year. Auditor General South Africa (AGSA) was unable to determine whether any adjustment to the opening balance of irregular expenditure as disclosed in the Audited Financial Statement (AFS) was necessary as it was impractical to do so.
- The material impairment as disclosed in the AFS, to the amount of R 82 579 280 on consumer debtors were incurred as a result of poor collection practices.
- The material losses as disclosed in the AFS to the amount of R 3 208 869 on electricity distribution losses were incurred as a result of illegal connections, faulty meters, incorrect meter readings and other sundry distribution losses.
- The authorised expenditure amounting to R 42 261 407 due to the votes being overspent.

1.6 AIM OF THE STUDY

To investigate the negative factors that are affecting sound financial practices in Greater Letaba Municipality in Limpopo.

1.7 OBJECTIVES OF THE STUDY

- To investigate the status of financial management of Greater Letaba Municipality.
- To determine adherence to financial management policies and legislation.
- To develop financial management strategies for effective practices.

1.8 RESEARCH QUESTIONS

The main research question is framed as follows:

- What are the negative factors that are affecting sound financial practices in Greater Letaba municipality?

The subsequent research questions are as follows:

- What is the financial status of Greater Letaba Municipality?
- How does Greater Letaba Municipality adhere to financial management policies and legislation?
- What strategies can be developed for effective financial practices in municipalities?

1.9 OUTLINE OF RESEARCH REPORT

The summary of the research report will be as follows:

Chapter One: Introduction of the Research

This chapter includes, among others, background, statement of the problem, significance of the research, aim of the research, objectives of the research, hypotheses and definition of key concepts.

Chapter Two: Literature Review

This chapter reviewed relevant and recent literature that gives conceptual references and foundations. The researcher also dwelled much on the legislative framework relevant to the study.

Chapter Three: Research Methodology

This chapter comprises the methodology which addresses among others, research design, population, sample, data collection and analysis. Different designs were fully discussed in this chapter.

Chapter Four: Data presentation, Analysis and Interpretation

This chapter dealt with the presentation of the research findings. The researcher analysed and interpreted data that were collected through the interviews. The data was categorised according to the emerging themes, patterns and critical events were identified.

Chapter Five: Summary, recommendations and conclusions

This chapter concluded the research report and provides recommendations. The final report was written in an objective style. The conclusions related to the findings of the research questions, the concepts, theories, and the previous research in the discipline.

1.10 CONCLUSION

Chapter one outlined the introduction of the research study and the brief background of the study. The researcher enclosed the problem statement, aim, objectives and the significance of the study. The research questions were outlined to provide guidance for research process and also definitions of some key concepts. Chapter 2 will therefore focus on the literature review.

Chapter 2

2. LITERATURE REVIEW

2.1 INTRODUCTION

A refined literature review is the foundation and inspiration for a useful research (Boote and Beile, 2005). The literature has given a short shrift to the dissertation literature review. According to Shim and Siegal (2008), financial management is defined as a process of planning decisions in order to maximise the owner's wealth. Financial managers have a major role in cash management, in the acquisition of funds and in all aspects of raising and allocating financial capital, taking into account the trade-off between risk and return.

The key objective of the Municipal Finance Management Act (2003) is the modernisation of financial management in municipalities and their entities by ensuring that the budgeting and financial management practices are in line with the prescribed reforms by placing local government finances on a sustainable footing; and also to put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the mayor, executive and non-executive councillors and officials.

Municipal financial management involves managing planning and budgeting revenue, cash and expenditure management, procurement, asset management, reporting and oversight. These components contribute to ensuring that expenditure is developmental, effective and efficient and that municipalities can be held accountable.

According to MFMA, there are five underlying principles of sound financial management which are reflected as follows:

- i. Modernisation of financial management;
- ii. Promoting sustainability;
- iii. Promoting cooperative government;
- iv. A more strategic approach to budgeting and financial management;
- v. Promoting financial governance by clarifying roles and responsibilities.

2.2. LEGISLATIVE FRAMEWORK

2.2.1 The Constitution of the Republic of South Africa (Act 108 of 1996)

The Constitution is the supreme law of the country of South Africa. The main aim of it is to provide guidance on the legal foundation for the existence of the Republic, defines the rights and duties of the citizens, and also the structure of the government.

According to chapter 7 (155) (1) of the constitution of South Africa, municipalities are established in three categories: Category A is the municipality that has exclusive municipal executive and legislative authority in its area. The municipalities that fall under this category are the metropolitan cities. The second category is category B, these are the municipalities that share the municipal executive and legislative authority in its area with a category C municipality within which area it falls. The municipalities that fall under this categories are the local municipalities. Every local municipality is part of the district municipality with which it shares functions. The last category is category C and these are the district municipalities which have municipal executive and legislative authority in an area that includes more than one municipality. There are 257 municipalities in South Africa that forms part of the three categories.

2.2.2 White Paper on Local Government

Apartheid had played a role in damaging the spatial, social and economic environments in which the citizens of South Africa lives, work and raise children. Local government must promote the Bill of Rights (1996) which shows the values of the nation about their human dignity, equality and freedom. The White Paper on Local Government puts forward an approach to municipal transformation. Therefore, the role of the Provincial Government is clearly defined in the White Paper. The Provincial governments play a role in monitoring and supporting the municipalities on their financial status. Provincial Governments also provide a critical role and assure sound financial management capacity of municipalities and when necessary they intervene to ensure financial viability (White Paper on Local Government, 1988).

In terms of section 139 of the constitution, the Provincial government has the power to intervene when the municipality does not fulfil an executive obligation in terms of the legislation.

2.2.3 Municipal Structures Act

The Municipal Structures Act provides the establishment of the municipalities with requirements relating to categories and types of municipalities in order to establish the relevant criteria for determining the category of the municipality (Municipal Structures Act 117 of 1998).

2.2.4 PFMA (Public Finance Management Act)

According to PFMA no.1 of 1999 (Public Finance Management Act), the aim of the act is to regulate financial management in the national and provincial government in order to ensure that all revenue, expenditure, assets and liabilities of those governments are managed effectively and efficiently.

2.2.5 Municipal System Act

A municipality is an organ of state within the local government sphere which exercises legislative and executive authority within an area determined in terms of the Local Government: Municipal Demarcation Act, 1988 (Municipal System Act 32 of 2000).

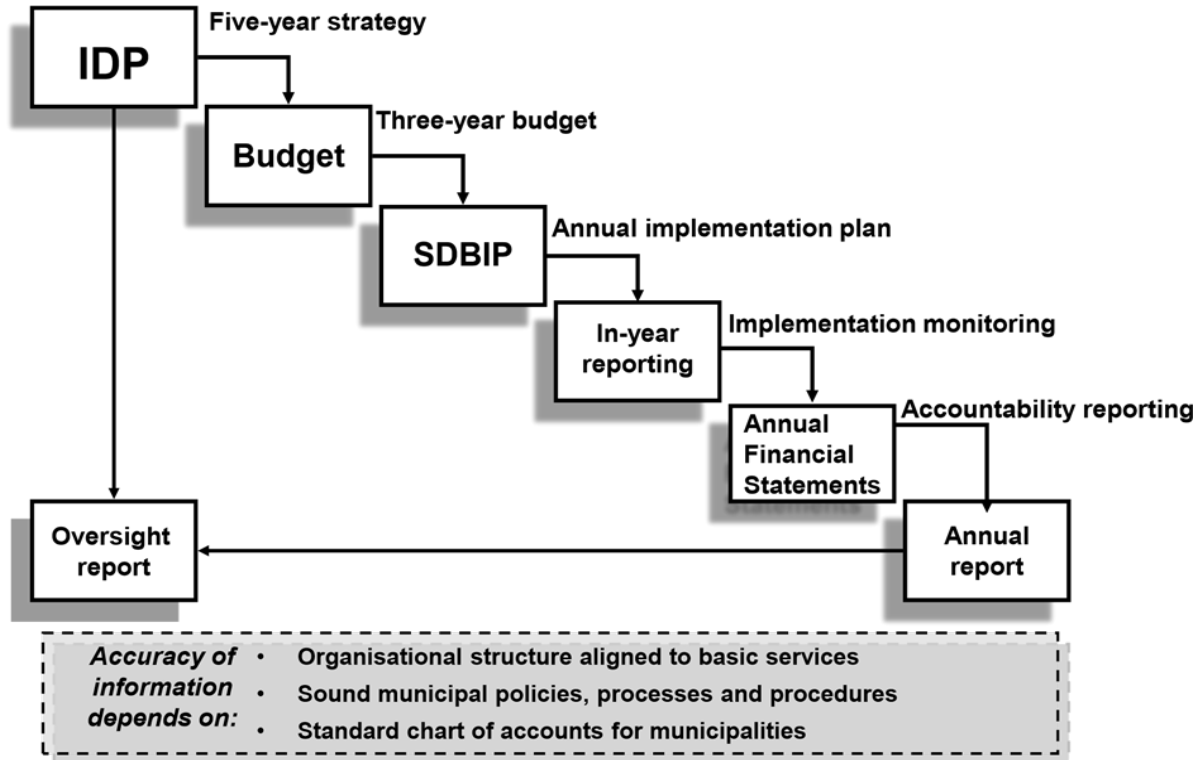
2.2.6 Municipal Finance Management Act (MFMA) No.56 of 2003

The objective of the act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities together with municipal entities by establishing norms and standards.

The act is all about modernisation of financial management in municipalities and their entities, ensuring that budgeting and financial management practices are in line with the prescribed reforms by placing local government's finances on a sustainable footing. Also, put in place a sound financial governance framework by clarifying and separating the roles

and responsibilities of the mayor, executive and non-executive councillors and officials and also capacitation of municipalities to deliver on their service delivery mandate.

Figure 2.1 Municipal Accountability Cycle.



Source: Local Government budgets and expenditure review (2011)

2.3 Accountability

Arens (2005) reflects that accountability is linked to fiscal responsibilities of the municipalities. It is also noted that community representatives have different conception of accountability. Accountability refers to a point in which an individual is required or expected to justify his/her actions or decisions (Gottschalk, 2009).

2.3.1 Integrated Development Plan (IDP)

According to the Local Government Municipal Systems Act no 32 of 2000, it prescribes the IDP framework, process and core components with reference to the constitution and cooperative arrangements. Therefore, municipalities are required to comply with the legislative framework and other relevant guidelines and regulations issued by National

Treasury (NT), the Department of Cooperative Governance and Traditional Affairs (COGTA), and Provincial Treasury.

IDP is a five year strategic development plan which is developmental as it focuses on building communities socially and economically by providing free basic services and involving communities in municipal affairs through community participation. The IDP is at the core of the municipal service delivery and should be supported by a credible budget that will adequately fund the achievement of objectives committed to in the IDP. The strategic direction of the municipalities is set by the IDP. IDP is the principal strategic planning instrument that guides and informs all decisions relevant to municipal planning, management, development and service delivery to local communities (Chief Financial Officers Handbook- Municipalities Part III, 2011).

2.3.2 Municipal Budget

A Medium Term Revenue & Expenditure Framework (MTREF) must be compiled in a prescribed format according to MFMA (2003) and also in line with NT Circulars and Municipal Budget and Reporting Regulation (MBRR) and these will satisfy the conditions of compliance. However, the purpose of planning & budgeting extends to supporting service delivery by ensuring that the MTREF is aligned to the municipality's IDP. The purpose of planning and budgeting is to make available the necessary funding required to achieve performance objectives specified in municipality's IDP as prescribed by the Municipal Systems Act no 32 of 2000.

Section 16 (1-3) of MFMA (2003) deals with annual budget and clearly states that the council of the municipality must, for each financial year, approve an annual budget for the municipality before the start of the financial year. Subsection 2 states that in order for the municipality to comply with subsection 1, the mayor must table the annual budget at a council meeting at least 90 days before the start of the budget year. Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

Section 17 of MFMA (2003) details the contents of the annual budget and supporting documents. The annual budget of the municipality must be a schedule in the prescribed

format setting out realistically anticipated revenue for the budget year from each revenue source; appropriating expenditure for the budget year under the different votes of the municipality, setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year, setting out the estimated revenue and expenditure by vote for the current year, setting out the actual revenue and expenditure by vote for the financial year preceding the current year and a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed. Subsection 2 states that the annual budget must generally be divided into a capital and an operating budget in accordance with the international best practice, as may be prescribed.

