

**An assessment of municipalities in the Eastern Cape Province to determine the
capacity they have to implement the Municipal Finance Management Act No 56 of
2003**

By

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I the undersigned hereby declare that I have supervised the research conducted by
_____ **entitled**

I am satisfied that the student has made an attempt to follow my guidelines and in my opinion, the work is adequate enough to be examined.

Signature:

Date:

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CONFIDENTIALITY CLAUSE

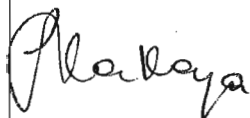
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TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely

A handwritten signature in cursive script, appearing to read 'T. KAKAZA', written in black ink.

T. KAKAZA

(iii)

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed *Alakya*

Date..... *16 May 2007*

ACKNOWLEDGEMENTS

No undertaking of a project as intense as this study is possible without the contribution of many people. It is not possible to single out all those who offered support and encouragement during what at times proved to be a “never ending” journey. However, there are individuals without whom this project could never have been completed, and to them go my special thanks and acknowledgement of their contributions.

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All the respondents who took time to respond to the questionnaire;

And to my promoter, I am greatly indebted for the patience and assistance demonstrated during my study.

ABSTRACT

The research is on the assessment of municipalities within the Eastern Cape Province to determine the capacity they have towards implementing the Municipal Finance Management Act No 56 of 2003 (MFMA). The research targeted Municipal Managers and Chief Financial Officers as these are the people charged by the Act with the responsibility of ensuring proper implementation and compliance by the Municipalities with the Act.

The project was conducted at the level of the district municipality. This level of municipalities was considered sufficient as it would ensure a broad and in depth coverage of the assessment throughout the Province.

This project aims to uncover strengths and weaknesses of municipalities. Municipalities with strong features are appraised of their strengths and recommendations are given towards the end of the dissertation to change the negatives into positives.

The prime source used in developing the questionnaire is the MFMA. The questionnaire looks at various aspects of the Act and assesses capacity in terms of fourteen specific areas.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The Municipal Finance Management, 2003 (Act No. 56 of 2003), (MFMA) was promulgated into law on the 1 July 2004. In the foreword to the MFMA Trevor Manuel, South African Minister of Finance notes that the Act aims to “modernize budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all its residents, customers, users and investors”. To this end, the Act aims to modernize financial reporting by calling for a performance based system focusing on outputs, outcomes and measurable objectives to enable municipalities to maximize their capacity for service delivery (Trevor Manuel, 2004).

The Act replaces past practices which did not allow for forward planning and long term strategic planning. In the past, budget planning was poor and tended to focus on current needs rather than on future needs of consumers. The cultures of performance and regular reporting were non-existent (National Treasury, Modernizing Financial Governance...Implementing the Municipal Finance Management Act, 2003). According to a Special Report of the Auditor General to the Eastern Cape Provincial Legislature (2002) reports were in most cases non-existent. Where these were available they contained too much or too little information. Additionally, municipalities did not publish annual reports with non financial performance information and did not submit their annual financial statements for auditing on time, or in some cases not at all. Unavailability of information impacted negatively on decision making as the council in most instances would be informed late about financial problems that were occurring.

The Act therefore is aimed at overcoming these impediments. The study aims to look at the capacity of municipalities to implement the Act. I will therefore assess the readiness of municipalities for such an implementation.

1.2 Background of the research

Municipalities in South Africa have historically been plagued by poor financial systems, poor reporting mechanisms, lack of proper budgeting systems, poor revenue collection systems and mismanagement of financial affairs. These problems translated themselves to non delivery of services to the municipalities' residents, users and customers.

The MFMA provides for the regulation and monitoring of the financial affairs of municipalities. Previously the function of overseeing the general affairs of municipalities was primarily the responsibility of the Provincial Departments of Local Government. With the introduction of the MFMA, National and Provincial Treasuries are now required to play an active role in regulating and monitoring the financial affairs of municipalities. The role of Provincial Treasuries is set out in Chapter 2 of the MFMA.

