Municipal financial management to fight corruption and enhance development

A holistic approach

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ABSTRACT

This article posits that financial management systems that function well and that have been developed based on collective international and national experience can be an important deterrent to corruption in both the private and public sectors. The various weaknesses identified in the Auditor-General's and the National Treasury's recent reports are analysed in relation to municipalities and are examined in a comparative overview which includes research that identifies key elements of financial management essentials.

The article identifies and explores various interrelated steps, systems and models that form the basis of solid financial management, as well as the basic elements of the accountability systems and governance arrangements that are meant to act as a shield against corrupt practices. These strategies focus on preventing management fraud and fraudulent financial reporting as key elements to ensure good financial management.

The Auditor-General's 2012 report is used as a recent forensic report on major financial mismanagement in South African municipalities to relate the conceptual and theoretical framework with empirical manifestations of the corruption it aims to combat.

INTRODUCTION

Throughout the world, management systems that operate in the realm of Financial Management are fundamental to economic, social and infrastructural growth and the development of local government entities. This is particularly relevant for growth in Africa. These systems include costing, budgeting, accounting, financial information, procurement, cash control, stock control, asset management and internal controls. Such systems have been developed through collective and local experience and today form part of the legislated financial management arrangements in many countries.

This article looks at a case study in the failure of such systems in South Africa, where the *Public Finance Management Act,* 1 of 1999 (*PFMA*) (RSA 1999) and the *Municipal Finance Management Act,* 56 of 2003 (RSA 2003) as Acts of Parliament cover financial management in all government organisations in all three spheres of government. Financial systems are a crucial element in the integrated governance systems which are meant to function as the foundation of effective, efficient and accountable local government in Africa and elsewhere.

THE CONTEXT: GOVERNANCE AND THE LEGAL PARAMETERS

Well-developed financial management systems are the foundation of good governance, which is the very opposite of corruption, graft, fraud, poor management of resources, nepotism, incompetency and general negligence of the basic principles of management and leadership. This implies that highly quality financial management systems are the *sine qua non* of good governance. In this relationship, good governance is the basis on which state entities exercise their authority to provide for a country's citizens the sustainable delivery of services which citizens expect, such as the building and maintenance of roads, health services and public schools (McNeil and Malena 2010:13).

In the local government field, it is a commonplace that the political leadership (the councillors who govern municipalities) need to realise that their task is to work hard in their municipality, to steer it forward and ensure that it performs satisfactorily. The managers and employees, by contrast, are there to do the job and deliver the expected services. Any dishonesty or incompetence on either side leads to damage and means that these goals will not be achieved. In this context, cooperation, collaboration and continuous interaction amongst political and administrative leaders are very important.

Solid financial management and good governance guarantee a municipality's financial viability and are therefore among the five national key performance areas outlined with regard to the municipal performance regulation for municipal managers and all managers directly accountable to the municipal managers. Thus the performance of a municipality depends on good governance to ensure that sustainability can become a reality. Financial viability is measured in terms of a municipality's capacity to meet its financial obligations in a sustainable manner.

Mismanagement of resources is, in most cases, the result of weak human resources and financial management, political interference, and the lack of a clear mission and leadership in public institutions (Mantzaris 2013). Admittedly, municipalities are expected to meet the challenges of an ever-changing financial environment in order to comply with the best practices common in the private sector. One of the biggest challenges facing municipalities relates to meeting the International Accounting Standards, for example, the application of Generally Recognized Accounting Practices (GRAP). It has been argued that municipalities might spend hundreds of millions, if not billions, to ensure compliance with the GRAP reporting framework, but that this might reduce service delivery to a secondary function (Swanevelder 2005).

In terms of the *Constitution of the Republic of South Africa,* 108 of 1996, chapter 7 section 52, on the establishment of the local sphere of government, Local Government consists of District and Local Municipalities (RSA 1996). Chapter 10 of the *Constitution,* section 195, defines the basic principles governing public administration (RSA 1996). These include the observation of high standards of professional ethics; adherence to efficient, economic and effective use of resources; the developmental orientation of public administration; the provision of impartial, fairly, equitable and unbiased services; public participation by citizens in policy-making; a response to people's needs and accountability in public administration; and the fostering of transparency by providing the public with timely, accurate and accessible information (RSA 1996).