Section 22 of MFMA (2003) deals with the publication of the annual budget which states that immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must, in accordance with Chapter 4 of the Municipal Systems Act, make public the annual budget and the documents referred to in section 17 (3) and invite the local community to submit representations in connection with the budget. The annual budget must be submitted in both printed and electronic formats to the NT and the relevant provincial treasury and in either format to any prescribed national or provincial organ of state and to other municipalities affected by the budget.

Section 24 of MFMA deals with the approval of annual budgets which states that the municipal council must, at least 30 days before the start of the budget year, consider approval of the annual budget. Subsection 2 states that an annual budget must be approved before the start of the budget year, the annual budget is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i) and must be approved together with the adoption of resolutions as may be necessary imposing any municipal tax for the budget year, setting any municipal tariffs for the budget year, approving measurable performance objectives for revenue from each source and for each vote in the budget, approving any changes to the municipality's integrated development plan and approving any changes to the municipality's budget-related policies. Subsection 3 states that the accounting officer of a municipality must submit the approved annual budget to the NT and the relevant provincial treasury.

2.3.3. Service Delivery Budget Implementation Plan (SDBIP)

Section 1 of the MFMA (2003) defines SDBIP as a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate projections for each month of revenue to be collected by source, and operational and capital expenditure by vote. It should also indicate the service delivery targets and performance indicators for each quarter and any other matters that may be prescribed. MFMA Circular no 13 provides guidance and assistance to municipalities in the preparation of SDBIP as required by MFMA. SDBIP gives effect to the IDP and budget of the municipality and will be possible if the IDP and budget are fully aligned with each other as required by the MFMA. The circular provides guidance and assistance to municipalities in the preparation of SDBIP.

2.3.4 In- Year Reporting

Section 71 of the MFMA covers the monthly budget statement which is used as a monitoring tool for the implementation of the budget. The accounting officer of a municipality must by no later than 10 working days after the end of the each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month; the actual revenue per revenue source; actual borrowings; actual expenditure per vote; actual capital expenditure per vote; the amount of any allocations received, the actual expenditure on those allocations, excluding expenditure on its share of the local government equitable share; and allocations exempted by the annual Division of Revenue Act from compliance with this paragraph.

The monthly budget statement in subsection 2 must include a projection of the relevant municipality's revenue and expenditure for the rest of the financial year and any revisions from initial projections and the prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87 (10). Subsection 3 states that the amounts reflected in the monthly budget statement must in each case be compared with the corresponding amounts budgeted for in the municipality's approved budget. The statement as send to the provincial treasury must be in the format of a signed document and in electronic format.

2.3.5 Annual Financial Statement (AFS)

Section 122 of the MFMA (2003) deals with the preparation of annual financial statements. Therefore, every municipality and every municipal entity must, for each financial year, prepare annual financial statements which fairly represents the state of the affairs of the municipality and municipal 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 disclose the information required in terms of sections 123, 124 and 125. Subsection 2-3 states that the municipality which has sole control of a municipal entity, or which has effective control within the meaning of the Municipal Systems Act no 32 of 2000 of a municipal entity which is a private company, must in addition to complying with subsection 1, prepare a consolidated annual financial statement incorporating the annual financial statements which must comply with any requirements as may be prescribed. Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91(1) (b) of the Public Finance Management Act no 29 of 1999.

Section 126 of the MFMA deals with the submission and auditing of annual financial statements. Subsection 1-5 clearly states that the accounting officer of a municipality must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor General for auditing and must in addition, in the case of a municipality referred to in section 122(2), prepare consolidated annual financial statements in terms of the section and, within three months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing. The accounting officer of a municipal entity must prepare the annual financial statements of the entity and within two months after the end of the financial year to which those statements relate, submit the statements to the parent municipality of the entity and the Auditor General for auditing.

The Auditor General must audit those financial statements and submit an audit report on those statements to the accounting officer of the municipality or entity within three months of the statements. If the Auditor- General is unable to complete an audit within three months

of receiving the financial statements from an accounting officer, the Auditor General must promptly submit a report outlining the reasons for the delay to the relevant municipality or municipal entity and to the relevant provincial legislature and Parliament. Once the Auditor General has submitted an audit report to the accounting officer, no person other than the Auditor General may alter the audit report or the financial statements to which the audit report relates.

2.3.6 Oversight reports on Annual Reports

Section 127(1-3) of MFMA deals with the submission and tabling of annual reports and states that the accounting officer of a municipal entity must, within six months after the end of a financial year, or on such earlier date as may be agreed between the entity and its parent municipality, submit the entity's annual report for that financial year to the municipal manager of the entity's parent municipality. The mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control. If the mayor is unable to table in the council the annual report of the municipality, or the annual report of any municipal entity under the municipality's sole or shared control, within seven months after the end of the financial year to which the reports relates, the mayor must promptly submit to the council a written explanation referred to in section 133 (1) (a) setting out the reasons for the delay, together with any components of the annual report , and submit to the council the outstanding annual report or the outstanding components of the annual report as soon as may be possible.

Subsection 5 requires that immediately after an annual report is tabled in the council in terms of subsection 2, the accounting officer of the municipality must in accordance with section 21A of the Municipal Systems Act (Act no 32 of 2000) make public the annual report and invite the local community to submit representations in connection with the annual report.

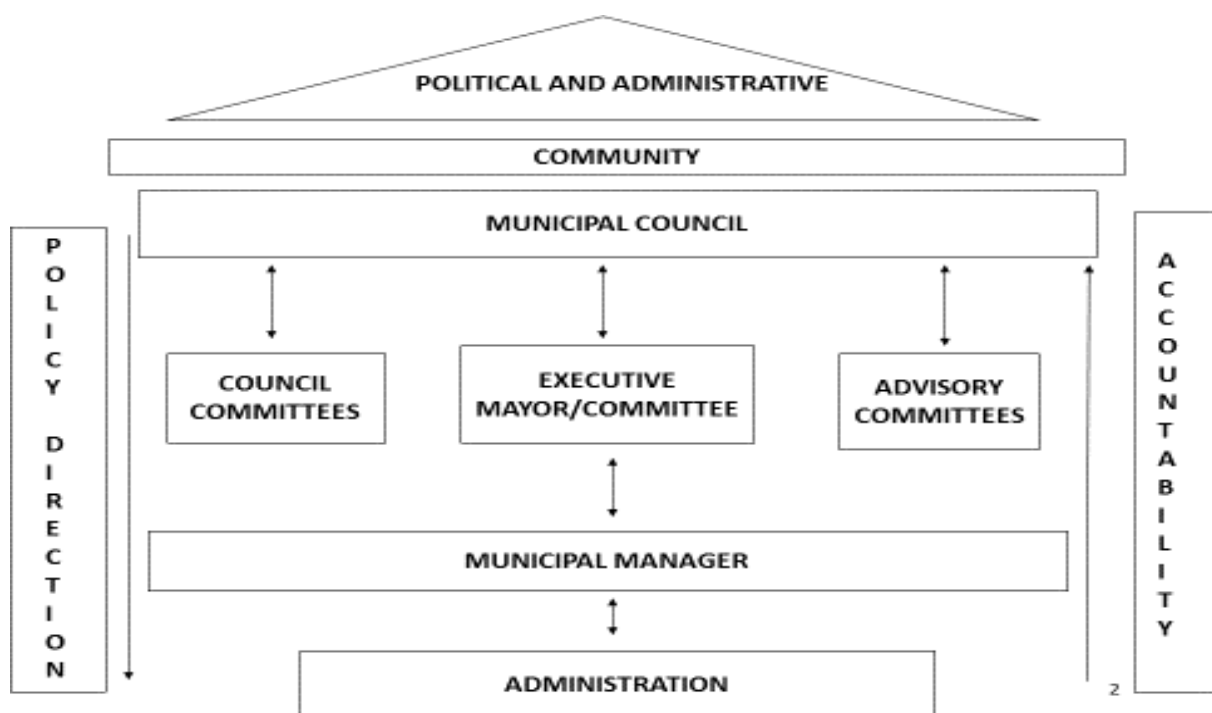
MFMA (Act no 56 of 2003) Circular 32 on oversight committee aims to provide councillors with the practical guidance in financial governance and to assist in maintaining oversight within the broader governance context. Therefore, this circular focuses on the oversight processes that councils must follow when considering the annual report and how to deal

with the oversight report by encouraging continuous improvement and promoting accounting to stakeholder.

According to MFMA Act No 32 (2003) an oversight report is required from all municipalities by the end of March every financial year. The council's comments on the annual report must include a statement whether the annual report must include a statement whether the council

- Approves the annual report with or without reservations;
- Rejects the annual reports;
- Refers the annual report back for revision.

Figure 2.2 Political and administration accountability



Source: Municipal Finance Management for Councillors (2006)

The diagram represents the oversight roles played by both the political and administrative in terms of accountability. The municipal council is elected by the community and it is accountable to the community. The municipal council is the policy maker and overseer of the whole municipality. The MFMA recognises the municipal council as the highest authority in the municipality. The council's power is strengthened by significant vested powers of approval and oversight.

The municipal council delegates its executive authority to the executive mayor or executive committee, but it retains its legislative powers and its power to approve policy and budgets and to exercise oversight over the mayor in the implementation of policy, budgets and by-laws.

The role of Council is to ensure that the Accounting Officer has an organisational structure in place within the Budget and Treasury Office to implement the reforms, to ensure that a performance management system is in place to measure and reward performance accordingly. Lastly, the council has to ensure that there is a Systems of Delegations in place to hold municipal officials responsible and accountable on their contracted and assigned responsibilities.

The municipal council distinguishes between councillors and non-executive councillors as explained below.

The financial management tasks that council is required to undertake so that it fulfils its oversight function include the following:

- Consider and approve the annual budget and ensure that the budget and IDP are aligned;
- Approve budget-related policies on relevant taxes, user charges, indigency policies, credit control and supply chain management;
- Consider the views of the community and government regarding the budget and establishment of municipal entities;
- Review the budget and performance of entities under council control according to the MFMA

Therefore, councillors can facilitate the consultative processes prescribed by both the MFMA and the Municipal Systems Act (act no 32 of 2000), particularly with regard to budgets, IDPs, budget-related policies, tariff-setting for services, indigent policies, long-term borrowing and contracts;

The Municipal Manager (MM) is part of the administration of the municipality, where all the section 56 directors report directly to him/her. The Municipal Manager reports directly to the

major. The municipal manager is appointed to lead in three different areas in a simultaneous way. Firstly, the position deals with the subordinates that are all the section 56 directors. Secondly, must be able to deal with any matters of the municipality that can go out to the news media, communicates to different provincial/national governments, and receiving any memoranda from the residents. Lastly, the MM must be accountable to the major and the council (Siegel, 2010). Therefore, the position of the MM needs a candidate who is competent and has some leadership skills. Council needs to ensure that appropriately competent officials are appointed in the structure of the municipality to discharge their financial managerial responsibilities. According to MFMA (83) (1), the accounting officer, senior managers, the chief financial officer and other financial officials of a municipality should meet the prescribed finance management competency levels.

According to MFMA, the responsibility of the mayor in promoting sound financial management are the following:

- Provide political guidance on the budget process;
- Co-ordinate the budget process with the municipal manager;
- Review IDP and budget-related policies and ensure consistency with the budget;
- Ensure that the municipality complies with the legislative deadlines for the tabling and approval of the municipal budget;
- Approve the service delivery and budget implementation plan within twenty-eight (28) days after the approval of the budget, and approve the performance agreements of the municipal manager and senior management.

