




Analysis of the sustained poor audit outcomes in Mopani District Municipality



Authors:

Tsepo E. Rangwato¹ 
 Arthur Shopola^{1,2} 
 John Molepo³ 

Affiliations:

¹Department of Public Management, Faculty of Humanities, Tshwane University of Technology, Pretoria, South Africa

²Department of Public Administration and Local Government, Faculty of Humanities, North-West University, Mahikeng, South Africa

³Department of Public Management and Governance, Faculty of Humanities, North-West University, Potchefstroom, South Africa

Corresponding author:

Tsepo Ernest Rangwato,
 tsepo.rangwato@labour.gov.za

Dates:

Received: 06 Feb. 2024
 Accepted: 16 Apr. 2024
 Published: 24 May 2024

How to cite this article:

Rangwato, T.E., Shopola, A. & Molepo, J., 2024, 'Analysis of the sustained poor audit outcomes in Mopani District Municipality', *Journal of Local Government Research and Innovation* 5(0), a185. <https://doi.org/10.4102/jolgr.v5i0.185>

Copyright:

© 2024. The Authors.
 Licensee: AOSIS. This work is licensed under the Creative Commons Attribution License.

Read online:



Scan this QR code with your smart phone or mobile device to read online.

Background: Financial management and accuracy and consistency in reporting remain critical cogs of good governance in South Africa and beyond. The Auditor-General (AG) South Africa, being one of the constitutional instruments responsible for monitoring the consistent application of municipal finance frameworks, has revealed that despite sustained poor audit outcomes in municipal governments, there has been constant disregard for its positive proposals and recommendations for improvement.

Aim: This study aimed to analyse factors contributing to sustained poor audit outcomes in Mopani District Municipality (MDM) based in Limpopo province.

Methods: This study conducted a qualitative inquiry whereby data were collected from senior officials and documentary analysis of the Auditor-General's statements was conducted to establish contributing factors to sustained poor audits in MDM.

Results: The results revealed numerous factors, chief of which are ineffective political leadership, weak internal audit systems and silo mentalities in municipalities in the district, which affect the financial performance of the district municipality.

Conclusion: Mopani District Municipality has not received a clean or improved audit opinion since 2016, and this has led to less commitment in taking collective action to address the Auditor-General's concerns.

Contribution: The study ends by recommending practical steps to improve audit outcomes and financial governance, which are to build a strong internal audit system and design a district calendar for financial reporting to help the district municipality make timeous submissions of credible financial information during an audit.

Keywords: financial governance; Auditor-General; municipalities; Mopani District; South Africa.

Introduction

One of the requirements for good governance is a reliable financial statement and credible reporting on the financial transactions or, in general terms, taking a proper account of all the activities of government. In South Africa, the Office of the Auditor-General (AG) is given the constitutional mandate in terms of section 188 of the Constitution of the Republic of South Africa (1996) to conduct an audit on the financial health of all organs of state. Accordingly, public institutions are expected to pass the audit master. Those that do so receive an unqualified audit status while other indicators such as a disclaimer and qualified audit opinion are used to report poor financial governance. As observed in the study by Shopola (2019), auditing is a structured project conducted and concluded within a specific timeframe and is largely confined to the objectives set out in the auditor's reporting rubric. This means that besides finishing the supplied documentation, the AG, correctly so, hardly considers the other administrative and behavioural issues that can hamper legislative and procedural compliances to municipal financial practices. In other words, the AG does not have time to enquire about auxiliary intra-organisational issues to determine whether public institutions have passed or failed the audit. This gap warrants a scholastic investigation to obtain a qualitative meaning around these significant matters that are not necessarily entertained during an official audit process, and to do so, this study deemed it proper to select a municipality that is currently struggling to improve its financial management. Mopani District Municipality (MDM), which is one of the five districts in Limpopo province, was selected as a case study because of its sustained poor audit outcomes. A detailed background to the problem is investigated in the proposed study.

Contextualising municipal financial performance and audit outcomes: A situational overview

South Africa is a constitutional democracy. Its public administration system is founded on the principles of openness, fairness, transparency, accountability and people centredness (Shopola 2019). It is in the idea of people centredness that the state recognises the need for decentralisation of government and the establishment of democratic local government through municipalities. Municipalities are constituted according to Chapter 7 of the democratic Constitution (1996) of South Africa as part of the local sphere of government. They are grouped into three categories, category A, which is metropolitan, Category B, which is a local municipality, and Category C, which covers district municipalities.

According to section 40 of the Constitution, read with section 155, the local government system is subject to national and provincial legislation, meaning that municipalities, in their execution of their constitutional mandates, are expected to observe the regulations of Chapter 3 of the Constitution, which spells out the principles of cooperative governance and intergovernmental relations (IGRs). The constitutional mandates, whether provision of basic services such as water, sanitation and housing, have financial implications, and in a system of cooperative governance, this compels national government to devolve considerable powers to local units of government.

Municipalities are subject to the institutions responsible for strengthening democracy, one of which is the Office of the Auditor-General South Africa (AGSA). According to Chapter 9 of the Constitution, where these institutions supporting democracy are prescribed, the AGSA is responsible for auditing and reporting on the financial statements, accounts and financial management of all 257 municipalities and state departments, organs and state-owned institutions. Therefore, as also indicated in the *Municipal Finance Management Act 56 of 2003*, municipalities must prepare, compile and ensure that financial documents are made available annually for auditing by the Office of the AG. The AG, after satisfying itself with the financial statements and reports submitted, compiles a report containing audit findings, outcomes and recommended steps to address issues raised in the audit report (Kwaza 2017). This report is presented to the Parliament of the Republic of South Africa and the national department responsible for local government (Cooperative Governance and Traditional Affairs [COGTA] in this case) and later submitted to the accounting officers in municipalities and the provincial administrations responsible for them.