The *Municipal Systems Act,* 32 of 2000 (sections 95 and 96) gives a Municipal council the authority to develop credit control and debt collection measures in respect of municipal rates, and other service charges for services rendered (RSA 2000). The Act gives Municipalities powers to collect all money that is due and payable to the council. Measures relating to credit control and debt collection policies must be adopted as part of the municipal by-laws to effect their implementation to the citizenry (RSA 2000).

The basic tool to manage municipal financial management is a municipal budget. It is imperative that municipal stakeholders, such as municipal officials, mayors, ward councillors, traditional leaders and interest groups should have a sound basic knowledge of the *Municipal Finance Management Act,* 56 of 2003 (RSA 2003) and other related legislation and their application (Kanyane 2011:935). The Act is established "to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and provide for matters connected herewith" (RSA 2003). The budget of any municipality must be transparent and requires the involvement of the community in terms of section 21A of the *Municipal Systems Act,* 32 of 2000 (RSA 2000).

Furthermore, it is the responsibility of each municipality to employ practical financial measures to ensure that the municipal council approves sustainable strategies such as adopting credible budgets. A sustainable budget is defined as "a fiscal strategy which can continue to exist for the foreseeable future without any substantial change, and in particular without any sharp changes in tax rates or spending to prevent a substantial deterioration in fiscal position" (Sheehan 2005:65).

THE STATE OF SOUTH AFRICAN MUNICIPALITIES

The most accurate reflection of the financial state of affairs of South African municipalities is the Auditor-General's annual report, which is a very substantial barometer of the situation of the entities entrusted with development and growth at the local level throughout the country.

The report released in July 2012 showed the abysmal state of affairs facing the country's administrative and political leadership. In this report, only four municipal entities registered clean audits, which is a decline from ten clean audits in 2011. None of the municipalities in the Eastern Cape, Free State, Gauteng, Northern Cape or North West received clean audit reports. The audit results at national level, as they appear in the official documents, show that almost half of the audited municipalities (156 out of 343, that is 45%) were given financially unqualified audit reports, but with internal control concerns (findings). These financially unqualified audit reports were only obtained after corrections during the audit process and with the assistance of the auditors. The other half of the municipalities received financially qualified opinions or disclaimers (18%) and adverse opinions or disclaimers (19%). As many as 13% of municipalities did not submit financial statements in time for auditing.

The slow progress towards clean audits in local government can be ascribed to three main causes. Firstly, 57% of municipalities were slow to respond to the Auditor-General's messages and the implementation of key controls, because there was a lack of consequences for poor performance and transgressions. Secondly, at more than 70% of audited municipalities, there was a lack of minimum competencies among officials in key positions (this was most evident in the financial discipline). Thirdly, there was lack of leadership in the municipalities.

The Auditor-General (2012:3) said that he remained sure that, with the commitment of the leadership, any size municipality could achieve clean audits, as already proven by a few determined ones:

> *What these provinces are beginning to display is the outcome of concerted efforts on the part of political leaders and management. They are moving forward towards the clean audit space by consistently committing to take ownership of municipal performance practices, insisting on adequately qualified staff and effective performance management practices. The next logical step for these municipalities is to institutionalise these gains to sustain the culture of clean administration. This will surely uphold the public confidence that we witnessed during the presentation of the clean audit awards held at each of the municipalities. […] The desired progress towards clean audits is at risk if these root causes are not addressed.*

He noted government's interventions to address a skills gap, including coordination and commitment by all parties to implement legislation on minimum competency levels. The lack of skills is evident in the fact that numerous errors that needed to be corrected by auditors during the audit, despite the fact that the instances where consultants were brought in to assist municipalities increased from 86% in 2010 to 91% of municipalities in 2011. As already indicated, 13% of audits in a few provinces (North West, the Northern Cape and the Western Cape) were not finalised in time for inclusion in the general report by the time of its release.