2.4 Advisory Committees

In terms of section 216 (1) (c) of the constitution of Republic of South Africa (Act 108 of 1996), national legislation must prescribe measures to ensure both transparency and expenditure control, in all spheres of government by introducing uniform treasury norms and standards. Therefore, what good governance involves is how an organisation is managed, its strategies, policies, organisational culture and the way it deals with its stakeholders. The audit committee's role is to provide objectives, independent advice to improve oversight, governance, and to help mitigate the risks involving financial and non-financial matters.

According to MFMA section 166, it requires that every municipality and municipal entity must have an audit committee. The role of the audit committee is to advise the council, political office bearers, Municipal Manager (MM) and management of the municipality on matters relating to internal financial control, internal audit, risk management, accounting policies, the adequacy, reliability, accuracy of financial reporting, performance management, compliance with MFMA and any other legislation.

2.4.1 Council committees

According to Municipal Structures Act 117 of 1998 section 79, the municipal council has the right to establish one or more committees which will be there for the effective and efficient performance of its functions. The municipal council is able to appoint standing committees which can be elected from its members and may be dissolved it at any time. Usually these include a finance committee; service committees such as water, sanitation and electricity; human resources; and development committees. The councilors responsible for each department of government is sometimes called the Portfolio Head. So, for example, if someone has a problem with water service, such person can make contact with the head of the water portfolio.

Section 80 committees are provided to assist the executive committee or executive mayor. Subsection (1-4) indicates that if a municipality council has an executive committee or executive mayor, it may appoint, in terms of section 79, committees of councillors to assist the executive committee or executive mayor. Such committees may not in number exceed the number of members on the executive committee or mayoral committee. The executive committee or executive mayor appoints a chairperson for each committee from the executive committee or mayoral committee. The executive committee may delegate any powers and duties of the executive committee or executive mayor to the committees. Such a committee must report to the executive mayor/committee in accordance with the directions of the executive committee or executive mayor.

Municipal Structures Act 117 of 1998 deals with the establishment of the committees that must assist executive committees or executive mayor. Section 33 of the Act indicates that a municipality may establish a committee provided for in the Municipal Structure Act if the

municipality is a type that is empowered in terms of this Act to establish a committee of the desired kind. There may be a need for the delegation of some functions and powers in order to ensure efficiency and effectiveness in the performance and financial & administrative resources of the municipality.

MFMA section 129(1) details the oversight reports on annual reports and indicates that the council of the municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, by no later than two months from the date on which the annual report was tabled in the council in terms of section 127. They must adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council has approved the annual report with or without reservations, or if it has rejected the annual report or has referred the annual report back for revision of those components that can be revised.

According to section 129(2) of the MFMA, the accounting officer must attend council and council committee meetings where the annual report is discussed, for the purpose of responding to questions concerning the report and submit copies of the minutes of those meetings to the Auditor- General, the relevant provincial treasury and provincial department responsible for local government. Section 129(3) requires the accounting officer to make public an oversight report within seven days of its adoption.

In terms of section 129 (4) (a, b) of the MFMA, the National Treasury may issue guidelines on the matter in which municipal councils should consider annual reports and conduct public hearings; and the functioning and composition of any public hearings and the functioning and composition of any public accounts or oversight committees established by the council to assist it to consider an annual report.

Section 130 (MFMA) highlights the importance of the council meetings which must be open to the public and certain public officials. The meetings of a municipal council at which an annual report is to be discussed or at which decisions concerning an annual report are to be taken, must be open to the public and any organs of state, and a reasonable time must be allowed for the discussion of any written submissions received from the local community or organs of state on the annual report, and for members of the local community or any organs of state to address the council in terms of subsection (1) (a, b).

Section 131 (MFMA) details issues raised by the Auditor-General in audit reports. Subsection (1) indicates that a municipality must address any issues raised by the Auditor General in an audit report. The mayor of a municipality must ensure compliance by the municipality with this subsection.

Section 165 of the MFMA deals with internal audit units which clearly states that each municipality and municipal entity must have an internal audit unit. The internal audit unit of the municipality or municipal entity must prepare a risk-based audit plan and an internal audit programme for each financial year. This unit advises the accounting officer and reports to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the Act, the annual Division of Revenue Act and other applicable legislation. Therefore, the unit will perform such other duties as may be assigned to it by the accounting officer. Subsection 3 indicates that the internal audit function referred to in subsection 2 may be outsourced if the municipality or municipal entity requires assistance to develop the internal capacity if the council of the municipality or the board of directors of the entity has determined that this is feasible and cost effective.

2.4.2 Audit committee

The Audit committee is one of the structures that operates as a committee of the council. Section 165 and 166 of MFMA clearly defines the responsibility assigned to the audit committee and the corporate governance responsibilities delegated to it under the charter of the council. MFMA Circular no 65 defines the charter as the written terms of reference approved by the council which will outline the mandate of the audit committee. The contracts of the audit committee members are informed by the charter which then becomes the policy of the audit committee. The charter clearly outlines the procedures for the meetings that the audit committee members will hold, addresses the confidentiality and independence of committee members and also provides for ethical conduct and reporting. The charter must be reviewed annually and updated to ensure relevance and consistency with MFMA, Municipal Systems Act no 32 of 2000 and other legislations, guides and best practise.

The audit committee is responsible for the quality of financial reporting and oversight of the audit processes by reviewing the AFS and makes inputs before the AFS can be submitted to AG for audit (Beasley, Carcello, Hermanson and Neal, 2009).

IMFO: Official Journal of the Institute of Municipal Finance Officers (2004) indicates that governance is the means by which the direction and control are applied to stewardship of an organization's assets - tangible and intangible, financial and non-financial.

Audit committee members are the key contributors that can facilitate and improve corporate governance in local government. The audit committee is a legislated accountable body in local government (Van der Nest, Thornhill and De Jager, 2008).

The audit committee should be composed of members with knowledge, understanding and expertise in accounting or financial management and this will positively relate to the quality of financial reporting (Felo, Krishnamurthy and Solieri, 2003).

Section 166 of MFMA specifically deals with the audit committee and clearly states that each municipality and municipal entity must have an audit committee. An audit committee is an independent advisory body which must advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to internal financial control and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, effective governance, compliance with the Act, the annual Division of Revenue Act and any other applicable legislation.

The audit committee must review the annual financial statements in order to provide the council of the municipality or in the case of municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or the municipal entity, its efficiency and effectiveness and its overall level of compliance with the act, the annual Division of Revenue Act and any other applicable legislation.

The audit committee should also respond to the council on any issues raised by the Auditor General in the audit report and carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity and perform such other functions as may be prescribed.

For the audit committee to perform its function, the members have to access the financial records and other relevant information of the municipality or municipal entity and must liaise with the internal audit of the municipality and the person designated by the Auditor General to audit the financial statements of the municipality or municipal entity.

2.4.3 Municipal Public Accounts Committee (MPAC)

The MPAC was established in terms of section 33 and 79 of the municipal Structures Act (Act 117 of 1998) and it is there to perform an oversight role on behalf of the council and it should be noted that it is not a duplicate of other committees of council such as the finance committee or the audit committee. The core role of this committee is to play an oversight role by ensuring accountability and proper governance by means of evaluating performance of the municipality. The committee has the authority to investigate, amongst others, the annual report and AFS of the municipality and municipal entity.

The functions of the MPAC

The AG report (2012) reflects the following functions of the MPAC:

- To review the municipal and any municipal entity's annual report and develop the oversight report on the annual report.
- To report to the council on the activities of the committee.
- To consider audit committee recommendation referred to the council in respect of financial matters and to render an opinion on the recommendation.
- To examine the financial statements and audit reports of the municipality and municipal entities and in doing so, the committee must consider improvements from previous statements and reports and must evaluate the extent to which the audit committees and the AG's recommendations have been implemented.

- To review any proposal for improving efficiency, effectiveness and economy in the financial sphere of the organisation.
- To examine the quarterly or mid-year review documents.
- To recommend any investigation in its area of competence to the executive committee meeting and the council.

2.5 The Audit report of Greater Letaba Municipality in the past five financial years

According to the AG's report, the financial statements submitted for auditing must be free from material misstatements. Misstatements refer to incorrect or omitted information in the financial statements. Examples include the incorrect or incomplete classification of transactions, or incorrect values placed on assets, liabilities or financial obligations and commitments. The objective of an audit of financial statements is to express an audit opinion on whether the financial statements fairly present the financial position of auditees at financial year-end and the results of their operations for that financial year.

The different audit opinions are explained below:

- **CLEAN AUDIT OUTCOME:**

The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.

- **UNQUALIFIED AUDIT REPORT**

The financial statements contain no material misstatements. Unless the AG expresses a clean audit outcome, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.

- **QUALIFIED AUDIT OPINION:**

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for the audit to conclude that specific amounts included in the financial statements are not materially misstated.

- **ADVERSE AUDIT OPINION:**

The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

- **DISCLAIMER OF AUDIT OPINION:**

The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.

Apart from auditing the financial statements, the AG's other reporting responsibilities include auditing auditees' reporting on their predetermined objectives and auditing auditees' compliance with legislation. Legislation requires auditees to report against their predetermined objectives and to submit such annual performance reports for auditing. The objective of the AG's audit of predetermined objectives is to determine whether the reported performances against auditees' predetermined objectives in the annual performance report are useful and reliable in all material respects, based on predetermined criteria. This means that the reported performance information must be valid, accurate and complete.

Since the 2005-06 financial year, the AG has been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, the AG has included a separate audit conclusion, based on the results of the audit on predetermined objectives in management reports. However, these conclusions have not yet been elevated to the level of the audit report.

2.5.1 The audit of compliance with legislation

Legislation sets out the activities that auditees are charged with in serving the citizens and stipulates any limits or restrictions on such activities, the overall objectives to be achieved, and how due process rights of individual citizens are to be protected. Auditees are subject to legislation such as the Municipal Finance Management Act (no 56 of 2003) and the Municipal Systems Act (no 32 of 2000), of which the objectives are proper financial management and performance management, transparency, accountability, stewardship and good governance.

The Public Audit Act (no 25 of 2004) requires audit compliance with legislation applicable to financial matters, financial management and other related matters each year. Material instances of non-compliance are reported in the audit report. To enhance accountability, auditees must identify and fully disclose any unauthorised, irregular as well as fruitless and wasteful expenditure incurred. For the most part, such expenditure is incurred as a result of non-compliance with legislation.

The following audit opinion of the municipality is from the AG's audit report

Table 2.1 Audit opinions of Greater Letaba for 6 financial years

Financial Year	Audit Opinion
2010/11	Adverse
2011/12	Qualified
2012/13	Disclaimer
2013/14	Qualified
2014/15	Qualified
2015/16	Qualified

Source: Researcher's own observation from the data

2.6 The state of financial management practices in South African Municipalities

Amihud and Mendelson (1988) highlight that the liquidity of traded assets is an important factor which should be included in financial management theory. SALGA published a report

in 2007 which highlights the important issues regarding the capacity of the councillors and noting that there is inadequate legal support and further advice to council decision-making (Koma, 2010). According to Kanyane (2006), the weak leadership, including corporate governance, shortage of skills to implement financial management, legislation, appointment of directors without the appropriate qualifications, had weakened and downgraded the performance of municipalities. There are municipalities that have inadequate financial management capacity and this means that the budget, accounting practices, credit control and financial reporting systems are weak. Low capacity municipalities cannot account for the revenue collected (Nombembe, 2008). This is an indication that the Municipal Manager (MM) and the Chief Financial Officer (CFO) are unable to depict the inflow of transfers from government as indicated in the payment schedule and also there is no proof of where the amounts listed in the AFS originate from (Nombembe, 2008).

Municipalities are struggling to obtain clean audits reports when they are audited by the AG at the end of the financial years. In order for the municipalities to achieve a clean audit, a sound internal control environment should be realised. There are weaknesses pertaining to individual and institutional actions that affect the establishment of a sound internal control environment. It is therefore evident that suitable individual and institutional input requirements should be available for the sound internal control environment to be implemented. The 2015 report of the AG reflects that municipalities and entities that were able to obtain clean audit reports were mainly focusing on discipline and oversight in financial management. In simple terms it means these municipalities were adhering strictly to financial management laws and regulations. Political leadership was also active to scrutinise actions, as well as avoiding unauthorised expenditure, meaning the funds were spent according to the budget (Malefetsane, 2015).