The Department of COGTA is not a Chapter 9 institution but has an equal role to play in strengthening local democracy in the local sphere of government and generally within the constitutional democratic scheme. In terms of Chapters 3, 7 and 13 of the Constitution, from which COGTA derives its mandate, the purpose of this department is to develop national policies and a regulatory or legislation framework

regarding local government (COGTA 2014:24). This does not exclude monitoring of a wide range of legislation applicable to the local government sector and IGRs.

In line with the mandate of COGTA as referred to above, in 2009 the Department embarked on an assessment that investigated the state of local government for the first time since municipal democratisation in 2000. The outcome of the assessment pointed to deformities in the mergers, corruption, poor financial management, leadership and council failures, insufficient capacity because of a skills deficit, a high vacancy rate, poor performance management and inadequate training (COGTA 2009a). The dire state of financial governance was also noticed, and the report emphasised the need for municipalities to improve their financial management systems and audit reporting, and to properly manage their annual financial management statements (COGTA 2009a). There were glaring pointers to local governments' ability to manage public funds and honour service delivery commitments. Without doubt, these problems contribute to the ongoing service delivery woes affecting communities throughout the country.

The Local Government Turn Around Strategy introduced in 2009 following the COGTA findings in the 2009 report compelled municipalities to reflect on their individual performances and to tailor their own turnaround strategies (focusing mainly on receiving clean audits), but no progress has materialised. Following this, an array of operations aimed at boosting and gearing municipalities to receive clean audits were initiated, the first being the Operation Clean Audit by the Minister of Finance at that time, Mr Sydney Mufumadi. The target was for all provincial departments and municipalities to attain clean audits by 2014 (COGTA 2009b). The phrase 'clean audit' is one of the categories of expression (see full meaning in the Table 1, as adapted from Powell et al. (2014) to describe the performance of the municipality or department or state organ by the Office of the AGSA.

South African municipalities have always found it difficult to improve their audit outcome. A timeline analysis of the audit outcomes in the second decade of local government is evident to this challenge. For example, if one looks at the 2014–2015 financial audit outcomes, which is 10 years from now, they depict a state of deterioration and contradict the planned target. According to the AGSA (2014–2015), only 54 of 278 municipalities received clean audits. It is clear from this figure that the 2009 target was not met. The audit results of 2021–2022 also paint the dire state of local governance where only 36 of 258 municipalities reported a clean audit (AG 2022b). The State President, Cyril Ramaphosa (2023), admitted the financial management system collapse in municipalities and further suggested that the policy context for municipal financial management cannot be ignored any longer, adding that there is a need for a revised business model. Against this backdrop, some in academia argue that the system collapse in municipal financial management is surprising given that the AG findings are always accompanied by recommendations on specific areas that require correction

TABLE 1: Categories of audit outcomes used by the Auditor-General South Africa.

Category	Meaning	Description for category
Unqualified with no findings	No material misstatements were found in the financial statements No material findings on: 1. reporting on performance objectives 2. non-compliance with legislation	Clean audit Unqualified financial statement
Unqualified with findings	Financially unqualified with findings on: 1. reporting on performance objectives 2. non-compliance with legislation	Financially unqualified Unqualified financial statement
Qualified with findings	The financial statements contain several material misstatements or insufficient evidence for the AGSA to conclude that specific amounts included in the financial statements are not materially misstated	Modified opinion Outstanding audits and qualified financial statements
Adverse opinion with findings	Material misstatements that substantially affected the credibility of financial statements	Modified opinion Outstanding audits and qualified financial statements
Disclaimer of opinion with findings	Insufficient evidence was provided on which to base the audit opinion	Modified opinion Outstanding audits and qualified financial statements
Outstanding audits	Failure to submit financial statements for audit	Outstanding audits and qualified financial statements

Source: Own illustration, with inputs from Powell, D., O'Donovan, M., Ayele, Z. & Chigwata, T., 2014, *Operations clean audit 2014: Why it failed and what can be learned*, p. 4, University of the Western Cape, Bellville
AGSA, Auditor-General South Africa.

and improvements (Wessels, Kwaza & Ijeoma 2021). Indeed, whereas some municipalities in provinces such as Limpopo have been hailed for heeding calls by the AG, others have shown weaknesses, thus sustaining poor audit outcomes throughout. Mopani District is no exception to this.

Problem statement

Building on the foregoing background, the literature findings show that several studies including Van Puyvelde (2012), Kwaza (2017) and McMaster (2019) have been conducted in the past and their findings were largely limited to a specific context. It is important to remember that contexts differ and as observed by researchers in the field of public administration (Haruna & Vyas-Doorgapersad 2015; Shopola 2022), problematisation of a phenomenon requires a context that is responsible for setting the new study apart from existing ones. With no previous research performed on the sustained audit outcomes in Mopani, an opportunity for this study to contribute new knowledge on this discourse is presented. It is also evident that the AG has previously attempted to raise issues that Mopani needed to pay attention to in as far as improving the audit performance is concerned, but without success. Using this context as a scene setter, this study proceeds to search for reasonable grounds as to why Mopani fails to realise clean audit outcomes after years of struggle. In addition, part of the expectation is that the study's findings will contribute some practical understanding as to the reasons why municipalities have generally failed to realise some of COGTA's long-standing programmes such as Operation Clean Audits.