In this regard, the Auditor-General (2012:4) said:

> *We are seeing the impact of the lack of skills, the slow response of leadership to owning key controls, as well as the absence of managing poor performance and the risks that municipalities continue to face. At the moment these risks are beyond tolerable levels.*

The *Municipal audit report 2010-2011* identified four major areas of risk related to Supply Chain Management, where there is a growing trend of irregular expenditure. These areas of risk are predetermined objectives (service delivery reporting), which displayed some improvement in certain provinces; Information Technology (IT) controls, which displayed minimal improvement in terms of internal control; human resource management, which displayed minimal improvement; and significant errors in financial statements, which displayed no improvements at all despite the increased use of consultants (Auditor-General 2012:13–14).

This means that internal control, a key element of financial management, needs to be revisited and perfected in all these areas in all municipalities to improve the level of transparency and accountability in local government. It is evident that in order to improve in these respects, municipalities needed to strengthen internal controls in the following three areas: firstly, leadership, which is expected to set the correct tone for effective governance; secondly, financial; and thirdly, performance management reports, which must be subjected to management checks and balances to confirm credibility of information and governance, by strengthening audit committees and internal audit functions that will complement the work of the newly established municipal public accounts committees (MPACs) (Woods and Mantzaris 2012:94–97).

According to the Auditor-General's (2012) Report, 70% of municipalities have not yet been able to master the basics of key controls, notwithstanding the use of highly paid consultants and the assistance of the Office of the Auditor-General. Against this background, it is clear why municipalities face so many dilemmas and challenges, despite the launch of the government's *Operation clean audit* in 2008, and the regular engagement of the Auditor-General's office with municipal, provincial and national political leaders to share assessments of key controls in the areas mentioned above and to identify threats to clean audits. The Auditor-General points out that these visits were designed to further align expectations towards clean audits, recognise champions of goodness and encourage those who still need motivation in this direction. He added: "We do this because we care about how auditing can lead to building public confidence and to facilitating and encourage leadership and governance practices that are exemplary" (Nombembe, 2012: n.p.).

As the National Treasury (2012) has reported, on aggregate, municipalities spent 88,3%, or R233,9 billion, of the total adjusted budget of R264,8 billion by 30 June 2012, according to the fourth quarter Year to Date (YTD) results for the 2011/12 financial year. In respect of revenue, aggregate billing and other revenue amounted to 90,8%, or R260,3 billion, of a total adjusted revenue budget of R286,6 billion.

There was aggregate net overspending of 1,6%, or R4,3 billion, and aggregate net underspending of 13,3%, or R35,2 billion, of municipalities' total budgets. The over- and underspending was made up as follows:

- aggregate overspending of the adjusted operating budget – 1,8%, or R4 billion;
- aggregate underspending of the adjusted operating budget – 10,2%, or R22,3 billion;
- aggregate overspending of the adjusted capital budget – 4,9%, or R2,2 billion;
- aggregate under-spending of the adjusted capital budget – 32,3%, or R14,8 billion. (National Treasury 2012:3)

The Treasury Report confirms research reports produced by Muzoditya and Ndletyana (2009) and Kanyane (2006, 2011) that show a number of reasons for municipalities' and their populations' suffering the consequences of dismal, mediocre or corrupt financial management systems and processes. It is more difficult to perpetrate corruption where solid financial systems are in place, and if corruption does occur, such systems make it easier to detect.

Kanyane (2011) is adamant that public finance, in other words, financial management, is the overriding factor in determining the viability of local government. This means that without sound financial management systems, municipalities will deteriorate. It is thus imperative that municipal stakeholders, such as municipal officials, mayors, ward councillors, traditional leaders and interest groups, have a sound basic knowledge of the *Municipal Finance Management Act,* 56 of 2003 (RSA 2003) and related legislation and its application. However, Kanyane (2011) indicates that research confirms that the majority of rural municipalities in South Africa are not self-viable. This is due to a number of challenges that include problems with governance, finance, planning and human capital. Depleted revenue bases, shoddy or corrupt financial management, and recurring irresolvable audit deficiencies bring municipalities to a state of collapse.

Muzoditya and Ndletyana's (2009) article provides a succinct historical exposition of the national government's efforts to remedy municipal capacity problems that they describe as the roots of financial management problems, amongst other things. Their key question is whether municipalities have the requisite capacity to fulfil their constitutional mandate. In attempting to answer this question, they review the changing circumstances of local government in a specific historical period. They begin by defining capacity in the context of municipalities, and then ascertain the existing level of skills relative to municipal needs. Next they evaluate existing programmes introduced to offset a lack of municipal capacity, and then make observations about where these programmes might most urgently need to be strengthened. They conclude that, despite important efforts, the situation remains dire.