The principle behind the introduction of the Act is the adoption of a more strategic approach to local service delivery. Key to the transformation facing municipalities is the need for them to adopt an approach of Continuous Improvement. This will be measured by improvements in the quality and content of financial management.

1.3 Motivation of the project

As already alluded to above, the MFMA seeks to modernize financial management controls, budgeting and reporting by outlining areas where improvements must be effected and what municipalities must do in order to ensure compliance with the Act. The study is aimed at assisting the Eastern Cape Provincial Administration to ensure that municipalities are well capacitated to facilitate implementation of the MFMA. It is hoped that implementation of the Act will lead to improved accountability by municipalities as they will be able to prepare budgets on time and annual financial statements will also be submitted timeously to the Auditor General for auditing. Similarly, citizens will be able to view the budget and offer their comments on this document. Transparency of municipal processes will thus be improved.

The study will therefore identify areas of potential weakness in this process and will attempt to determine causes for the gaps with recommendations to close the loopholes identified.

1.4 Value of the project

The Eastern Cape Provincial Treasury has taken a strategic decision as tabled in their Strategy Document on Implementation of the MFMA to build capacity of the six district municipalities and the one metro council (2004). With the size of the Eastern Cape Province being so vast and covering a wide area, it will not be feasible to visit every municipality for purposes of monitoring and support. The Province will be more effective if they build capacity of the six district municipalities and the metro so that these assist municipalities within their districts in the implementation of the MFMA (Eastern Cape Provincial Treasury, Strategy for the Eastern Cape Provincial Treasury to implement the Municipal Finance Management Act, 2004).

As my study will be limited to an evaluation of capacity of the six district municipalities and the metro council, my findings will greatly benefit the Provincial Administration who want to ensure that municipalities are well capacitated to ensure that they are ready and that they do in fact implement the provisions of the Act.

The project will be of great value to the Provincial Administration who want to ensure the creation of proper accountability structures and the enhancement of greater transparency so that municipalities are in line with the requirement of section 195 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) which calls for transparency in budgeting and management of financial affairs in all three spheres of government (The Constitution of the Republic of South Africa, 1996).

1.5 Problem statement

Are municipalities in the Province of the Eastern Cape adequately capacitated to implement the Municipal Finance Management Act No. 56 of 2003?

1.6 Broad objective of the study

The objective of the study is to assess the capacity of municipalities in the Eastern Cape Province to determine the capacity they have towards implementing the Municipal Finance Management Act No. 56 of 2003.

1.7 Research methodology

The Eastern Cape has got 45 municipalities. These have been broken down into one (1) metro, six (6) district municipalities and thirty eight (38) local municipalities. Each of the six district municipalities has several local municipalities falling under it. The functions of the district municipalities are stated in section 83 (3) (a)-(d) of the Municipal Structures Act, No. 117 of 1998. These include co-ordinating the activities of the district and “building the capacity of local municipalities to enable them to perform their functions where such capacity is lacking” (Municipal Structures Act, No 117 of 1998).

I have decided to focus my research on the six district municipalities and the metro council. I will assess the capacity of these municipalities towards meeting the requirements of the Act. Such an assessment will assist me in determining the capacity of the district municipality whilst at the same time also assessing if district municipalities are able to assist in building the capacity of the local municipalities as required by the Act. The rationale for this is that if district municipalities are not adequately capacitated themselves, they will not be able to assist the local municipalities in building their capacity.

Research approach

The research will be conducted in district municipalities in the Eastern Cape Province. A qualitative approach will be used in conducting the study. Such a study is favoured as I will be conducting an in depth study which will go beyond the surface to obtain explanations and understandings as to why certain things are happening as they are doing. According to Babbie and Mouton (2001), qualitative research studies human action in their natural setting and emphasis is placed on detailed description and understanding of phenomena. The research will target Municipal Managers, Chief Financial Officers and

Financial Managers in the six district Municipalities and the Metro Council. Municipal Managers are targeted as they are people who are mandated by Section 60 of the Municipal Finance Management Act, (Act No 56 of 2003) to be the Accounting Officers of the municipalities. Municipal Managers are favoured also because they are directly involved with the process of transforming Municipal Finance Management and the establishment of top management structures. Municipal Managers are again favoured, for, as (Babbie and Mouton), 2001, put it, they are “actors” in the process.