TABLE 2: Thematic outline of the findings.

Main themes	Sub-themes
On response measures to address AG concerns	A lack of organisational commitment to take corrective action Administrative inability to correct (i.e. silo mentalities in the district-local system)
On governance challenges	Poor leadership Weak internal audit system

AG, Auditor-General.

Research purpose and guiding questions

The purpose of this study is to establish contributing factors responsible for the sustained poor audits in MDM. The study seeks to answer the following three questions: what are the response measures put in place by the MDM to address recommendations raised by the Office of the AGSA in previous financial years; what are the financial governance challenges contributing to sustained poor audit outcomes within the MDM, and what measures can be used by the municipality to better address the AG's recommendations to avoid sustained poor audit outcomes and ultimately improve their financial governance.

Methodological considerations

According to the literature, any scientific investigation must be designed in line with the researchers' overall goal and expectations. Brynard, Hanekom and Brynard (2014) consider research design to be an overall plan or structure within which any research must be made. This study is based on a case study and a descriptive research design, both qualitative designs. Descriptive design, on the one hand, allowed the researchers to gain first-hand information on how the officials involved in financial management perceive the situation in MDM. As explained by Brynard et al. (2014), descriptive design is concerned with detailing an account of the studied subject for the people on the ground. Information was solicited through interviews from six officials holding managerial positions and two council members serving in municipal public accounts committees (MPACs), whose selection was purposive, meaning that the research team used own discretion to determine the selection criteria. However, it must be highlighted that the participants were largely selected based on their office responsibilities and involvement in financial decision making within Mopani District. On the other hand, the case study design is said to involve studying the phenomenon from its contextual origins (Creswell 2019). This is used predominantly in qualitative research (Creswell 2019), and therefore a case study was applied in this study to explain antecedents to the sustained poor audit performance in the selected context.

It is noteworthy that these approaches helped the researchers to produce context-specific results, especially in recognition of the notion that the local government financial management systems are not one-size-fits-all. Data were analysed thematically, and the ethical practices related to data handling post-collection were adhered to. This included using a flash drive and enclosing interview recordings in a

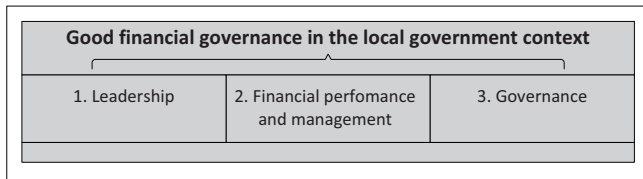


FIGURE 1: The conceptual framework for good financial management in the local government context.

computer folder that is pin locked. The thematic analysis of data as an approach meant that interviews were transcribed, themes identified, arranged and re-arranged from where final themes would emerge and codes attached to protect the identities of the participants (see Table 2). Lastly, as Brynard et al. (2014) reassure the findings are dependable, credible and confirmable. These aspects were ensured by way of asking questions derived from previous studies, while audio recordings of interviews and a transcription were also performed, and the copy of the draft report was sent to the participants before the final report was compiled.

Literature study

This section presents findings from the literature study and consists of the conceptual and theoretical insights. This study is predicated on the need for good local governance, which is enshrined in Chapter 7 of the Constitution and other legal prescripts thereto. Section 153 of the Constitution, read in conjunction with section 123, 124 and 125 of the *Local Government Municipal Financial Management Act 56 of 2003* and section 45(b) of the *Local Government Municipal Systems Act 3 of 2022* (as amended) compels municipalities to collate, prepare and report their financial transactions annually for purposes of transparency, accountability and good governance. The AG statements and findings on financial performance and management in the local government sector provide pointers for relevant concepts that must be explored in the literature. These concepts include leadership, financial performance and management and governance, and they are presented here in the format of a conceptual framework in Figure 1.

Figure 1 presents a mixture of crucial concepts that contribute significantly to the understanding of good financial governance. The chronology that moves from leadership and financial management to governance is premised on the major concerns from consolidated AG reports from 2015 to 2021. For example, the AG repeatedly found that most municipalities have ineffective leadership, which affect financial management practices in the municipality, and these two ultimately contribute to poor governance. Put differently, leadership, financial performance and governance have been identified by the AGSA as key drivers to good financial governance in the local sphere (see AG consolidated reports on municipal financial management, 2015–2021).

Leadership

Wessels et al. (2021) notice that there is a crisis of leadership in local government that often results in weakened accountability

systems, misuse of public money, erosion of public accountability, chaos in administration, corruption and lack of consequence management. The same finding was made in another study that investigated politics and conflicts in South Africa (Author in Press, 2024), where the authors further make a point that strong leadership results in effective administrations. Leadership is a crucial requirement for the functionality of any organisation. Literature has been defined as the process of exerting influence on others, inspiring, motivating and directing their activities to achieve group or organisational objectives. According to Conger and Kanungo (1988), good leadership is associated with the following traits:

- Having an idealised goal or vision that the organisation wants to achieve
- Having strong personal commitments to goals
- Being perceived as unconventional
- Being assertive and self-confident
- Being perceived as agents of radical change rather than as managers of the status quo.