Similar positions are to be found in the seminal report of the Department of Cooperative Governance and Traditional Affairs' (2009) *Report on the State of Local Government in South Africa* and Maserumule's (2008:12-13) article entitled "Framework for strengthening the capacity of municipalities in South Africa: A developmental local government perspective".

CORRUPTION AND ANTI-CORRUPTION FINANCIAL MANAGEMENT SYSTEMS FOR MUNICIPALITIES

In South Africa, in Africa and in the rest of the world, historical lessons, new technologies and global systems are inevitably leading to public sector reforms. These have been introduced in a growing number of developed and developing countries over the past 20 years, and have induced modernisation of the financial management sphere of government. It is important to understand such frameworks in order to relate better to a financial management environment in which transparency, accountability and control over corruption prevail.

The "management" perspective of systems, methods, processes, etc., that evolved through reform over the years is briefly presented. The emphasis is on the practical actions which we should expect to find in today's typical local government organisation. In the South African public sector setting, such actions are advocated through the *Public Finance Management Act,* 1 of 1999 (RSA 1999) and the *Municipal Finance Management Act,* 56 of 2003 (RSA 2003), and the sets of regulations which accompany these Acts.

Every financial management system or model follows a set of three inter-related steps or "stages", namely a planning stage, an operational stage and an accountability and oversight stage. The reform model and its three stages can be explained as follows.

- *Stage 1. Planning and formulation systems.*
  These incorporate the planning and performance range of systems.

- *Stage 2. Operational Management and Control*
  This stage includes the accounting personnel, procurement, working capital, asset management, management information system (MIS), and the internal control system (which includes the Internal Audit function). The relevance, reliability and accuracy of accounting information are assured through adherence to internationally accepted accounting standards (IASs), which are compiled by the International Accounting Standards Board (IASB) and its publications on Generally Accepted Accounting Practices (GAAP). This framework is known as Generally Recognised Accounting Practices (GRAP) in South Africa (RSA 2004).
- *Stage 3. Reporting, Accountability and Oversight*
  Reports in a modern public sector organisation should incorporate accounting by lower levels of management to, and oversight by, higher levels of management; by the accounting by senior manager to, and oversight by, the Accounting Officer (for example, the Head of Department, Chief Executive Officer, or Municipal Manager); the accounting by the Accounting Officer to, and oversight by, the political heads of the organisation (in other words, the municipal elected members); and the accounting by the Accounting Officer and Political Head to, and oversight by, Parliament, the legislature or municipal council.

Against the background of the above overview of modern financial management systems and arrangements it is possible to consider the embedded anti-corruption features, facilities and qualities of such systems in the budgeting and costing systems, the risk management system, the internal control system, and the accounting system.

The accounting system is crucial for a number of reasons. Financial records are maintained on the double-entry system. Fraudulent accounting entries always affect at least two accounts and consequently affect at least two categories in the financial statements. Simultaneously, good accounting allows for effective forensic accounting, whereby evidence can be accumulated to ensure that prosecutions can be pursued. Such forensics also enable preventative controls and measures to be put in place to prevent repeat occurrences of specific fraudulent transactions. A document retention policy is vital, as the Enron case has shown conclusively. The supply chain and procurement system, as well as the Management Information System, can be described as cornerstones of solid and effective financial systems (Atrill and McLaney 2012:111–124; Baker and Powell 2009:121–124; Khan and Jain 2007:87–89).

Extending much wider than the accounting system, the Management Information System, if it is well designed, produces the management reports. If these reports are produced on a timeous basis, they are a critical aspect of anti-corruption mechanisms (Woods and Mantzaris 2012:101).

In the accountability system and governance arrangements, economic crime and financial corruption can be minimised or even eliminated if systems are operational at a high level. Economic crime and financial corruption are fairly encompassing terms used to describe any activity where perpetrators attempt to seek economic benefit dishonestly and illegally from another source. These abuses are common and can take place in almost all sections of an organisation. These crimes include white collar crime, which involves a variety of fraud types, schemes, and commercial offences by businesspersons, confidence men and public officials. The category includes a broad range of non-violent offences that have cheating as their central element. Their monetary values fluctuate, depending on the size, resources, capabilities and knowledge management of municipalities throughout a country (Khan and Jain 2007:88).