MFMA section 18 and 19 relates to the budget funding, the realistic revenue, the spending of the accumulated funds and this spending must only happen if the funds are cash-backed and borrowed which must be only directed to capital expenditure. The municipalities in the past financial years were budgeting for unrealistic/uncollectable revenue. The MFMA Circular 42 issued in March 2007 details further guidance to municipalities and municipal entities on funding a municipal budget (Dollery and Graves, 2009).

Local government has three source of revenue namely, the external revenue, internally generated revenue and the loans. The budget and treasury sections in municipalities have a statutory responsibility to collect and control revenue. The challenges pertaining to local government in Nigeria ranges from institutional constraints to lack of adequate capacity to manage local administration. Ekweremada (2012) indicates that in Nigeria there is poor financial management which is derived from the creation of a joint account of the state and the local government as founded by section 162 (6) of the 1999 constitution. The state can spend and allocate according to its will to the local government. This is the main challenge of delivering public goods to the citizenry. Another challenge is that Nigerian local government council lacks technical and managerial capacity to deliver better service to the community (Nwosu and Okafor, 2013).

The high quality of financial management will give rise to best government programmes and activities. In order to facilitate the credibility of the public financial management, the government established the internal audit (IA) unit in many government departments, local governments and agencies. The IA was established as an internal control mechanism to look into financial management integrity. The AG in the annual report highlighted the irregularities in spending public money, and other weaknesses and irregularities were highlighted, The serious violations of financial management guidelines, poor planning of procurement, work performed not according to the original specifications, delays in project completion were identified which resulted in over costing and equipment procured at a higher price than the market value. Therefore, the role of IA is to ascertain whether the internal controls are in place by reviewing the policies in the organisation, in order to avoid financial loss. The audit services will help the organisation for the success of better financial management in public services and also to provide better governance in managing the public funds.

2.7 CONCLUSION

The chapter outlined a brief review of the current literature that is relevant to the research topic. The main purpose of the literature review is to review the literature on the subject matter. The chapter, amongst other topics, outlined the legislative framework, accountability cycle, the role of the advisory committees and the audit report of the municipality.

In order for the municipality to practice sound financial management, compliance to the MFMA, its circulars and all other related legislations should be adhered to. Proper reporting, accountability to both Treasuries and any other related government department should be implemented. The chapter outlined the key objective of the Municipal Finance Management Act (2003) which is to modernise financial management in municipalities and their entities by ensuring that the budgeting and financial management practices are in line with the prescribed reforms by placing local government finances on a sustainable footing.

The factors that negatively affect sound management practices according to AGSA report (2015) are as follows:

- Lack of leadership: The municipality did not adequately review the AFS and annual report prior submission to AGSA.
- Asset management: The assets of the municipality were not valued in accordance with Generally Recognised Accounting Practice (GRAP) as required by section 63(2) (6) of MFMA.
- Expenditure management: Reasonable steps were not taken to prevent unauthorised, irregular, fruitless and wasteful expenditure as required by section 62 (1) (d).
- Noncompliance to SCM Regulations & poor record keeping.

CHAPTER 3

3. RESEARCH METHODOLOGY

3.1 INTRODUCTION

In this chapter, the author discusses the research design, method, the study sample, the procedures used to collect and analyse data in order to investigate the negative factors that are affecting sound financial management in Greater Letaba Local Municipality. These factors have a direct bearing on service delivery. The author used the qualitative research design to collect data. The study focused on the 2014/15 financial year, wherein the municipality obtained a qualified audit opinion.

3.2 RESEARCH METHODOLOGY

According to Kothari (2006), research methodology is a way to solve the research problem. It is therefore explained as a science of study of how research is performed scientifically. Babbie and Mouton (2001), define research methodology as the procedures, methods and techniques that are used in the implementation of the research design or plan. Research Methodology is the study that defines the implementation of the scientific approach to the reality of the study.

Research Methodology is a system of procedures, practices and principles that are being applied by the researcher to a research study. This will assist the researcher to produce a high quality design in an acceptable manner. There are three elements that are included in the research methodology to define the design, practice rules, science research and a process for presenting the research (Peffer, Tuunanen, Rothenberger and Chatterjee, 2007).

The aim of the study is to identify and understand the negative factors affecting the sound financial management in Greater Letaba Local Municipality, therefore, the researcher used a qualitative study. According to Lapan, Quartaroli and Riemer (2012:17) qualitative research is an approach that allows researchers to explore in detail social and organisational characteristics of individual behaviours and their meanings. Qualitative research is also

theoretically guided. The number of observation in qualitative research is limited as compared to quantitative research. A Qualitative method is also often associated with case studies (Gerring, 2007:216). Qualitative design is a process of understanding based on the methodological traditions of inquiry that defines the social or human problem (Neuman, 2005).

The researcher used a qualitative design in order to identify negative factors affecting sound financial management. The qualitative approach is a position from which to conduct the research that can foster the certain way of thinking through problems (Hesse-Biber 2006). After considering all the definitions provided above, the researcher concluded by defining the research methodology as the manner in which the research study is piloted.

The table below reflects the difference between the qualitative and quantitative research.

Table 3.1 Comparing Qualitative and Quantitative Research Designs

Qualitative Research	Quantitative Research
Methods include focus groups, in-depth interviews, and reviews of documents for types of themes	Methods include surveys, structured interviews & observations, and reviews of records or documents for numeric information
Primarily inductive process used to formulate theory or hypotheses	Primarily deductive process used to test pre-specified concepts, constructs, and hypotheses that make up a theory
More subjective: describes a problem or condition from the point of view of those experiencing it	More objective: provides observed effects (interpreted by researchers) of a programme on a problem or condition
Text-based	Number-based
More in-depth information on a few cases	Less in-depth but more breadth of information across a large number of cases
Unstructured or semi-structured response options	Fixed response options

No statistical tests	Statistical tests are used for analysis
Can be valid and reliable: largely depends on skill and rigor of the researcher	Can be valid and reliable: largely depends on the measurement device or instrument used
Time expenditure lighter on the planning end and heavier during the analysis phase	Time expenditure heavier on the planning phase and lighter on the analysis phase

Source: Derived and adapted from Seep-Aims (2000).

3.3 RESEARCH DESIGN

Research design according to Kumar (2008:94) is a plan and structure of investigation in order to obtain answers to the research questions and problems. Research design is a procedural plan that can be used by the researcher to answer questions validly, objectively, accurately and economically. According to Babbie and Mouton (2001), research design is a plan or a structured framework explaining the intention to conduct the research process in order to solve the research problem. Hofstee (2013) explains research design as the arrangement of collection and analysis of data that aims at combined relevance to the research. The conceptual structures within the research is conducted in what is called the research design. Research design constitutes the blue print for the measurement, collection and analysis of data.

According to Leedy and Ormrod (2014), qualitative research qualifies a researcher to build a complex and holistic picture, analyse words, report detailed views of informants, and conduct the study in its natural setting. In this study, a qualitative research study design has been used, where Greater Letaba Local Municipality is a case site. The qualitative research study design was chosen. It provides an insight into the specific challenges facing the municipality. For this study the researcher used a qualitative research design which is relevant to this kind of study. The qualitative approach deals with the subjective assessment of attitudes, opinions and behaviour. The researcher will use a case study approach in this study.

A Case Study Approach

A case study approach was chosen in order to understand the factors that negatively affect the sound financial management practices in Greater Letaba Local Municipality. The most important thing for the long term sustainability of the municipality is sound financial management practices. Municipal financial management is critical and involves managing a range of interrelated components: expenditure management, procurement, asset management, reporting and oversight. Each of these components contributes to ensuring that the expenditure is developmental, effective and efficient and that municipalities can be held accountable.

According to Lapan, Quartaroli and Riemer (2012:34), in order to obtain information, the qualitative researcher will depend on the face-to-face collection through observations and in interviews. The information can be carried out through case studies, interviews with people who have the experiences and observations. Therefore, interviews will be conducted with relevant municipal officers. Interviews will be conducted with employees who have experience. A case study in this regards was chosen in order to gain insight knowledge of the factors that affect sound financial management practices in Greater Letaba Local Municipality. A case study is created in order to describe, explain, assess and evaluate the phenomenon. It is pointed out by Gagnon (2010:1) that the case study will probably make it possible to observe and analyse phenomena as a single or as an integrated whole. In addition the case study is said to be appropriate for describing, explaining and controlling processes associated with a variety of phenomena at the individual, group and organisational levels.

Gillham (2000:1) refers to a case study as an investigation in order to answer the research questions and which try to find different kinds of evidence which has to be organised in order to get the best possible results to the research questions. According to Yin (2012:4), case study is an experimental investigation about a contemporary phenomenon. The case study research undertakes to examine the context and other complex conditions.

Gall (1996:549) explains that a case study allows the qualitative researcher to describe, explain or assess and evaluate the phenomenon. The process of data collection is sometimes interactive because the qualitative researcher will associate with individuals

involved during the study. According to Creswell (1994:12), a case study involves either a single person, programme, event, process, institution, organisation or social group which is investigated within a prescribed time frame and also using the appropriate data collection devices.

Mustafa (2008) refers to a case study as a method, a technique, an approach and a way of organising data in terms of chosen units. He also points out that case study is a technique that includes all the aspects of a situation employed during the study. Case study will make an understanding of various complex factors and considers the extensions of similar logic to the total phenomenon. In addition, a case study is another way of arranging and organising data in order to preserve similarities of characters of the objects that are studied. A case study is also a way of qualitative analysis involving the observation of an individual, a situation and an institution. Norman, Denzin and Yvonna (2007:443) refer to a case study as a way of performing a qualitative inquiry. Merriam (2009:40) refers to a case study as an insight description and examination of a bounded system. Interviews will be conducted with relevant municipal officers. The researcher will interview 11 employees: Directors; Assistant Directors; Budget and Treasury unit members, including the CFO and internal auditor.

3.4 POPULATION OF THE STUDY

Population refers to objects, subjects, phenomena, cases, events and activities which can be used by the researcher to identify the data (Brynard & Hanekom, 1997). A population which should be the entire set of individuals or objects must have common characteristics (Polit and Hungler, 1993). The population is the entire set from which the individuals or units of the study are chosen.

According to Newman (2006:224), the target population is required, therefore, a target group is the specific group that is studied. The size of the population will then determine whether it would be appropriate to include all the members of the population. Babbie and Mouton (2001:100) refer to the population as a group of objects from which conclusions are drawn. Welman and Kruger (2001:46) point out that population refers to the collection of objects, individuals, groups and organisations. Babbie & Mouton refer to a population as a unit of analysis.

A population, according to Babbie Mouton (2001), refers to a collection of objects, events or individuals having common characteristics. In this study the population is the number of municipalities that fall under Mopani District. The Mopani District municipality is a parent municipality of 5 local municipalities. The population size in this study is 38, which consists of MM (1), CFO (1), Directors (5), Assistant Directors (12), Chief Admin Officers (16) and Accountants: Expenditure (3).

3.5 SAMPLING

According to Moore (2012:2002), a sample forms part of the population from which information is collected. Therefore, conclusions about the whole population are drawn from a sample. Sampling is a necessary aspect of all social research, except in exceptional and limited circumstances that collect data from the total population. Sampling reduces the cost of the research project and also reduces the time required to gather data (Gerrish and Lacey, 2010:142).