The Chief Financial Officers have been targeted because they are mandated by section 80(2) of the MFMA to be in charge of the budget and treasury office (MFMA, 2003). Also the Chief Financial Officer will be of value to the study as section 81 (1) (a) of the MFMA gives them the responsibility to “advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of this Act” (MFMA 2003). Chief Financial Officers are thus also actors in the process of modernizing municipal finances.

Financial Managers have been targeted as they are directly accountable to the Chief Financial Officers. They offer support to the rest of the municipal votes in the areas of budget monitoring, expenditure approval, budget monitoring and reporting.

Sample

The sample will consist of each of the six Municipal Managers, in the 6 district municipalities and Metro Council, Chief Financial Officers and Financial Managers in the same areas. In all, 21 people will be interviewed. The sample is considered appropriate as it covers municipalities in the entire Eastern Cape Province. The Province with its diverse population groups, different languages and beliefs is thus represented in the sample. The size of the sample is supported by our research approach as qualitative research by its nature does not call for big samples, Babbie and Mouton, (2001).

The study will enhance the adoption of an in depth approach into the research as I will dig beneath the surface to gather as much information with the sample selected.

Research Procedure

I will visit the Eastern Cape Department of Housing Local Government and Traditional Affairs to obtain names of the District Municipal Managers, Chief Financial Officers and Financial Managers. I will also request their contact telephone numbers. I will then contact the Municipal Managers, Chief Financial Officers and Financial Managers to set up appointments. I will indicate to them when making the appointment why I need to talk to them and what I want to talk to them about. I will inform them that the meeting is scheduled to last between 45 minutes to an hour. The meetings will be held at the municipal offices with the approval of the targeted respondents. This will ensure that they are not inconvenienced to travel to the meeting. I will personally visit the municipalities to conduct the interviews.

A follow up meeting will be arranged to fill in any gaps in information that might have arisen since the first meeting. As the MFMA aims at improving financial management at municipalities, the study will look at the entire Act to determine issues that municipalities are supposed to perform in order to ensure compliance. The study will further look at available capacity at the municipalities to perform the functions needed to ensure compliance with the Act.

Research Instruments

A semi-structured approach using both interviews and a questionnaire with closed and open ended questions will be adopted for purposes of the research. The semi-structured approach will, according to Welman and Kruger (2001), allow me as the interviewer to use probes with a view to clearing up vague responses or to ask for elaboration of incomplete answers.

1) Interviews

I will use the interview to introduce the respondents to the purpose of the study. According to Ghauri and Gronhaug (2002) as the interviewer I should use the interview to answer questions such as what are the benefits of the study and who would benefit

there from; will the respondents get a copy of the report? Moreover the interview will be used to reinforce the confidentiality of the data to the respondents' satisfaction.

Secondary data will be collected to gather as much information as possible about the research topic. Sources of secondary data include Publications by National and Provincial Treasury, Strategic Planning Documents of the Eastern Cape Provincial Treasury, Reports of the Auditor General, Journals, Internet References and Books.

2) Interviewing questionnaire

The questionnaire will be administered through personal interviews with the respondents. I will use a structured questionnaire with appropriate scales to rank the responses of the interviewees. A mixture of both closed and open ended questions will be asked.