South African research on leadership refers to ‘responsible leadership’ that should, in taking organisational decisions, be aware of the different demographical information of the people they lead and rally their vision around these, especially in the context of the country’s history of racialised public governance. Other studies concluded that responsible leadership broadens the view that leaders take, from economic responsibilities to embracing environmental and social responsibilities, and emphasises the significance of balanced morality that ensures sustainable business without compromising the natural environment and the livelihood of future generations (Gleason 2012).

In the local government context, the municipality has its own democratically elected leadership. Part of their expectations to deal with governance deficiencies and set the manner in the way things should be performed (Van Der Walddt 2021). Municipal leaders, as people who are the custodians of executive and legislative powers in terms of section 152 of the Constitution, are expected to ensure that the administration of a municipality aligns its operations with the vision, policies and goals of the elected council. Indeed, as alluded to by Wessels et al. (2021), municipal leadership is also expected to ensure that there is compliance with financial prescripts in the conduct of finance officials, failures of which must be subjected to consequence management.

The significance of financial performance and management in local government

Nkuna and Sebola (2019) remark that local government, being the centre of service delivery provision, needs monetary resources to further its mandate where the basic understanding should be that these resources belong to the public and should be used transparently and accountably. The subject of financial reporting, performance and management therefore occupies the centre in municipal administration and good local governance. As stated by

Wessels et al. (2021), good financial management in the municipal sector constitutes one of the crucial drivers for financial performance and management. These authors further substantiate that the success indicators for financial performance and management, which can become failure indicators, are, for example, outdated and inappropriate policies and manuals, 'a lack of institutional capacity, the absence of performance management systems, the lack of controls and a lack of effective record-keeping and asset management systems' (Wessels et al. 2021:272). This context lays a basis for understanding the relationship between key role players, which in this case will be officials and councils in the selected municipalities, and their involvement in promoting good financial governance, especially from the clean audit perspective, public trust and achieving municipal goals. As indicated, financial performance and management appear to be the main obstacles in the municipal administration of the selected case in this study. The driver in the presented conceptual framework is governance.

Governance

International literature on governance traces the term back to 1989 when the World Bank focused its attention on the function and role of the state in the development agenda (Grindle 2004). In its clarification of the term, the World Bank (1992:1) states that governance means the 'manner in which power is exercised in the management of a country's economic and social resources for development'. Since the new millennium, the focus in the international community has been on good governance and this, according to the World Bank (1992), emphasises more than anything else the public sector management, accountability, transparency and the legal framework for development. To summarise the above, Kofi Anan's view on good governance, which many in the academic sphere have agreed with, is relevant. He said 'without good governance, without the rule of law and predictable administration, no amount of charity will set on the path of prosperity' (Kofi Anan, cited in Adejumbi 2011:11). In the South African context, these aspects underpin the constitutional framework for (local) government and are therefore included in Chapters 7 and 10 of the constitution as the guiding principles of public administration in the Republic. The Auditor-General plays a critical role in as far as ensuring that some of these practices, particularly financial management and accountability, are promoted. One of the elements that is crucial for this study, in so far as analysing the state of governance in MDM from the conceptual framework presented herein, is the negative points raised by the AG in 2019 and 2021, respectively – that the audit committees and risk management in the district municipality are ineffective and inefficient.

Theoretical approaches

This study is based on two theoretical approaches, the Principal-Agent (PA) Theory and the Stewardship Theory.

These theories have been used by researchers in public administration and appear to be influential in public governance studies. These are explained next.

The principal-agent theory

In Public Administration, the PA Theory is based on research that analyses the relationship between the executive and the legislature (Gailmard 2012) and has been extensively used as a paradigm to unpack public accountability. In local government the principal refers to a council, which is a political structure of a municipality, whereas the agent is the executive, which is the administrative structure of the municipality. Therefore, the use of this theory in this study is triggered by the reported reluctance or inability of the local government leadership to practise the oversight responsibilities contained in section 152 and 167 of the Constitution. In this sense, the theory will be vital in understanding the role of municipal leaders in holding officials accountable, including ensuring compliance with AG recommendations.

The stewardship model

Another theory to be used is the Stewardship Theory, which, according to Erasmus and Coetzee (2018), describes managers of a company as being the stewards of the owner with both managers and owner sharing a common goal. As a result, the governing board (which is the municipal councils in the case of the current study) should avoid being controlling and placing unnecessary pressure on the manager (Hendry 2002). The Stewardship Theory application in this case will be premised on the understanding that members of a municipal council and the appointed officials in the administration form a crucial part of a municipal institution and provide public services to communities. These share the common goal (service provision), and therefore a distinction regarding their roles is important to assess the institution's financial results, position and future plans. Essentially, this theory regards the audit committee as a significant oversight role player on behalf of the municipal council.

Ethical considerations

Ethical clearance to conduct this study was obtained from the Tshwane University of Technology Faculty Committee for Research Ethics – Humanities with reference number FCRE/PM/STD/2022/13.

Presentation and discussion of findings

The findings presented in this section are based on the primary study. As a point of departure, it is important that a few facts about the state of governance of the MDM be laid out. Mopani District Municipality forms an integral part of the Limpopo municipalities and the country as a whole. It is a C2 district municipality and, like many other municipalities throughout the country, is faced with financial management problems. This municipality receives over 1 billion rand,

most of it for water services and national grants. According to fruitless and wasteful expenditure records from the national treasury, the municipality was at a negative record of 29% from 2020 to 2021 (National Treasury 2023). This is also supported by its audit outcomes, which have been unimpressive since 2018. Its financial performance record in the past 5 years shows an adverse opinion in 2018, a qualified opinion in 2019 and 2020, and a disclaimer report in 2021. In the 2022–2023 financial year, the AG reported no improvement as the municipality received a qualified report once again (AG 2018–2023).