Sampling is defined as a process of selecting particular objects of the study. It is therefore the process of selecting units, people or organisations from a population in a way that by studying the sample, results from the population from which it was chosen are obtained (Trochim, 2006). The sample size refers to the number of respondents from the collected data. The smaller the sample size important research findings could be left behind or missed. The larger the sample size, the more the time and resources it shall consume. The smaller the population, therefore, the sample should include a realistically large percentage of the population (De Vos, Delport, Fouché and Strydom, 2011). The sample was drawn from a small number of respondents or population which was regarded as more reliable and accurate in drawing the conclusions than that of larger populations. The researcher interviewed 11 employees working at Greater Letaba Municipality.

3.6 DATA COLLECTIONS PROCESS AND COLLECTION INSTRUMENT

In order to get first-hand information on negative factors affecting sound financial management practices in Greater Letaba Local Municipality, the researcher collected data

through field observation (Neuman, 2005). Field observation was essential for looking at the strategies that can be used for sound financial management practices.

The method used by the researcher was semi-structured, (please refer to annexure C for interview schedule) other than the structured interview. The semi-structured interview allows flexibility in approaching different respondents but covering the same areas of data collection (Noor, 2008).

According to De Vos *et al.* ;(2011), semi-structured interviews are explained as the interviews structured around the areas of particular interest also considering flexibility in scope and depth. The data were from semi- structured interviews which allowed the researcher to make follow-ups and to engage the participants who were able to provide more information.

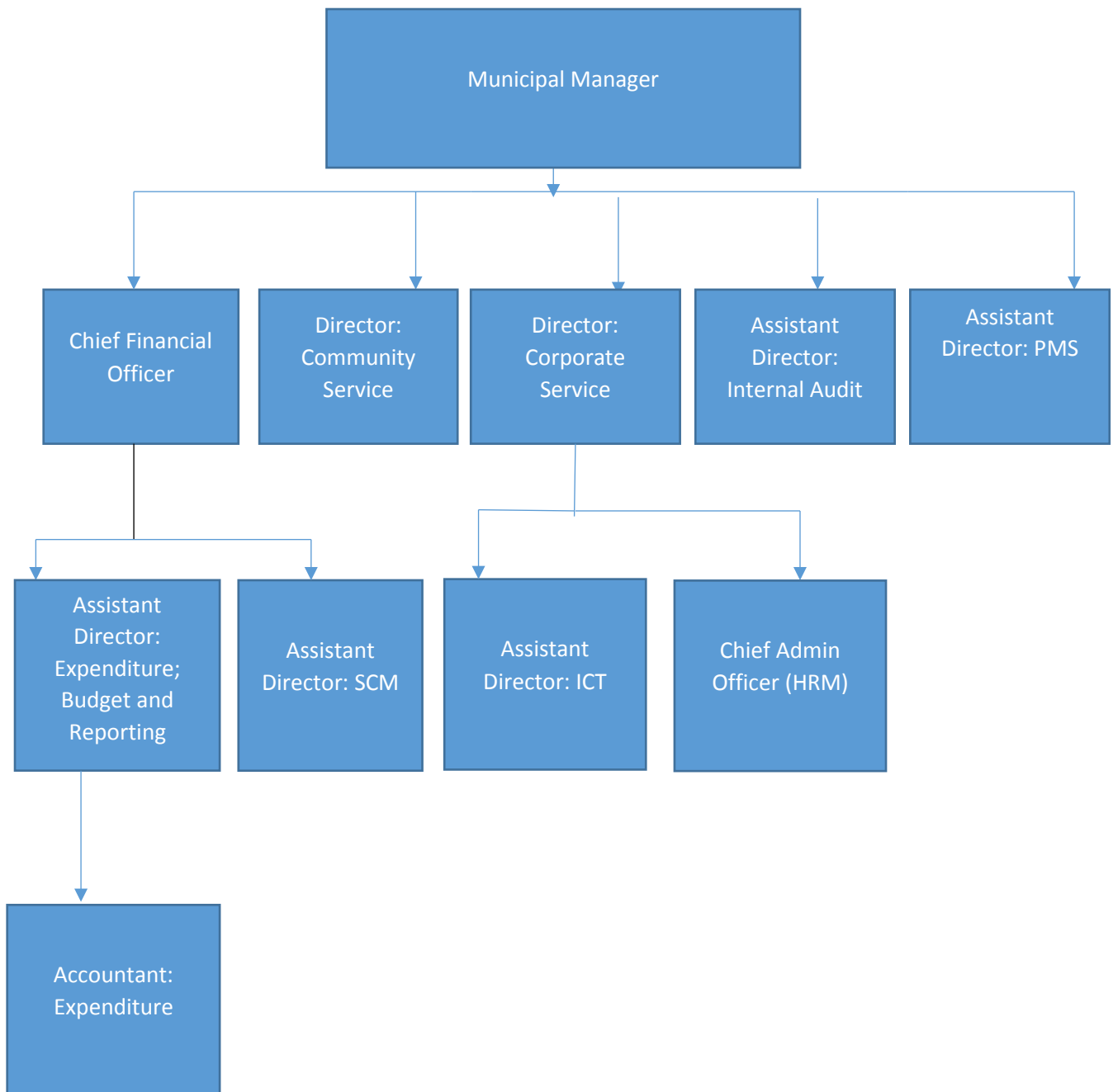
During this study, the interview schedule consisted of open ended questions to enable the researcher to get more information about the negative factors affecting sound financial management in the municipality.

The researcher used the one type of research instrument which is the interview schedule with open-ended questions. Each respondent was introduced to the questions. Therefore, a semi-structured interview was conducted. The first question (please refer to section A of annexure D) of the interview details aimed to obtain the demographic background or the personal information of the respondents.

Section B was linked to the first, second and third objectives of the study. The questions were asked to obtain information to answer the following objectives: to investigate the status of financial management of Greater Letaba; to determine adherence to financial management policies and legislation and to develop financial management strategies.

Sullivan-Bolyai, Bova, and Singh (2012) explain the different kinds of physiological measurements, observational methods, interviews, questionnaires and records of available data. Qualitative researchers operate under the assumption that reality is not easily divided into discrete, measurable variables.

Figure 3.1 Respondents' organogram of Greater Letaba Municipality



Source: Researcher's own observations from the data

3.7 DATA ANALYSIS

The process of data analysis, according to De Vos *et al.*; (2011), is a way of bringing order to the structure and the meaning of the mass of collected data. During this study, the data that were collected were categorised into themes. Therefore, thematic analysis was used to analyse the data. The first phase was to organise and prepare the data collected. During this phase data collected through interviews were sorted and arranged in a systematic pattern.

The common task during data analysis is to identify common themes in people's descriptions of their experiences and their responses and these were recognised after the interview. The researcher followed the steps according to Kurma & Phrommthed (2005) which are outlined as follows:

- Identify what relates to the topic. There should be separation from relevant and irrelevant information during the data collection.
- The researcher should separate the segment into categories that should reflect various aspects and the meanings of the phenomenon.
- The researcher must consider the various ways in which the respondents experienced the phenomenon.
- The researcher will use the various meanings identified to develop the description of the phenomenon as the respondents typically experienced it.
- The final stage will be the general description of the phenomenon as seen by the people who experienced it first-hand.

Qualitative researchers often construct interpretive narrative from their data and try to capture the complexity of a particular phenomenon (Leedy and Ormond, 2010). This research study to be conducted will be qualitative.

The qualitative data were summarised based on the researcher's subjective interpretation, data were summarised into themes and sub-themes and finally were analysed using the thematic approach. Thematic analysis is explained as a qualitative analytic method for analysing, identifying and reporting patterns within data. The main aim of thematic analysis

is to organise and describe the data set in detail (Braun & Clarke, 2006). Thematic analysis also interprets various aspects of the research topic and it is also widely used even though there is no clear explanation of how you go about using it. Even though it is mentioned as a poorly branded method, many analyses are thematic (Braun & Clarke, 2006).

The last phase is the interpretation of data and the researcher was able to gather the findings and the conclusion. Data interpretation was performed manually and the tables from the computer and columns were used. (Please refer to chapter 4 of the study).

3.8 RESEARCH INSTRUMENTS

Methods of measuring each variable were identified, developed and standardised, with considerable attention to the validity and reliability of the measuring instruments. Some qualitative researchers describe themselves as being the research instrument because the bulk of their data collection is dependent on their personal involvement in the setting (Leedy and Ormond, 2010). The researcher will use a voice recorder so that the data or narratives could be revisited to clarify certain information.

3.9 ETHICAL CONSIDERATIONS

Researchers must report their findings in a complete and honest fashion, without misrepresenting what they have done or intentionally misleading others about the nature of the findings. Any use of another person's ideas or words demands full acknowledgement; otherwise, it constitutes plagiarism and documentary theft (Leedy and Ormond, 2010). The researcher considered honesty with professional colleagues as part of ethical consideration in this study. The researcher will use the interview guide for the semi-structured in-depth interviews. The researcher was the only interviewer and personally recorded the responses during the interview. This method was useful to the researcher because it could provide further clarity and also to encourage understanding and full participation of the respondents.

The importance of research ethics, according to Horak and Van der Westhuizen (2005), is to protect the safety of the research participants. Even though the research ethics involves

more than the safety of the research participants it extends to other areas such as misconducts as well.

The researcher will use the information provided by the respondents only for the purpose of this study and the researcher will encourage the respondents to be honest and be transparent. If the study can be published, please refer to Annexure A for the letter to request permission to conduct the research and Annexure B for approval to conduct the research.

3.10 CONCLUSION

In this chapter, the researcher provided a description of the Research Methodology that was followed in assessing the challenges that impede sustainable improvement of financial management practices in Greater Letaba Local Municipality. It was mentioned in this study that a qualitative nature in design was used due to the nature of the data that were to be collected.

Chapter 3 highlighted the data collection methods and ensured that the research questions are answered correctly. All the participants answered the questions that were asked in the research questionnaire. The design of the study was a qualitative method which was used to analyse data in chapter 4. This chapter (3) detailed the data collection, presented also the research methodology, the study area, population of the study, research questions, data collection methods, data analysis, limitations of the study and ethical considerations.

It was indicated that the researcher sampled one municipality in Mopani District out of six municipalities in the district that are governed by MFMA/ Treasury Regulations; MFMA Circulars and Audit standards for convenience purposes in terms of cutting down on travelling costs as the District is too wide.

It was also mentioned that the study analysis will be based on the compliance of MFMA/ Treasury Regulations; MFMA Circulars; Audit Reports and the oversight role played by the MPAC/Audit committee. The discussion also indicated that the ethical consideration such as honesty with professional colleagues was compiled with in the interaction with the participants.

CHAPTER 4

4. DATA PRESENTATION, DISCUSSION AND INTREPRETATION OF THE RESULTS

4.1 INTRODUCTION

This chapter aims to present, analyse and interpret the data collected. In chapter four (4) the information which was obtained through interviews and field observations will be analysed and interpreted. The data were mainly collected from Greater Letaba municipality. The main aim of the study was to identify the negative factors affecting sound financial management practices in Greater Letaba Local Municipality. Qualitative structured interviews were useful on a one on one basis with management of Greater Letaba municipality during this study. Eleven (11) employees were interviewed. The target was 11 respondents which took part in the interview.

The following aspects will be used to interpret data:

- Involving the findings to the original research problem and to the specific research questions and hypothesis;
- Checking whether the findings have practical significance as well as statistical significance;
- Recognising the limitations of the study.

The researcher interviewed management in Greater Letaba Local municipality. The other information was collected from monthly reports that are send both to National and Provincial Treasury.

4.2 DATA MANAGEMENT AND ANALYSES OF RESEARCH RESULTS

The findings are discussed according to the order of sections in the interview schedule. Therefore, the findings are informed by the research questions in chapter one, the data and analysis of the results of the study. The findings were divided into demographic profile of the respondents; the status of financial management in Greater Letaba Local Municipality. This

was to determine adherence to financial management policies and legislation and to develop financial management strategies.

4.3 RESEARCH RESULTS

The objective of this section was to obtain personal information from the respondents. In this study, 11 officials most of whom are serving in management were identified. The officials responded to the interview.

The demographic data were important to the researcher in order to understand the background information of the respondents. The researcher concentrated on the following aspects: gender of the respondents, age group, marital status, highest qualification and occupation. The following aspects are important in this research in order to have a good understanding of the respondents as the subjects of the inquiry.