There are a number of general offenses that are common throughout South Africa, namely employee-related fraud and corruption, such as presenting fake educational qualifications and or a falsified curriculum vitae and other misrepresentations of relevant personal information; and payroll/remuneration scheme-related fraud such as ghost employees, commission schemes, workers' compensation fraud, falsified wages, backdated salary increases, irregular bonuses, overtime abuse, irregular promotions, nepotism, patronage distribution, irregular loans, illegal gratuities, expense reimbursement schemes, misclassified expenses, fictitious expenses, duplicated reimbursements, multiple reimbursements, fraudulent subsidy and travel claims or the use of department credit cards for personal use (Woods and Mantzaris 2012:137).

Asset misappropriation involves cash for favours (known as "cash on hand"), theft, cash deposits received, unrecorded cash transactions, transactions in foreign currencies, misappropriation and miscalculation of foreign exchange. It can involve inventory and other assets (such as stocks), including theft of tangible assets, use of an organisation's equipment (or staff) for private purposes, asset purchases or transfers, inventory schemes, or asset movement (Van Horne and Wachowicz 2005:26).

Debtor-related abuses involve sales schemes, unrecorded or under-recorded sales, invoice kickbacks, credit notes and refunds, short deliveries, false invoices, discounts, diversion of payments and various uses of bribes. Creditor-related corruption takes place through billing schemes, shell companies, personal purchases, double billing mispricing, fraudulent disbursements or payments, overpayments, fraudulent credit notes and false refunds (Woods and Mantzaris 2012:133).

Procurement fraud takes place through a variety of means such as fictitious quotes, fictitious invoices, discounts, ghost suppliers, manipulated "preferred supplier" lists, shell companies, principal/agent schemes, hiring policy, tendering schemes, various forms of bribery, kickbacks, bid-rigging, information-brokering, manipulation of preferential procurement arrangements, manipulation of Black Economic Empowerment arrangements, other dishonest assessments and selection of bids (Woods and Mantzaris 2012:139). In almost all cases involving supply chain and procurement corruption, they take place through the false pretences of a private-public partnership where the corruptor is a member of the private sector and the "corruptee" is in the public sector (or vice versa) (Woods and Mantzaris 2012:137). There is also procurement fraud where officials force or co-opt members of the public to pay them for the services they administer, such as subsidy schemes, tax concessions, pension schemes, fines or penalties, operation licences, payments due, charging handling fees, bribes to process documentation, bribes to qualify for subsidies, grants, licences, etc. and other "facilitation payments" (Groppelli and Nikbakht 2006:114).

Cheque tampering consists, amongst other things, of forged cheques, forged signature/ drawer information, fraudulent alterations, forged endorsement, an altered payee, and concealed cheques (Woods and Mantzaris 2012:134). Computer or IT fraud or corruption (cyber-crime) relates to manipulating records and transactions, diverting supplier payments through electronic funds transfers (EFTs), writing off suppliers' debt, granting unauthorised discounts and rebates, using ghost supply companies and issuing fraudulent cheques. IT is used in all sections of an organisation, so it is clear that corruption can take a variety of forms in most cases (Baker and Powell 2009:122–123).

Financial statement fraud, financial statement schemes and financial misrepresentation (management crime) is related to the overstatement of assets and income through timing differences, fictitious revenues, concealed liabilities and expenses, improper disclosures and improper asset valuations (Van Horne and Wachowicz 2005:24).

The understatement of liabilities and expenses takes place through false or omitted disclosures, improper revenue recognition, misclassification of gains, less-than-arms-length transactions, revenue recognition in the wrong period, improper income accounting, improper percentage-of-completion accounting, inadequate disclosure of related party transactions including conflict of interests, sham transactions, improper asset valuation, inventory (stocks), accounts receivable, fixed assets, improper deferral of costs and expenses, and inadequate or false disclosures (Groppelli and Nikbakht 2006:113–115; Van Horne and Wachowicz 2005:23-27; Woods & Mantzaris 2012:98–131).