In addition to the foregoing, these persisting poor audit outcomes have led to the MEC responsible for local government, in the first quarter of 2023, deciding to invoke mandatory intervention through section 139 of the constitution. This decision was rejected by the district council and is currently being challenged in the high court. Nonetheless, the problem of poor financial management in Mopani District also extends to its dependent local municipalities, Giyani, Greater Letaba, Greater Tzaneen, Ba-Phalaborwa and Maruleng, and as the 2016–2021 AG's consolidated reports show, only two local municipalities have since improved their audit outcomes. The officials were engaged in the three questions that are outlined under the heading 'research purpose and guiding questions' of this study and their responses were categorised and are presented in the following themes:

The response measures to address the Auditor-General concerns

This is the first theme generated from the responses of the participants when asked how the municipality is responding to the recommendations of the AG. Based on the recent and previous AG reports (2014/2015 & 2021/2022) that showed no improvements, it is evident that corrective measures were either taken and did not succeed or the AG recommendations were ignored altogether. The responses to the dominant subthemes could be deduced, namely organisational commitment to take corrective actions, and organisational ability to correct. Respondents were asked whether the municipality has shown ability to improve the financial management practices by adhering to AG's suggestions and recommendations. All participants agreed that the combination of these issues affects good financial management practices in the municipality.

A lack of organisational commitment to correcting the status quo

The AG has the mandatory responsibility to audit and report on the extent to which municipal organisations are executing their primary task with excellence. On observing failures to adhere to governance prescripts, the AG is entitled to recommend steps for improvement. There have been challenges around this aspect, and the MDM has been cautioned numerous times about its lack of commitment to taking corrective measures to prevent the sustained poor

audit outcomes. Asked why, the respondents blamed the weak leadership of the municipality:

'We have a bad organisational culture ... you see ... and our officials are doing as they like because the leadership does not care about us using the AG reports as a future barometer for improvement, but they will tell you that AG did her job and we have ours to do, why focus [on] the past ... you see.' (Director)

This point was previously underscored by the former AG, Terrence Nombembe, in one of his writings. The author argued that if leaders do not demonstrate seriousness in initiating corrective action where such is recommended, it will be impossible for the rest of the organisation to follow suit (Nombembe 2013:101–102). Put differently, commitment to certain actions needs a top-down approach where those entrusted with executive authority should be the first to show interest in acting on certain matters. On the same matter, another respondent added that some junior ranking officials perceive themselves as:

'[B]osses due to their political standings in society, especially their participation in local and regional politics here in Mopani. Some of these officials ... are chairpersons and secretaries of branches where these councillors, some of them MMCs [Mayoral Committee Members], are members.' (Manager)

One of the pressing reasons President Ramaphosa signed the amendments in the *Local Government Municipal Systems Act* (3 of 2022) included another issue raised by this respondent, which was the inability to separate politics from administrative tasks. When an official holds an influential political position, especially one that has a direct impact on the election and performance of the office bearers in the same organisation, it becomes difficult to strike a balance between politics and administration. It is interesting how this phenomenon presents a reverse picture of the aforementioned Stewardship Theory because this conundrum accords the manager more controlling and abusable powers that he or she can use to influence the governing board. The absurdity attached to this conundrum therefore carries the potential of perverting the common goal of the executive and council, as well as other municipal officials. The likelihood of the organisation committing to certain actions will thus be influenced by personnel and the relationship between certain individuals rather than a common vision guided by the existing legal frameworks, desires and recommended actions to improve municipal financial practices.

Administrative inability to correct

All respondents mentioned the diminished efforts within the district municipality and between the district and its locals. This does not come as a surprise in that the AG in 2015 did caution Mopani about its weak district IGRs system. This also confirms that the state of IGR has remained unchanged from the time the AG observed the weaknesses to the time this study was conducted (see AG 2014/2015:68; Shopola 2019). Respondent C, a senior official in the planning department, said:

'There are only few locals that respect the principle of district intergovernmental relations, and this is costing the district because we depend on their submission of financial reports to us, and any delayed submission means that you are bound to receive disclaimer or even qualified opinion during auditing process.' (Senior official)

It must be remembered that district municipal governments are legally positioned to not only share the jurisdiction but also to support more than two municipalities found within that jurisdiction. This responsibility is not a straightforward one, especially from a governance perspective. According to Shopola (2022), it requires a high level of cooperation internally and between the involved municipalities. Un-cooperative governance in the district-local tier system is subject to administrative co-ordination and collective action to tackle governance problems.

Despite conflict and cooperation being catered for in the legislative framework, the challenge is the lack of clarity on the role and participation of municipalities within the district (see Shopola 2022). Chang's (1994) profound words to highlight the significance of cooperative governance and conflict management can edify. Chang refers to the state in its role as conflict manager, which can be seen as providing 'insurance' to the members of society by providing a governance structure that will guarantee some fair level of income to all of them under even the most adverse circumstances (Luiz 2013:111).

On governance challenges

The literature reveals that the success of good governance depends to a large extent on sound financial management practices that include accurate financial reporting, openness and transparency in local government finance management. All these aspects, including decision making at both political and administrative levels in the municipality, 'are aimed at enhancing the quality of lives of members of society' (Maserumule 2005:194). Venkateswaran (2014:93, in eds. Farvacque-Vitkovic & Kopanyi 2015), warns that financial reports should not be underestimated as they provide aggregate figures on municipal revenues and expenditure. The same can be said about the independent verification of the information contained in these reports, and this makes the auditing process an integral part of municipal or local governance. Mopani District is said to be faced with multiple complexities in its governance system with the two dominant issues being political conflicts and weaknesses in the internal auditing system.