4.3.1 Gender of the respondents

The researcher investigated this variable in order to avoid gender biasness during the findings of this study. The table below indicates the results obtained during the data collection process of the study.

Table 4.1: Gender of the respondents

Gender	Number of respondents	Percentage
Male	6	55%
Female	5	45%
Total	11	100%

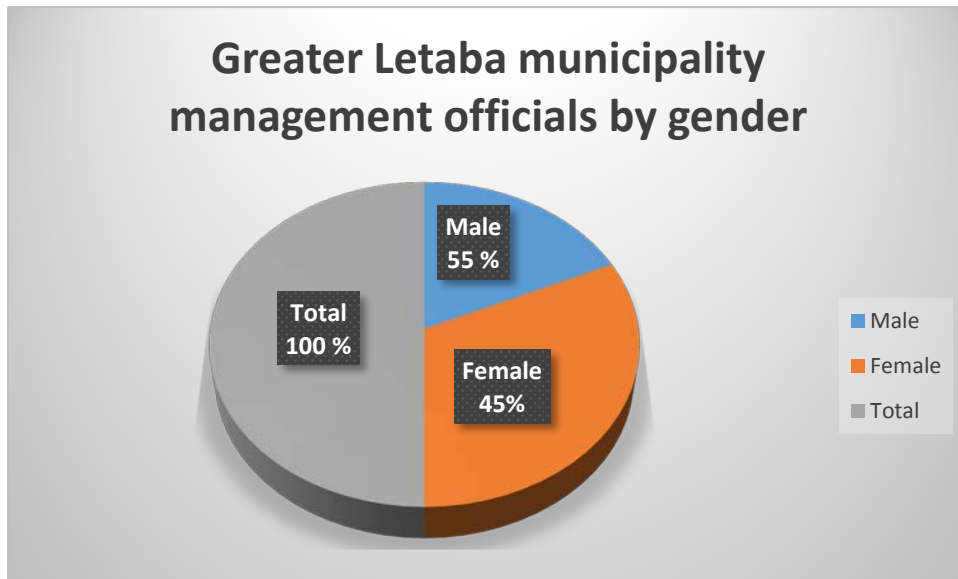


Figure 4.1: Analysis of Greater Letaba municipality officials according to gender

Table 4.1 depicts that during the interview 55 percent of the respondents were male and 45 percent were female.

4.3.2 Age group of management officials

A survey was performed in order to get a full picture of which age groups are involved in management level of Greater Letaba municipality

Table 4.2 Analysis of Greater Letaba management officials according to age group

	Age Range	Number of respondents	Percentage
Youth(18-30)	18-30	1	9%
Adults (31-40)	31-40	4	36%
Adults (41-55)	41-55	6	55%
Pensioners (56-65)	56-65		0%
Total		11	100%

The table above reflects that youth aged 18 yrs to 30 yrs constitutes 9 percent of the officials that were interviewed while adults (31-40 yrs) constitute 36 percent and 55 percent were adults aged 41-55 yrs.

4.3.3 Educational Background of management level officials

MFMA Circular 60, minimum competency level, highlight that the requirement for an assessment of the current educational qualification of the affected officials prior to undertaking any training in order to avoid duplication of effort. The purpose of the initial assessment was to evaluate the following:

- Higher education qualifications held by the incumbents of the positions;
- Work-related experience;
- Core managerial and occupational competencies requirements;
- Prescribed financial and SCM competencies.

Therefore, the researcher investigated the variable to determine the educational background of the respondents. It is sometimes debated that the lack of professional qualifications could impact negatively on the performance of the organisation. The table below, table 4.3, reflects the results from the respondents regarding their level of education.

Table 4.3 Highest qualification of the respondents

	Number of Respondents	Percentage
Grade 8-12	0	0%
Diploma/Degree	5	45%
Postgraduate	6	55%
Total	11	100%

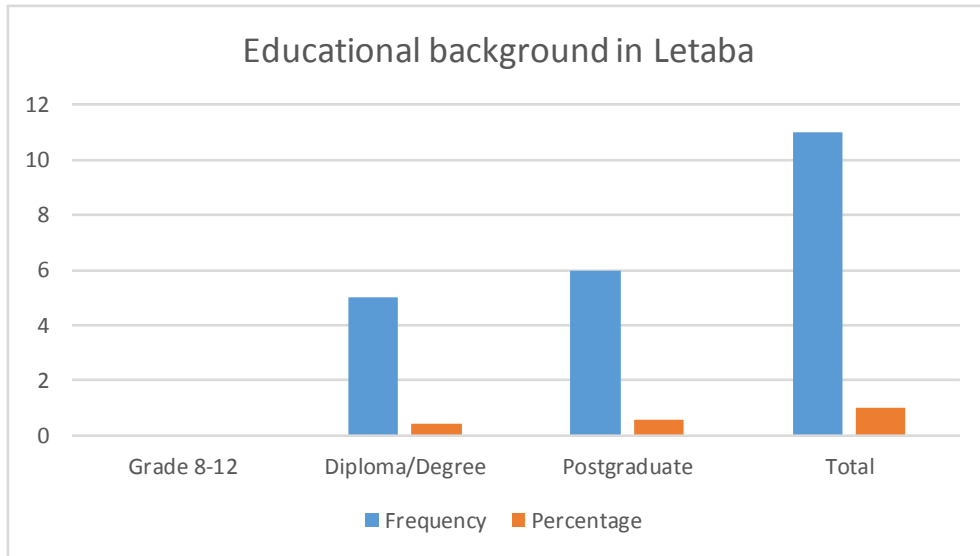


Figure 4.3: Analysis of Educational background of the respondents

4.3.4. Post level of the Respondents

The researcher investigated the variable to determine the post level of the respondents. The post level of the municipality for higher positions are in the range of level 1-4. It should be noted that the size of the municipality is very small. All respondents' post levels range between levels 1 to 4.

Table 4.4 Post Level of Respondents

Salary levels	Frequency	Percentage
Level 1-4	11	100%
Level 5-8	0	0
Level 9-12	0	0
Level 13+	0	0
Total	11	100%

Post Level of Respondents

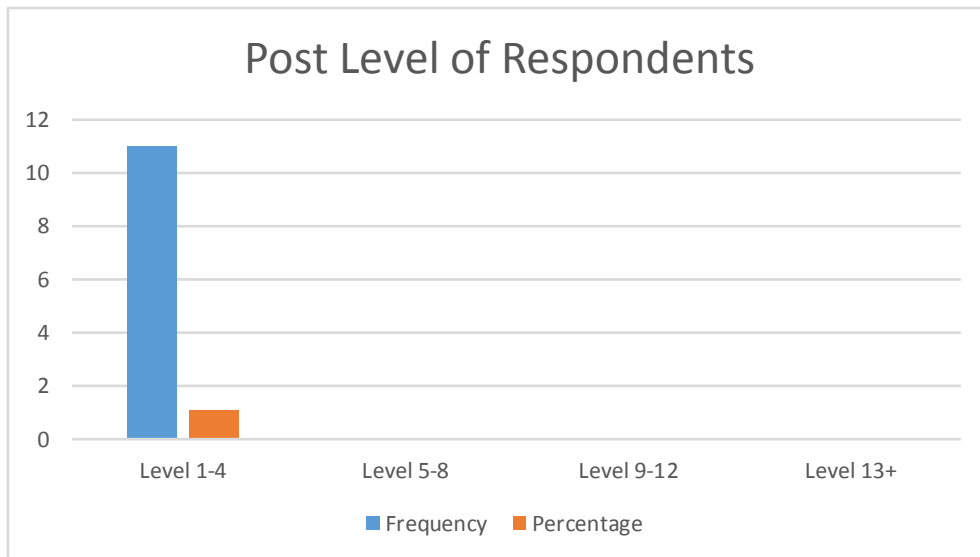


Figure 4.4 Analysis of respondents according to post level

The researcher investigated the variable to determine the job experience within the environment of the municipality. It is sometimes debated that lack of job experience can impact negatively on the performance of the organisation.

Table 4.5 Job Experience of the respondents

No of years	Number of respondents	Percentage
1-5	6	55%
6-10	4	36%
11-30	0	0%
31+	1	9%
Total	11	100%

Job Experience of the Respondents

Table 4.5 clearly indicates that in terms of job experience, 55 percent of official have 1-5 years job experience. 36 percent have 6-10 years and 9 percent of the respondents have 31+ years' experience.

4.3.6 Objective1: The status of financial management in Greater Letaba Municipality

The focus of the researcher was to investigate the status of financial management. The researcher investigated as to whether the respondents regard the financial status of Greater Letaba municipality is bad or good. The researcher also interviewed the respondents regarding whether the municipality is able to meet its financial obligations in terms of paying service providers. The respondents were asked whether the municipality have adopted budget related policies or not. The results are as follows:

4.3.6.1 The status of financial management weather is bad or good

10 respondents reflected that the financial status of Greater Letaba municipality is good, while one respondent indicated that the financial status is bad.

The respondents that favoured the financial status as good, highlighted that the municipality does not have an overdraft facility, the municipality have cash reserved and the municipality is financially viable. There was one respondent that highlighted that the financial status is bad due to misallocation of funds, there are capital projects that are funded from the operational budget and this affected the status of the financial position of the municipality for the past two years. Those capital projects were still not completed on time hence the municipality had to apply for roll overs. The main problem identified was that the municipality does not have forward planning in terms of implementation of the projects and the municipality has a procurement plan which is not fully implemented.

4.3.6.2 Objective 1: Whether the municipality is able to meet financial obligation in terms of paying service providers

All the respondents indicated that the municipality is able to meet its financial obligations within the prescribed period. In terms of MFMA section 65(1) (e), which states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. One respondent outlined that the municipality is able to honour payments to

service providers but it is still questionable whether, in the long run, the practice will still be possible.

4.3.6.3 Objective 1: Whether the municipality has adopted budget-related policies

All the respondents indicated that the municipality has adopted the budget-related policies which were approved by council. According to the Municipal Budget and Reporting Regulation (MBRR) (7) (1) the municipal manager of a municipality must prepare or take all reasonable steps to ensure the preparation of the budget-related policies. Policies that must form part of the annual budget of a municipality include:

- The tariffs policy which the municipality must adopt in terms of section 74 of the Municipal System Act (no 32 of 2000);
- The rates policy which the municipality must adopt in terms of section 3 of the Municipal Property Act (no 6 of 2004);
- The credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal System Act (no 32 of 2000);
- The cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act (MFMA act no 56 of 2003);
- A borrowing policy which must comply with chapter 6 of the Act (MFMA act no 56 of 2003);
- A funding and reserves policy;
- A policy related to the long-term financial plan;
- The supply chain management policy which the municipality is required to adopt in terms of section 111 of the Act (MFMA act no 56 of 2003);
- Any policies dealing with the management and disposal of assets;
- Any policies dealing with infrastructure investment and capital projects, including-
 - The policy governing the planning and approval of capital projects; and
 - The policy on developer contributions for property developments;
- The indigents policy of the municipality;
- Any policies related to the provision of free basic services;
- Any policies related to budget implementation and monitoring including:
 - A policy dealing with the shifting of funds within votes;

- A policy dealing with the introduction of adjustments budgets;
- Policies dealing with unforeseen and unavoidable expenditure, and
- Policies dealing with management and oversight;
- Any policies related to managing electricity and water including-
 - A policy related to the management of losses, and
 - A policy to promote conservation and efficiency
- Any policies relating to personnel including policies on overtime, vacancies and temporary staff;
- Any policies dealing with municipal entities, including
 - The service delivery agreement, and
 - The dividend preference of the municipality
- Any other budget-related or financial management policies of the municipality.

4.3.7.1 Objective 2: Whether the policies are fully implemented or not

The respondents were asked if the municipality is fully implementing policies or not. The researcher then asked the respondents about the internal financial control and measures that are in place. The last question asked in objectives 2 was for the respondent to generally comment on the municipality's report.