It needs to be stressed that the terms "management fraud" and "fraudulent financial reporting" are synonymous, because the production of the financial statements is the responsibility of management. For this reason, financial statement fraud almost always occurs with the knowledge or consent of management. Reasons why financial statement fraud is committed by managers include a desire to dispel negative market perceptions, to obtain financial gain or to obtain more favourable financing terms, to receive higher purchase prices of acquisitions, to demonstrate compliance with accounting conventions, to hide the state of financial health of an organisation, to meet the organisation's goals and objectives, or to receive performance-related budgets (Mantzaris 2013:3).

Bearing the above in mind, it is clear that the Auditor-General's (2012) comments on the appalling state of the municipalities in South Africa suggest that the weaknesses of the municipalities that the institution laments confirm the presence of almost all the corruption-related instances examined above. In fact, the Auditor-General's findings are an empirical manifestation of the existence of the types of crimes and abuses identified. A marriage of theory and practice is indeed a manifestation of effective and efficient financial management. Theoretical knowledge without the founding roots of empirical implementation remains just that, pure theory.

The key causal factor for the current state of affairs pinpointed in the report by the Auditor-General (2012) is that the basic principles of good financial management have not been adhered to. Several of the major challenges identified by the Auditor-General are listed below and can be directly linked to poor financial management and the analysis that preceded this section.

The statement that "material adjustments were made to the Annual Financial Statements (AFS) during the annual audit" (Auditor General 2012:12) indicates that the municipalities rely on the audit process to identify errors and omissions, which is an extremely risky strategy. The incompleteness of the Fixed Asset Register (FAR) in municipalities pinpoints the fact that the assets are not recognised as prescribed, or that the FARs are not updated with additions, disposals or write-offs within the reporting period. The problem is exacerbated by a lack of existing documentation to support movements on the FAR and the fact that reconciliations between ledgers and supporting schedules and/or ledgers are not performed. These realities mean that basic financial management procedures and internal control processes are neglected in the vast majority of municipalities.

The inability to pay creditors within the prescribed 30 days after receipt of statements or invoices is in most cases the result of cash flow constraints, which often arise due to poor planning and financial management on the part of the relevant people assigned to the task, as well as their immediate supervisor, compounded by insufficient credit control and debt collection, and the inability to contain expenditure within the approved budget. This is often indicative of poor budgeting or poor financial discipline, or both. In most cases, it is the fault of middle management, who, however, report to senior managers and the leadership of the section and organisation. This failure can have devastating consequences for Small, Medium and Micro Enterprise (SMME) suppliers.

Moreover, the findings suggest that non-compliance with the applicable accounting standards is related to many municipalities' inability to attract and retain scarce financial skills. The realities associated with this inability to attract and retain financially educated and experienced staff could arise from a number of factors relating to the administrative-political interface, power struggles and dynamics, geographical location, financial and economic considerations and other issues. However, it is definitely a serious and continuous problem of vast proportions.

It has been noted that Accounting Officers have not taken enough reasonable steps to prevent unauthorised, irregular, and/or fruitless and wasteful expenditure. This failure is indicative of poor financial management, disregard for the supply-chain framework, and a lack of accountability and good stewardship of taxpayers' money. These realities are also related to ineffective contract and procurement management. Such failures often result in massive losses and leave the door open to fraud and corruption.

The Auditor-General's (2012) Report indicates that Value-added Tax (VAT) principles were incorrectly applied, which often leads to under-recovery of VAT, which in turn has a negative impact on cash flow for the organisation. Moreover, liabilities, provisions, contingent liabilities and assets are not valued and recognised, and revenue is not adequately measured, recorded and collected. Again, this ultimately has a negative impact on the municipality's financial viability and service delivery capacity. In fact, these are not major problems and could be solved by staff, but this cannot happen where the staff is not adequately financially literate.

The non-clearance and reconciliation of assets identified by the report could easily lead to abuse and allow fraudulent activities to be hidden. The same is true if the reported discrepancies between sub-systems, such as salary systems and the general ledger, are not followed up. Such a failure can lead to abuse and the concealment of fraudulent activities (Deloitte 2012).

THE "BURDEN OF LEADERSHIP"

Any discussion about ways to improve local government finances, and therefore service delivery, would be incomplete without a focus on the role of leadership – its style and substance, as well as actions and utterances. Such a statement is not a generalisation, but an empirical reality that is fundamental to solid and effective financial management.