Poor leadership

Results show that poor leadership has been a driving factor in sustained poor audit outcomes. The same finding was made by the AG between 2019 and 2021, which reports that the MEC used this problem as adequate grounds for intervening in the district through section 139 of the Constitution (1996). One respondent, a councillor currently serving in the district MPAC, said that 'the political leadership is ineffective due to lack of understand[ing] of municipal financial laws and other

governing prescripts'. Since 2016, the district and its locals have been plagued with several community unrests because of water shortages and poor management of finances (Mopani District Municipality 2023). The leadership ineffectiveness could indeed have ripple effects on accountability and oversight, and as the PA Theory denotes (Jenson & Meckling 1976), there is a need for strong political leadership because politicians not only work for the municipality but also owe great allegiance to the voters and communities at large.

Therefore, the office-bearers' inability to plan and drive compliance with the AG recommendations is a dereliction of oversight responsibilities that ultimately defies what the White Paper on Local Government (1998) and National Development Plan (2012) characterise as developmental municipal or local government that is premised on the essence of people-oriented development. Emphasising the significance of the PA relationship in a different article, the former speaker of Parliament, Max Sisulu remarked that the executive leadership and accounting officers and senior management of government have the frontline role in setting the tone for good governance and accountability (Sisulu 2013:31–32). Indeed, Mopani District has the right to effective leadership that is able to reflect on the AG's previous recommendations and ensure that the right people and processes are put in place to correct and improve the financial situation.

Despite the few notable good things in the MDM's expenditure patterns, especially in relation to the municipality's current cash balance, which (at the time of writing this article) stood at R 1.2 billion. Cash balance is a good financial indicator reflecting the easily accessible money the municipality has in the bank, meaning that it will not experience situations that are common in municipalities such as North West's Ditsobotla Municipality and Limpopo's Modimolle-Mookgopong Municipality, where staff salaries and other suppliers could not be settled for 2 months or more (National Treasury's Municipal Money Report 2023:1). This means that the MDM can pay months of its operating expenses with the cash available in its coffers.

However, the same cannot be said about other financial management areas in the MDM. As noticed in its 2020–2021 and 2017–2018 capital budget expenditure patterns, which stood above R26.9 in over-expenditure, it appears that the municipality does not properly monitor its expenditure and the budgeted capital. It is these imbalances that the AG cautioned about in the previous reports, but no corrective action is being taken and this, according to Assaduzzman and Virtanen (2018), does not reflect good governance. These authors believe that good governance has to reflect efficiency and effectiveness in the administration of statecraft as guided by the democratic framework.

Weak internal auditing systems

From the contextual exposition of the auditing process in South Africa, it is understood that each public institution must have internal audit systems and structures embedded

in organograms. These structures are responsible for auditing the internal use of resources as well as for identifying risks and other alarming acts that threaten good governance. The Policeman Theory refers to these structures as the policemen acting on behalf of the citizens and whose duty is to uncover financial risks, fraud and irregularities (Duits 2012). They are also understood in this study to be representing council thus placing them as agents in the framing of Principal Agent Theory. The respondents in this study acknowledge that Mopani has not only an internal auditing unit but also highlight its weaknesses. One senior manager in the planning unit concurred with the councillor who said:

'[O]ur internal auditors are not objective; if they were, we would be seized with doubled and similar findings that the AG raises about this institution. Instead they will act as if they missed certain information and be like ... noo ... our conclusions were based on what was supplied to us.' (Councillor)

Another respondent, a senior official, mentioned that the problem has nothing to do with objectivity but with capacity and support:

'That unit is not capacitated, and their work is hugely dependent on support from other colleagues and with the weak organisational culture and reporting line in Mopani, it is unlikely that Internal Audit will survive.' (Senior official)

The above contradicting views indicate that the relationship between executive leadership and administration is not positive because it is leadership that should encourage and motivate internal departments to comply with all auditing processes. In the same way, objectivity in audit outcomes ought to be treated as legal compliance with the building capacity of the internal audit unit and therefore appointing skilled auditors is important. The risk of lacking these two potentially means that the organisation will outsource the services, which also has financial implications. The AG 2019 warning to Mopani against excessive use of consultants is yet to bear returns in terms of capacity building and improved audit outcomes despite many years of using external consultants.

Conclusions and recommendations

The findings are presented and discussed in the foregoing section and the closing remarks and recommendations are given here. It is general knowledge that most municipalities in the South African local government are struggling with financial compliance, and the primary findings in this study have shown that the MDM is no exception. This study has further proved that municipal financial governance struggles go beyond the numbers of clean, qualified and disclaimer audits that the AG normally reports on an annual basis. In the case of sustained poor audit outcomes, this study confirms the findings of Krishman and Subban (2021) and Wessels et al. (2021), who established that while some municipalities have shown reluctance to address the AG concerns, others lack political will and capacity to do so.