The respondents commented that municipal officials are guided by policies on a daily basis when they perform their duties. Some respondents could not agree that the policies are fully implemented. The respondents highlighted that the policies are not updated on an annual basis even though they are due for reviews and this hinders full implementation of the policies. The other reason for hindering the full implementations of the policies is lack of human capacity in other business units, in this case there could be a lack of segregation of duties. There are critical positions in other business units that are not filled.

The respondents further indicated that the Supply Chain management policy (SCM) is not fully implemented and the Auditor General South Africa (AGSA) has raised queries of noncompliance to SCM regulations and credit control policies in the management report. It is further noted that on a yearly basis the internal audit unit raises the same findings to management and there is no improvement in this regards. There is lack of commitments

from management in relation to the implementation of recommendations from the internal audit unit and audit committee. The oversight role that needs to be played by the audit committee is thus not adding value to the operations of the municipality.

4.3.7.2 Objective 2: The internal financial control measures are in place

The respondents indicated that there are internal financial controls in the municipality. There is segregation of duties where only senior personnel have the authority on approval of financial documents. There are also proper financial delegations in the finance unit. The payment cycle starts from capture until it is recommended by the Chief Financial Officer (CFO) then it is approved by the Municipal Manager (MM). The financial system also does not allow an official to use the same password to capture and approve.

The respondents further highlighted that procedure manuals and adopted policies are in place. The finance unit is able to produce monthly reconciliations and quarterly AFS to the audit committee and other stakeholders in order to monitor the financial performance and financial position of the municipality.

Another respondent indicated that the municipality has the reporting structure which was compiled on their behalf by KPMG and this document entails the reporting structure for all the departments within the municipality. There are systems of delegations, approved policies and internal audit recommendations that are not implemented by management.

4.3.7.3 Objective 2: General comment on audit report

For the past three financial years the municipality, after AGSA audited their books, obtained a qualified report and some respondents were not satisfied about the outcome. The respondents were not satisfied about the way AGSA handled the audit report. There are instances where the municipality was not provided ample time to respond to the queries raised by the AGSA. The municipality was supposed to be given 3 days to respond to the request by the AGSA and during the weekly steering committee meeting, AGSA will provide the progress of the audit and also highlight whether there are documents that were requested and not provided. It was also discovered during the interview that during the engagement with AGSA in the weekly steering committee meetings, there was lack of proper

communication because AGSA was not attentive to the facts and reasons that were provided by the municipality on the findings raised. The municipality experienced a bad attitude from the AGSA during the engagements. Respondents felt that AGSA was overly strict towards the findings of the audit.

The respondents indicated that there was no improvement, the municipality did not regress and the opinion is still qualified for the past 3 years. All issues raised by AGSA are the same for the past 3 years. The municipality is not implementing the AGSA action plan. This then reflects lack of commitment from management.

Management of the municipality is disappointed about the audit outcome because they were hoping for an unqualified audit report. According to the respondents, the municipality has improved and there could be a change in terms of the outcome. The other factors that could have affected the audit outcome of the municipality was the late appointment of service providers for the compilation of the AFS and also the service provider for asset management, which needs special skills for unbundling of the assets.

The respondents indicated a positive improvement, looking back at 2012/13 financial year were the municipality's audit outcome was a disclaimer. The municipality is adhering to the policy in terms of procuring goods and services. The municipality is qualified on SCM matters and assets, which is mostly noncompliance to SCM regulations. The staff component at the SCM unit is low. The SCM unit has 3 officials and the officials are unable to perform their day-to-day duties due to low capacity and this then opens a risk of not implementing segregation of duties within the unit.

The respondents further applauds the audit outcome of the municipality but highlighted that there is room for improvement. There is an anticipation of a clean audit report in the next audit report.

4.3.8 Objective 3: To find out the strategies that can be put in place for sound financial management in municipalities

The respondents highlighted that one of the strategies that the municipality can apply is to recruit qualified, experienced and knowledgeable personnel in the SCM unit. The filling up

of critical vacant positions especially in SCM, Chief Admin Officer and Fleet & Assets officer. By appointing personnel in SCM it shall reduce the deviations of SCM regulations and the municipality will adhere to SCM regulations. The appointment of a Fleet & Assets officer will also assist the municipality in saving money by monitoring the kilometres travelled and fuel consumption.

The respondents indicated that the municipality must comply with the legislation as prescribed in the MFMA and also compliance to the procurement plan. The other strategy highlighted was a good record keeping mechanism. To date the municipality does not have a dedicated record or registry office. The municipality must review the work performed by consultants especially on asset management. Policies, regulations and the internal controls are in place, therefore, the municipality has to tighten the control measures. The municipality has to review the By-laws so that they can be implemented.

The respondents further reflected that the municipality must draft a detailed AGSA action plan and engage audit committee where there are challenges. Implementation of all circulars from the NT website. More attention must be given to unauthorised Irregular and fruitless expenditure (UIF). Therefore, the municipality should adhere to MFMA Circular 68 in order to follow the treatment of this expenditure. The issue of having someone who can lead in terms of financial management was raised as one of the turnaround strategies in sound financial management.

Other respondents highlighted that there should be implementation of a performance plan for all financial and non-financial officials starting from the low levels. The municipality will also be able to review and monitor the performance of the officials on a regular basis.

The respondents further highlighted that regular capacity building should be provided to the employees. After the employees returned from training, proper monitoring should be applied to verify that the employees are implementing what they have learnt. Return on investment is not reflected by employees after they have been trained.

Another critical strategy highlighted was that there should be limited political interference. Administration components must be given a space by the political components in order to perform their duties and demonstrate their competency. Political interference to the

operation of the municipality is the main problem. The Chief Financial Officer (CFO) is skilful but her skills are hindered by political interference.

4.4 THE OVERVIEW OF THE RESEARCH FINDINGS

4.4.1 Demographic Information

The researcher analysed the data collected from the respondents which were informed by the objectives of the study. During the interview 55 percent of the respondents were male and 45 percent were female. Youth aged 18 yrs to 30 yrs constitutes 9 percent of the officials interviewed while adults (31-40 yrs) constitute 36 percent and 55 percent were adults aged 41-55 yrs. In terms of job experience, 55 percent of official have 1-5 years job experience. 36 percent have 6-10 years and 9 percent of the respondents have 31+ years' experience.

In terms of education level, the study revealed that four officials have acquired Diplomas/ Degrees while seven officials are have postgraduate qualifications. This could mean that the officials will be able to understand the norms and standards, policies, legislations and procedure manuals that are governing the municipality. There is an indication that the officials acknowledge the importance of education as it is very beneficial to their personal growth.

National Treasury also supports municipalities and municipal entities by providing appropriate training materials and also by publishing any Circulars and legislations on their website.

4.4.2 Objective1: The status of financial management in Greater Letaba Municipality

The researcher investigated the status of management. The main objective of the study was to establish whether the status of financial management in the municipality is bad or good.

Taking into consideration the analysis of data collected from the respondents, it can be concluded that the status of financial management in Greater Letaba municipality is good, though there was one respondent who had a different view and highlighted that the financial

management in Greater Letaba is bad. Though it is only one out of 11 respondents, the municipality needs to improve the status of financial management by increasing the revenue streams and becoming financially viable.

The researcher asked a question to check whether the municipality is able to meet its financial obligations or not. The analysis of the data collected reflects that the municipality is able to meet its financial obligations as and when they fall due, but one respondent highlighted that there could be a risk of not being able to pay financial obligations during the financial years to come.

The respondents indicated that the municipality has adopted budget related policies approved by the Council before the start of the financial year.

4.4.3 Objective 2: Whether the policies are fully implemented or not

Policies as they are approved by Council should be implemented fully by the municipal officials. According to the data collected during the study, most respondents reflected that the policies are fully implemented. However, there are some respondents that reflected that every year AGSA raises findings on noncompliance to the SCM regulation and some other policies like credit control policies hence, their response to the question was that policies are partially implemented. Another issue raised in relation to policies not fully implemented was that some policies and documents are not updated, meaning the municipality will take a document that was compiled years ago to council for approval without checking the relevancy of the document or reviewing the document in relation to the operation of the municipality for that financial year.

The respondents indicated that the high vacancy rate affects the implementation of the policies. In some instances the municipality's official fails to apply segregation of duties during their day to day operations.

All officials must adhere to the policies and procedures of the municipality. These guidelines govern the day to day operational requirements of the municipality. Therefore, these policies and procedures are necessary to establish internal controls by mitigating the risks.

According to the respondents, the municipality has tightened financial internal control where segregation of duties is applied. The municipality has policies, financial systems of delegations and all the legislations that govern the municipality. Monthly and quarterly reports are produced to different structures or stakeholders. However, one respondent highlighted that financial internal controls are in place but the implementation is still a challenge.

The respondents were asked to generally comment on the audit report and there was an indication that the officials were not satisfied with the audit outcome.

The audit report of the municipality remained constant as qualified for the past three financial years. The municipality is complaining about the treatment received from AGSA personnel. There was poor communication during steering committee meetings. AGSA raised the same findings for the past three years without these being resolved. The AGSA action plan is partially implemented. Internal audit and audit committee recommendations are not implemented.

4.4.4 Objective 3: To find out the strategies that can be put in place for sound financial management in municipalities

The municipality must comply with all the legislations that govern its operation and also access all circulars and regulations on the NT website. The municipality should draft the detailed AGSA action plan in order to address all the findings raised during the audit.

The respondents highlighted that the increase in human capacity and allowing vacancy rate to be low can be another strategy to put sound financial management in place. The filling up of critical vacant positions especially in SCM, Chief Admin Officer and Fleet & Assets officer is imperative. Appointing personnel in SCM shall reduce the deviations of SCM regulations and the municipality will adhere to SCM regulations

Another critical strategy highlighted was that there should be limited political interference. Administration components must be given a space by the political components in order to perform their duties and demonstrate their competency. Political interference in the operation of the municipality is the main problem. The Chief Financial Officer (CFO) is skilful but her skills are hindered by political interference.

4.5 CONCLUSION

The chapter entailed the findings as derived from the research questions as outlined in chapter one, the collected data and the analysis of the results. The findings were divided into four categories, namely, category one: demographic information of respondents, category two: the status of financial management of Greater Letaba municipality, category three: adherence to financial management policies and legislation; category four: the development of financial management strategies.

The chapter that follows, will focus on the conclusions and recommendations drawn from the research conducted.

CHAPTER 5

5. SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

The study provided the overview of the negative factors affecting sound financial management practices at Greater Letaba Local Municipality. In this chapter, the researcher will outline the conclusions and recommendations drawn from the objectives of the study.

The purpose of the study was to investigate the negative factors that affect sound financial practices in Greater Letaba municipality in Limpopo.

Chapter 1, highlighted the research problem derived from the aim of the study. The study aims to investigate the negative factors that affect sound financial practices in Greater Letaba municipality in Limpopo

The objective of the study were as follows:

- To investigate the status of financial management of Greater Letaba municipality;
- To determine adherence to financial management policies and legislation;
- To develop financial management strategies.

In order to achieve the objectives of this study, the researcher designed the following chapters:

- Chapter one:

The chapter page 10, paragraph 1.1 detailed the introduction and background. It defined the research problem, the aim of the study, the objectives, research questions, and definitions of concepts and the significance of the study.

- Chapter two:

The chapter dealt with a literature review on the factors affecting sound financial management in municipalities. The literature review detailed the key objective of the Municipal Finance Management Act no 56 (2003).

- Chapter three

This chapter detailed the research methodology. It also explained the research designs, methodology, population, sampling and data gathering techniques used in this study.

- Chapter four

The chapter aimed to cater for data analysis. It reflected the findings which are aligned with the research questions in chapter one, the data collected and the analysis of the results of the study. The findings were divided into four categories, namely, category one: demographic information of respondents, category two: the status of financial management of Greater Letaba municipality, category three: adherence to financial management policies and legislation; and category four: the development of financial management strategies.