The interview will cover the following areas:

- Whether delegations have been issued and are being effectively utilized to enhance service delivery.
- Whether an appropriate infrastructure has been set to allow for proper budgeting and reporting.
- Whether the municipality receives any political direction from its political leadership.
- Whether there are proper reporting systems in place.
- Revenue management.
- Expenditure management.
- Whether there are systems in place to facilitate timely reporting.
- Existence of a properly functioning supply chain management system.
- Whether the appropriate people with suitable qualifications and experience are employed.
- Existence of infrastructure for the establishment of a properly functioning Internal Audit Department under the direction and control of an audit committee.
- Preparation of Annual financial Statements and submission to the Auditor General.

- Whether the municipality operates with an approved organogram
- Training of staff.
- Computerization of municipal bookkeeping system.

According to Babbie and Mouton, (2001) in an open ended question, the respondent is asked to give his or her own answer to the question. With closed ended questions, the respondent is asked to select an answer from amongst a list provided by the researcher.

As I will be the person conducting the interview, I will be thoroughly familiar with the questions in the questionnaire, as such I will be able to recall them fluently and even ask them from memory without deviating from the questions as they are formulated (Welman & Kruger 2002).

Responses to open ended questions will be coded before they are processed for computer analysis.

Data Analysis

Content analysis will be used. The research approach that will be followed is inductive in nature as theories will be developed after analysis of the themes that emerge. Data will be analysed as it is collected to assist in the development of a conceptual framework which will guide work that follows (Saunders, Lewis & Thornhill 2003). Theories that emerge will be used to suggest action to be taken.

I will seek for explanations as to why negative cases are occurring so as to move towards a valid and well grounded approach.

Interviews will be planned such that they allow sufficient time to write up a transcript before proceeding to the next data collection session (Saunders, Lewis & Thornhill 2003). A cursory level of analysis will be done in between interviews as time allows.

I will look at frequency of occurrence in themes that will be evolving to construct frequency distributions.

1.8 Limitations of the project

The study is limited by the fact that it is confined to municipalities in the Eastern Cape Province. As the Eastern Cape has got 45 municipalities, it will be impossible to include every municipality in our study because of time and cost constraints. The study has thus been limited to cover interviewing of Municipal Managers, Chief Financial Officers and Financial Managers in the six district municipalities and the Metro Council. However, results of the study will give an indication of the available capacity in the Eastern Cape. The results will be generalized only in the Eastern Cape.

1.9 Structure of the study

CHAPTER 2: LITERATURE REVIEW

The section will cover the theoretical aspects of the dissertation. The literature review aims to uncover what research has been done in my area of study and how that work will contribute towards achieving my research objectives. At the end of the chapter a model that will be used in conducting the research will be given.

CHAPTER 3: RESEARCH METHODOLOGY

This section will focus on the research design, identifying data requirements, data collection plans and procedures; operational definitions of variables; and will also focus on the reliability and validity of instruments used in the study. An overview of this is provided in paragraph 1.7 of Chapter 1. The model developed at the end of Chapter two will be used as a framework to write the case study.

CHAPTER 4: PRESENTATION AND DISCUSSION OF RESULTS

This section will focus on the analysis and interpretation of results of data collection. The information in Chapter three will be evaluated against the model developed at the end of Chapter two. I will indicate what the municipalities are doing well and what they are not doing in order to be a successful organization.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

This section highlights the implications, recommendations and conclusions we wish to make following our research findings. It will also state the limitations of the research and highlight areas of future research.

The municipalities will be appraised for all that they are doing well and the aspects that municipalities are not attending to will be highlighted for future attention.

The recommendations will attempt to provide remedies such that negatives that are identified during the study are turned into positives to improve overall organizational performance.

1.10 Chapter Summary

In this chapter an introduction into the research topic was given, the problem statement as well as the research objectives were discussed, the research methodology and the limitations of the project were outlined.

In the next chapter a literature review will be presented. The literature review aims to uncover what research has been done in my area of study and how that work will contribute towards achieving my research objectives.