In addition to this, the study further establishes that internal auditing players are also missing in the game because of

either lack of objectivity in advising council of the red flags and possible risks associated with financial governance in the municipality or incapacity stemming from lack of skills and manpower. The AG has previously flagged overspending on capital projects, a weak district IGR system, ineffective leadership and excessive use of consultants in MDM, which are not being addressed. The municipality has been placed under mandatory provincial intervention, which signals that it is in dire need of capacity despite not accepting the fact. The decision by council to challenge the intervention borders on denialism, but it is also a sign of the uncooperative nature of government in the context of provincial-local relations in Limpopo. Therefore, this study makes the following recommendations:

- There is a need to develop a monitoring and tracking mechanism on the implementation of AG recommendations, which must be reviewed quarterly with each responsible municipal department reporting progress to both council and the provincial department that is responsible for local government.
- A strict financial reporting calendar and consolidation period outside of that imposed by legislation (RSA 2003) must be generated and agreed upon by all local municipalities in the district. This will allow the district to consolidate reports in time and make submissions during the audit to avoid disclaimers and other negative opinions.
- There is a need for capacity building in the district council, especially on issues of leadership and financial management.
- The district needs to build strong internal audit systems with skilled people.
- The internal audit department needs to be supported by sister departments in the municipality.
- Mopani District Municipality needs a revived organisational culture and strengthened district-local relations.

In closing, it is worth mentioning that it will be incorrect to suggest that there is insufficient commitment to turning local government around when it comes to improving audit outcomes. The 2009 and 2014 Clean Audit campaigns by COGTA come to mind because these were not just empty campaigns but came with the technical support that the municipalities needed. The findings in this study show that financial governance matters in municipalities, especially in the MDM because of its internal weakness, inability or urge to address the AG recommendations. It is not about whether they trust the AG's advice as suggested by one interviewee, but about political and executive commitment to enforce compliance on municipal financial governance laws.

Acknowledgements

Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

Authors' contributions

T.E.R., A.S. and J.M. contributed equally to this research article.

Funding information

This research received no specific grant from any funding agency in the public, commercial or not-for-profit sectors.

Data availability

The data supporting the findings in this study are available from the second author, A.S., upon reasonable request.

Disclaimer

The views and opinions expressed in this article are those of the authors and are the product of professional research. It does not necessarily reflect the official policy or position of any affiliated institution, funder, agency or that of the publisher. The authors are responsible for this article's results, findings and content.