- Chapter five:

This chapter provides the conclusions and recommendations of the study as outlined by data collected.

5.2 SUMMARY AND INTERPRETATION OF THE RESEARCH FINDINGS

5.2.1 Objective1: The status of financial management in Greater Letaba Municipality

The researcher investigated the status of management; the main objective of the researcher was to establish whether the status of financial management in the municipality is bad or good.

Taking into consideration the analysis of data collected from the respondents, it can be concluded that the status of financial management in Greater Letaba municipality is good, though there was one respondent who had a different view and highlighted that the financial management in Greater Letaba is bad. Though it is one out of 11 respondents the municipality needs to improve the status of financial management by increasing the revenue streams and becoming financial viable.

The researcher asked a question to check whether the municipality is able to meet its financial obligations or not. The analysis of the data collected reflects that the municipality is able to meet its financial obligations as and when they fall due, but one respondent highlighted that there could be a risk of not being able to pay financial obligations in the financial years to come.

The respondents indicated that the municipality has adopted budget related policies approved by the Council before the start of the financial year.

5.2.2 Objective 2: Whether the policies are fully implemented or not

Policies as they are approved by Council should be implemented fully by the municipal officials. According to the data collected during the study, most respondents reflected that the policies are fully implemented. However, there are some respondents that reflected that every year AGSA raise findings on noncompliance to SCM regulations and some other policies like credit control policies hence, their response to the question was that policies are partially implemented. Another issue raised in relation to policies not fully implemented was that some policies and documents are not updated meaning the municipality will take a document that was compiled years ago to council for approval without checking the relevancy of the document or reviewing the document in relation to the operation of the municipality for that financial year.

The respondents indicated that the high vacancy rate affects the implementation of the policies. In some instances the municipality's officials fail to apply segregation of duties during their day to day operations.

All officials must adhere to the policies and procedure of the municipality. These guidelines govern the day to day operational requirements of the municipality. Therefore, these policies and procedure are necessary to establish internal controls by mitigating the risks.

According to the respondents, the municipality has tightened financial internal control where segregation of duties is applied. The municipality has policies, financial systems of delegations and all the legislations that govern the municipality. Monthly and quarterly reports are produced to different structures or stakeholders. However, one respondent highlighted that financial internal controls are in place but the implementation is still a challenge.

The respondents were asked to generally comment on the audit report and there was an indication that the officials were not satisfied with the audit outcome.

The audit report of the municipality remained constant as qualified for the past three financial years. The municipality is complaining about the treatment received from AGSA personnel. There was poor communication during steering committee meetings. AGSA raised the same findings for the past three without being resolved. The AGSA action plan is partially implemented. Internal audit and audit committee recommendations are not implemented.

5.2.3 Objective 3: To find out the strategies that can be put in place for sound financial management in municipalities

The municipality must comply with all the legislations that govern its operation and also access all circulars and regulations on the NT website. The municipality should draft the detailed AGSA action plan in order to address all the findings raised during the audit.

The respondents highlighted that the increase in human capacity and allowing vacancy rate to be low can be other strategies to put sound financial management in place. The filling up of critical vacant positions, especially in SCM, Chief Admin Officer and Fleet & Assets officer. By appointing personnel in SCM it shall reduce the deviations of SCM regulations and the municipality will adhere to SCM regulations

Another critical strategy highlighted was that there should be limited political interference. Administration components must be given a space by the political components in order to

perform their duties and demonstrate their competency. Political interference in the operation of the municipality is the main problem. The Chief Financial Officer (CFO) is skilful but her skills are hindered by political interference.

5.3 CONCLUSION

The status of financial management in Greater Letaba Municipality depicts a favourable position considering the findings from the data collected from the respondents. Another factor is that the municipality is able to meet its financial obligations as and when they fall due. The municipality has budget related policies to provide guidance on their day to day operations.

Policies and Regulations are in place and the municipality is trying to apply full compliance though there are some shortfalls. Good internal financial controls are in place but the municipality is only partially implementing them.

The separation of management and political roles is critical for good governance. Reporting and disclosure requirements need to be disclosed.

5.4 RECOMMENDATIONS

5.4.1 Demographic information

The researcher analysed the data collected from the respondents which was informed by the objectives of the study. During the interview 55 percent of the respondents were male and 45 percent were female. Youth aged 18 yrs to 30 yrs constitutes 9 percent of the officials interviewed while adults (31-40 yrs) constitute 36 percent and 55 percent were adults aged 41-55 yrs. In terms of job experience, 55 percent of official have 1-5 years job experience. 36 percent have 6-10 years and 9 percent of the respondents have 31+ years' experience. It is recommended that during recruitment process the municipality should target officials that are within the youth categories in order to provide officials an opportunity to learn and grow within the institution and they will have institutional knowledge and memories.

5.4.2 Objective1: To investigate the status of financial management of Greater Letaba municipality

As it is informed by the research findings, it is recommended that the municipality should keep a positive cash balance. The funding compliance measure as a guideline from NT requires the municipality should assess the level of financial risk in case of the financial distress. The municipality should evaluate the ability to be able to meet the financial obligations as and when they fall due. Therefore, the municipality cash coverage ratio should be not less than 3 months during financial distress. It is recommended that the municipality should practise forward planning for the implementation of projects.

5.4.3 Objective 2: To determine adherence to financial management policies and legislation

The budget related document as approved by the council should be fully implemented by the officials. The policies as approved by the council serve as legal documents of the municipalities. It is recommended that the MFMA and all the regulations, circulars and guidelines governing local government should be fully implemented by the municipality.

The municipality has proper internal financial controls in place, the financial systems of delegations are in place and the recommendations from internal audit are presented to management. The only challenge is the implementation of those internal controls, therefore, it is recommended that the municipality implements all the internal financial controls.

Some of the findings reveal that the vacancy rate is not acceptable, therefore, the municipality is advised to start with the recruitment processes on budgeted key positions. The municipality is advised to recruit qualified, experienced and knowledgeable officials.

The respondents were not satisfied with the audit outcome. It is recommended that the municipality should build good working relations with AGSA and avoid disagreements during the steering committee meetings. It is further recommended that the management should implement the AGSA action plan and management should reflect commitments in

addressing issues in the action plan. These can help the municipality to obtain an unqualified audit report during the next audit.

5.4.3 Objective 3: To develop financial management strategies

It is recommended that the municipality should adhere to policies and procedures in order to avoid noncompliance to the prescripts. The trainings of personnel is critical because there are always new norms and standards the municipality should adhere to. The forward planning and effective use of the procurement plan is recommended in terms of projects' implementation.

It is further recommended that a performance plan should be escalated to the lower levels for all financial and nonfinancial officials. The political structure should limit interference to the administrative structure. It is recommended that the political structure revisit the MFMA as it outlines the roles and responsibilities of the structures/ key positions in the municipality.

5.5 CONTRIBUTIONS OF THE STUDY

The study will assist Greater Letaba municipality and other municipalities and municipal entities because the study results, interpretation and recommendations, if it can be known, will address the factors affecting sound financial management. Therefore, information can be sourced from this study. The study will add value and knowledge which can assist future researchers pursuing the similar research area as it can be utilised as their source reference. The municipalities or municipal entities should be able to utilise this study when assessing the factors affecting the sound financial management to meet their needs.

5.6 LIMITATIONS OF THE STUDY

The limitation of the study involved challenges ranging from a small sample to the poor understanding of the questionnaire on the part of the respondents. However, the study was directed for Greater Letaba municipality only and therefore the limitations were not expected to have a marked influence on the research findings and the interference. Due to time

constraints, the researcher as a full time employee had to work extended hours to complete the study.

5.7 CONCLUSION

Sound financial management can affect the operations of the municipality and the audit outcome. The study has answered the research questions as indicated below:

- What is the financial status of Greater Letaba Municipality?
- How does Greater Letaba Municipality adhere to financial management policies and legislation?
- What strategies can be developed for effective financial practices in municipalities?

It is confirmed that during the completion of this study, the research objectives as listed in Chapter 1 has been met. The study can assist the municipalities and municipal entities in decision making on operational and strategic levels. The study can be used in a simplified and easily understandable manner in order to provide support to the municipalities and municipal entities.

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TO WHOM IT MAY CONCERN

This serves to confirm that **Matawane Hunadi Phokanoka** with the student number: 9731395, is a registered student at Turfloop Graduate School of leadership for Master of Business Administration (MBA). She is currently collecting data on her research titled; “**The negative factors that are affecting sound financial management practices at Letaba Local Municipality in Limpopo Province**”.

I therefore, request that she be granted permission to access the research area. I also appeal to the management to give her the support that she will need during this period.

Your unswerving cooperation in the matter is highly appreciated.

Thanking you

Date: 1 November 2016

Prof M Kanjere
(Supervisor)



GREATER LETABA MUNICIPALITY

P.O Box 36, Modjadjiskloof, 0835, Tel (015) 309 9246/7/8,
Fax (015) 309 9419, Email:greaterletaba@glm.gov.za

Enquiry : Mr. Tangananalo M. Desmond

Date : 14 November 2016

Matawane Hunadi Phokanoka

Limpopo Provincial Treasury

Private Bag x

POLOKWANE

0700

RE: REQUESTING PERMISSION TO CONDUCT RESEARCH AT GREATER LETABAMUNICIPALITY.

1. Receipt of your letter dated 04th November 2016 is hereby acknowledged.
2. This letter serves to inform you that Greater Letaba Municipality has approved your request for conducting research.
3. Kindly note that the municipality has no objection to the research to be conducted by you, however, the information gathered must only be used for the purpose alluded to in the letter of request.
4. The municipality will appreciate it if the Researcher (Matawane Hunadi Phokanoka) could privilege the municipality with the final report.
5. We will be looking forward to your prompt attendance of our request.

Kind regards

MRS. MASHABA T.G

MUNICIPAL MANAGER

"To be an outstanding agro processing and eco-cultural tourism hub"

ANNEXTURE C:

1. INTERVIEW SCHEDULE TO THE PARTICIPANTS

The interview schedule is linked to the objectives of this study which are stated as followed:

- To investigate the status of financial management of Letaba

What is the status of financial management in Letaba Local Municipality?

- To determine adherence to financial management policies and legislation

Does the municipality have adopted financial management policies and legislation?

- To develop financial management strategies

What strategies can be put in place for sound financial management practices in your municipality?

SECTION A

1. Personal Information/ Demographic information of the respondents

1.1 What is your gender?

Male		Female	
------	--	--------	--

1.2 In which age category do you fall?

18-30		31-40		41-55		56-65	
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1.3 What is your highest qualification?

Grade 1-7		Grade 8-12		Diploma/ Degree		Post Graduate		Other	
--------------	--	---------------	--	--------------------	--	------------------	--	-------	--

1.4 What is your post level?

1-4		5-8		9-12		13+	
-----	--	-----	--	------	--	-----	--

1.5 How many years have you been working in the municipality?

1-5		6-10		11-20		21-30		31+	
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SECTION B

1. How is the financial status of Letaba municipality in your own opinion? Is it bad or good, Please Elaborate

2. Is the municipality able to meet its financial obligations in terms of paying service providers?

3. Do you have adopted budget related policies?

4. Are the policies fully implemented or not? Please Elaborate

5. Which internal financial control and measures are in place?

6. Generally comment on your audit report

7. In your own opinion, what strategies can be put in place for sound financial management practices in your municipality

ANNEXURE D

N J Nel
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CERTIFICATE

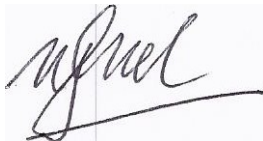
This serves to certify that I have language edited the Mini-Dissertation of

Ms M Hunadi Phokanoka,

Student number: **9731395.**

entitled:

***"THE NEGATIVE FACTORS THAT ARE AFFECTING SOUND FINANCIAL
MANAGEMENT PRACTICES AT GREATER LETABA LOCAL MUNICIPALITY
IN LIMPOPO PROVINCE"***



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14/ 1/ 2017