CHAPTER 2: LITERATURE REVIEW

Finance is a critical issue for municipal governments around the world, and a major constraint on the delivery of pro-poor services at the local level. The issue has been brought into sharp focus by the trend of decentralising powers and responsibilities to sub national governments and the consequent expectation that municipal governments will deliver (IDD Research News). As such the State of Michigan in the United States of America has adopted the Municipal Finance Act ([http:// www.michiganlegislature.org](http://www.michiganlegislature.org)) to guide the state in how they could effectively manage the financial affairs of its Municipalities to ensure service delivery to the users of municipal services. The Act as is currently in use is the Municipal Finance Act, (Act 34 of 2001). The Act regulates borrowing of money and the issuance of certain debt and securities; provides for tax levies and sinking funds; prescribes powers and duties of certain departments, state agencies, officials and employees; provides for imposition of certain duties, requirements, and filing fees upon political subdivisions of the state; authorizes the issuance of certain debt and securities; prescribes penalties for non conformance.

The Municipal Finance Section in Michigan is a program with its own distinct activities and it falls under the Department of Treasury. Qualifying Statements and other communication between the municipalities is filed strictly in electronic format.

As cities grow and decentralization takes effect, local governments take on a greater responsibility for providing and financing effective public services. In East Asia estimates indicate that \$1.2 trillion in infrastructure investments related to urbanization will be needed over the next decade. However fiscal and financial capacity do not often keep pace with the developments (<http://www.worldbank.org/>). In this regard municipalities find that they are challenged with:

- Managing available resources.

- Advocating for reform in intergovernmental fiscal relationships so that functional responsibilities are clearly defined and revenue sources are adequate.
- Mobilizing new resources and increasing their capacity to borrow responsibly for investments in local services.
- Seeking ways of attracting private participation in the financing and delivery of local public services.

The challenges call for an enhanced system of financial management and reporting by municipalities. In the State of Michigan this has come in the form of the Revised Municipal Finance Act, (Act 34 of 2001).

In order to meet this challenge Municipal Finance Managers in the USA have organized themselves into professional associations where they meet to share information and mentor each other on different aspects of Municipal Finance Management. Such professional organizations includes the Oregon Municipal Finance Officers Association (OMFOA) which was started in 1940 (<http://www.omfoa.org/>), Municipal Finance Officers association of Ontario, (MFOA) (<http://www.mfoa.on.ca/member/index.cfm>), and the California Society of Municipal Finance Officers (<http://www.scmfo.org/psd/>).

In Kenya local authorities are created by law and their establishment and functions are spelt out in the Local Government Act, Chapter 265 of the laws of Kenya. The Local Government Act makes no reference to citizen participation with the local government system being very traditional meaning that decisions are made behind closed doors. However in recent times, there has been a change with regards to citizen participation. The Local Authority Transfer Fund has enforced the preparation of a Local Authority Service Delivery Action Plan (LASDAP) before funds are released. This is an inclusive process which is pro-poor and it entails involvement of grassroots citizens in the identification and prioritization of projects to be funded (Lewa & Davis 2004).

Similarly, citizen participation in budget formulation is strongly emphasized in Uganda. This has been particularly a case of good practice in Entebbe Municipality (Devas & Etoori 2004).

The budget outreach process in Uganda is recorded in photographs and videos for future reference to increase transparency and avoid misunderstanding. Although some people see the process as a political campaign, the poor have benefited as their inputs have been fed into the Strategic Plan of the Municipality (Devas & Etoori 2004).

The Maragua County Council in Kenya identified privatization of Nursery Schools as a strategic move that they could adopt in an attempt to capacitate the municipality. Nursery School staff was as a result retrenched with the schools being handed to the communities (Lewa & Devas 2004).

In Brazil, the 1988 Constitution has provided capacitation to communities to participate in some decisions and oversee public matters especially at the local level. Participation in decision making ranges from community councils for several social policies to participatory budgeting (Souza 2004).

The creation of community councils is required by federal legislation when they finance or transfer resources to a given programme (Souza 2004).