References

- Adejumobi, J., 2011, *Introduction: State, economy and society in a neoliberal regime*, Palgrave MacMillan, New York, NY.
- Assaduzzman, M. & Virtanen, P., 2018, *Governance Theories and Models*, Springer, Cham, viewed 23 January 2024, from https://doi.org/10.1007/978-3-319-20928-9_2612.
- Auditor-General South Africa, 2015, *Audit Report on Mopani District Municipality, 2014/2015*, AGSA, Pretoria.
- Auditor-General South Africa, 2018a, *Auditor-General report on Mopani District Municipality, 2017/2018*, Limpopo Provincial Legislature, Lebowakgomo.
- Auditor-General South Africa, 2018b, *Consolidated report on the audit outcomes of local government, 2017/2018*, AGSA, Pretoria.
- Auditor-General South Africa, 2019, *Auditor-General report on Mopani District Municipality District Municipality, 2018/2019*, Limpopo Provincial Legislature, Lebowakgomo.
- Auditor-General South Africa, 2020, *Auditor-General report on Mopani District Municipality, 2019/2020*, Limpopo Provincial Legislature, Lebowakgomo.
- Auditor-General South Africa, 2022a, *Auditor-General report on Mopani District Municipality, 2021/2022*, Limpopo Provincial Legislature, Lebowakgomo.
- Auditor-General South Africa, 2022b, *Online portal: Municipal financial management reports*, viewed 04 July 2023, from <https://www.agsa.co.za/Reporting/MFMAReports.aspx>.
- Brynard, D.J., Harnekem, S.X. & Brynard, P.A., 2014, *Introduction to research*, 3rd edn., Van Schaick Publishers, Pretoria.
- Chang, H., 1994, 'State, institutions and structural change', *Elsevier* 5(2), 293–313.
- Conger, J.A. & Kanungo, R.N., 1988, *Charismatic leadership: The elusive factor in organizational effectiveness*, Jossey-Bass, Washington DC.
- Creswell, J.W., 2019, *Research design: Qualitative, quantitative, and mixed method approaches*, Sage Publications, Thousand Oaks, CA.
- Department of Cooperative Governance and Traditional Affairs, 2009a, *Local government turn-around strategy*, Government Printers, Pretoria.
- Department of Cooperative Governance and Traditional Affairs, 2009b, *The state of local government affairs*, Government Printers, Pretoria.
- Department of Cooperative Governance and Traditional Affairs, 2014, *Annual report 2013–2014*, COGTA, Pretoria.
- Duits, H., 2012, *The added value of auditing in a non-mandatory environment*, University of Amsterdam, viewed 12 January 2024, from https://pure.uva.nl/ws/files/1637256/145906_thesis.pdf.
- Erasmus, L. & Coetzee, P., 2018, 'Drivers of stakeholders view of internal audit effectiveness: Management versus audit committee', *Managerial Auditing Journal* 33(1), 90–114. <https://doi.org/10.1108/MAJ-05-2017-1558>
- Farvacque-Vitkovic, C. & Kopanyi, M. (eds.), 2015, *Municipal finances: A handbook for local governments*, pp. 93–145, World Bank, Washington, DC.
- Gailmard, S., 2012, *Principal – Agent theory: An overview*, University of California, Berkeley, CA.
- Gleason, M.C., 2012, *Mentoring influence on socially responsible leadership capacity based on institutional Carnegie classification*, Iowa State University, viewed 10 December 2023, from <https://www.lib.idm.oclc.org/login?url=https://www.proquest.com/dissertations-theses/mentoring-influence-on-socially-responsible/docview/1022640740/se-2?accountid=12865>.
- Grindle, M.S., 2004, 'Good enough governance: Poverty reduction and reform in developing countries', *Governance* 17(4), 525–548. <https://doi.org/10.1111/j.0952-1895.2004.00256.x>
- Haruna, P.F. & Vyas-Doorgapersad, S., 2015, 'Public Administration Training in Africa: Competencies in Development Management', in P.F. Haruna & S. Vyas-Doorgapersad (eds.), *Assessment of Public Administration training and Development in Africa: Lessons learned and the Wayforward*, pp. 190–209, CRC Press, New York, NY.
- Hendry, J., 2002, 'Honest incompetence and the specification of objectives', *The Academy of Management Review* 27(1), 98–113. <https://doi.org/10.2307/4134371>
- Jenson, M. & Meckling, W.H., 1976, 'Theory of the firm: Managerial behaviour, agency costs and ownership structure', *Journal of Financial Economics* 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Krishman, H.B. & Subban, M., 2021, 'Local financial governance and accountability through audit committees in local government: A normative framework for self-evaluation of audit committees', *Administratio Publica* 30(4), viewed 09 January 2024, from https://hdl.handle.net/10520/ejc-adminpub_v30_n4_a8.
- Kwaza, M., 2017, *Utilisation of the Auditor-General's reports in improving the audit outcomes at selected municipalities within the Amathole District Municipality (2006–2015)*, Fort Hare University, Eastern Cape Province, Alice.
- Luiz, J.M., 2013, 'Economic governance, markets and public accountability: A freedom constraint?', in D. Platjees (ed.), *Protecting the inheritance: Governance and public accountability in a Democratic South Africa*, pp. 98–105, Jacana Media, Pretoria.
- Maserumule, M.H., 2005, 'Good governance as a sine qua non for sustainable development in the NEPAD: A conceptual perspective', *Journal of Public Administration* 40(3.1), 194–211.
- McMaster, X., 2019, *Fiscal health, audit outcomes and aspects of development: A study of South African Local Government (2011–2016)*, University of South Africa, Pretoria.
- Mopani District Municipality, 2023, 'Media Communiqué', *Inside Mopani* 2, 1–3.
- National Treasury, 2023, *Municipal money: Financial performance of Mopani District*, viewed 01 December 2023, from <https://municipalmoney.gov.za/profiles/district-DC33-mopani/#income>.
- Nkuna, N. & Sebola, M., 2019, 'Local government financial in South Africa', in K. Moeti (ed.), *Public finance fundamentals*, 3rd edn., pp. 161–174, Juta & Co., Cape Town.
- Nombembe, T., 2013, 'The light of leadership: A catalyst for good governance and public accountability', in D. Platjees (ed.), *Protecting the inheritance: Governance and public accountability in a Democratic South Africa*, pp. 70–97, Jacana Media, Pretoria.
- Powell, D., O'Donovan, M., Ayele, Z. & Chigwata, T., 2014, *Operations clean audit 2014: Why it failed and what can be learned*, University of the Western Cape, Belville.
- Ramaphosa, C., 2023, *From the desk of the President: Fixing local government is a national priority and responsibility*, viewed 10 June 2023, from <https://www.thepresidency.gov.za/from-the-desk-of-the-president/fixing-local-government-national-priority-and-responsibility>.
- Republic of South Africa, 1996, *Constitution of the Republic of South Africa, Act 108 of 1996*, Government Printers, Pretoria.
- Republic of South Africa, 1998, *The white paper on local government, 1998*, Government Printers, Pretoria.
- Republic of South Africa, 2003, *Local Government Municipal Financial Management Act, 56 of 2003*, Government Printers, Pretoria.
- Republic of South Africa, 2012, *National development plan vision 2030*, Government Printers, Pretoria.
- Republic of South Africa, 2022, *Local Government Municipal Systems Act, 03 of 2022*, Government Printers, Pretoria.
- Shopola, M.A., 2019, 'Empirical review of intra-local governmental relations in Mopani District Municipality', Master's dissertation, Tshwane University of Technology.
- Shopola, M.A., 2022, 'Management of district-local relations through the district intergovernmental forum in Mopani District Municipality, South Africa', *African Journal of Governance and Development*, 11(1.1), 25–46. https://doi.org/10.10520/ejc-ajgd_v11_n1.1_a3
- Sisulu, M., 2013, *Protecting the inheritance: Governance and accountability in Democratic South Africa*, Jacana Media, Pretoria.
- Van Der Waldt, G., 2021, *Municipal management: Serving the people*, 4th edn., Juta & Co., Cape Town.
- Van Puyvelde, S., 2012, 'The governance of nonprofit organizations: Integrating agency theory with stakeholder and stewardship theories', *Nonprofit and Voluntary Sector Quarterly* 41(3), 431–451. <https://doi.org/10.1177/0899764011409757>
- Wessels, J.S., Khwaza, M.H. & Ijeoma, E., 2021, 'Sustained poor audit outcomes: The case of the Amathole District Municipality', in J.S. Wessels, T. Potgieter & T. Naidoo (eds.), *Public administration challenges: Cases from Africa*, pp. 246–274, Juta & Company, Claremont.
- World Bank, 1992, *Governance and development*, World Bank, Washington, DC.