Many factors are required to achieve a clean audit and sustain good performance in a given municipality. They range from sound financial management, to continually improving skills depth, good governance and oversight, performance management, and regulatory compliance. However, as history and experience have shown, leadership is the glue that holds it all together; it is the crucial pillar around which all else revolves.

This is very clear from the Auditor-General's (2012) comments. He states that a lack of committed leadership lies behind a sharp deterioration in financial management in many municipalities. The Auditor-General was adamant that the improved audit outcomes for the George, Langeberg and Mossel Bay municipalities in the Western Cape were a result of leadership commitment. Commitment in its broad and wide sense means not only the existence of required skills, but also integrity, good and ethical governance, as the Auditor-General mentioned. He ended his statement by identifying the virtues of the leaders as follows: "They prove beyond doubt that clean administration is achievable where there is leadership commitment" (cited in Stone 2013:4).

It is thus understood that integrity, honesty and accountability on the part of municipal leadership are the first and vital steps toward taking ownership of a thorough and scientific financial management system, from the design and planning steps to the final step of application and implementation. Even the best strategic framework-setting, diagrams, organograms, targets and outcomes all become empty cyphers if there is not enough knowledge of the details of the systems. Without the collective leadership and agreement on principles, strategies and details, there will be no success. This means that it is essential to achieve alignment between the political and administrative leadership, devoid of contradictory corrupt practices and internal in-fighting for self-enrichment. Some might warn that it is difficult to achieve this goal, but few will disagree with the opinion that it can be achieved despite the hurdles of the balance of power and authority, corrupt practices and alliances, power politics and dynamics and the attempts of local dynasties ready to loot.

Such leadership faces many challenging weaknesses, which they are made aware of year by year, because the responsible institutions, such as the Auditor-General, make the weakness evident. If the senior administrative and political leadership allow the Chief Financial Officer and his or her team to do the job alone, they undermine their own credibility towards the collective effort and ownership of these processes and outcomes.

In these efforts they are not alone or without guidance, because they are armed with the *Municipal Systems Act,* 32 of 2000 (RSA 2000) and the *Municipal Finance Management Act*, 56 of 2003 (RSA 2003), as well as anti-corruption legislation, rules and regulations for a systematic, honest and an anti-corruption cycle that will ultimately lead to success and effective service delivery.

It has been widely acknowledged that the lack of implementation in terms of efficient, effective and honest financial management in municipalities is the result of a lack of capacity, skills and accountability by leadership. However, leadership is responsible and accountable for strategic thinking and direction, which are the first steps towards the development of the credible action plans that are sorely needed to monitor and assess the actions of the municipal managers who are responsible for the deliverable targets that are not achieved and the key control processes and their implementation.

Municipal leadership cannot operate and function successfully without a cooperative and synergetic alliance with provincial and national entities at all levels, in respect of the relevant oversight functions that are instrumental in streamlining human capital challenges, skills development initiatives and an effective performance management framework and systems.

There can be no effective financial management today without leadership intervention and the monitoring of effective IT functionality, especially its strategic alignment with the Integrated Development Plan (IDP) at all operational levels – strategic, functional and departmental. The leadership and senior management are key cogs in the success of such systems, combined with the monitoring and evaluation of service providers that have become a norm in municipal functions and systems. In this context, leadership armed with the appropriate tools and surrounded by the appropriate expertise is a central factor in exercising continuous oversight over activities in a given municipality.

CONCLUSION

Financial management systems are fundamental elements of transparency, accountability and efficient and effective service delivery in every municipality in the world. They are leading guides to economic, social and infrastructural growth and the development of local government entities and the communities they serve. Throughout the world they are dictated by legislation. They are expected to be planned, designed and implemented by suitably skilled, experienced and qualified personnel. They are also expected to be operational and functional without political or administrative interference.

The article has shown that in the most developed country in Africa, these expectations are far from fulfilled. In this context, the South African Auditor-General's (2012) report sounds optimistic in its perpetual pessimism. Municipalities are in tatters because of incompetence, avarice and corruption. However, integrity and accountable leadership and efficient and effective management are the *sine qua non* that can move municipalities forward.

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