Participatory budgeting is not the result of federally or multilateral organizations' induced policy, but an initiative taken by local governments. Responsibilities for healthcare and primary education have been transferred to sub-national levels through a system of intergovernmental relations combining incentives and sanctions (Souza 2004).

The guiding legislation with regards to Local Government functioning in Uganda is the Local Government Accounting and Financial Regulations. The Regulations were developed in 1998 with the assistance of the World Bank and are aimed at addressing the problems of

- Poor record keeping;
- Failure to maintain assets;
- Use of current funds for recurrent purposes; and
- Misappropriation of funds and corruption.

The statute sets out a financial cycle starting in July and ending in June of the following year. The budgeting cycle is also a statutory requirement per section 7(4) of the Uganda Local Government Financial Accounting Regulations 1998 (Devas & Etoori 2004).

Computerization of accounts has been a key feature in the capacitation of municipalities in Kenya with the Nyeri and Mavoko Municipal Councils adopting the Integrated Financial Management Systems whilst the Maragua County Council uses the Simplified Accounting System. Whilst the systems can assist with various functions, they have particularly been useful with regard to financial reporting in the areas of budget preparation and monitoring and expenditure monitoring (Lewa & Devas 2004).

The Municipal Corporation of Hyderabad in India has undertaken computerization of accounts and has adopted the Modified Accrual Based System of Accounting. This has been done with a view to making the accounts transparent and suitable for easy scrutiny (Mohanty 2003)

In South Africa Generally Accepted Accounting Practice has been introduced successfully in municipalities with only minor changes required in accounting for fixed assets (DPLG, White Paper on Local Government).

Devas & Etoori 2004, identified common weaknesses mostly exhibited by municipalities in Uganda. These are:

- Unrealistic budgeting due to overestimation of revenues.
- Budgetary cuts and revisions during the year as a result of the overestimation of revenue, and end of the year deficits.
- Poor record keeping and accounting.
- Failure to maintain assets.

- Excessive expenditure on salaries, councillor allowances and general management which erodes resources for delivery of services.
- Use of current funds for recurrent expenditures.

Property tax is the largest single source of revenue in Uganda. However the property rolls are outdated with some properties excluded from the roll. Collection estimates have largely been optimistic with only two thirds of the budgeted collections being realized. This creates problems for budget management as when budgets are not realized, expenditure cuts take place and unintended deficits ensue.

Problems had been experienced in the past with regards to revenue collection. Problems experienced included: outdated records of properties and property ownership, including addresses of property owners, high cost of taking defaulters to court, failure of lawyers who collect the tax to do so effectively. However from 1999/2000 some action was instituted to improve revenue collection. This included hiring casual staff to deliver tax bills throughout the city, more frequent and timely reminder notices, paying special attention to big taxpayers including personal visits by senior officials.

According to Souza (2003), Brazil has got 5560 municipalities. The cities and municipalities exhibit profound differences in their economic, social and physical structures because of uneven social and economic development. However there is reasonable cultural and political homogeneity. The rules applying to local government are laid out in the Constitution.

The official definition of a municipality in Brazil encompasses municipal and district areas, as well as rural and urban ones.

Federal government has introduced initiatives aimed at decentralizing housing, sanitation and welfare services. However these have not taken into consideration the availability of resources as in the case of healthcare and education (Souza 2004).

Local Government revenues are guaranteed by Brazil's Constitution. These resources accrue from transfers from federal and state taxes and from taxes under the sole jurisdiction of local government (Souza 2004).

In India, Urban Local bodies have had their capacity strengthened through the insertion of Article 243X to the (74th Amendment) Act, 1992 which provides that a state Legislature may authorize a municipality to levy certain taxes (Mohanty 2003).

The Municipal Corporation of Hyderabad (MCH) has been assigned by the Government of Andhra Pradesh to collect certain revenue including surcharge on transfer of property, share in entertainment tax, profession tax and compensation (Mohanty 2003).

The twelfth schedule to the Constitution of India provides an illustrative list of municipal functions. These include Urban Planning including Town Planning; Roads and Bridges; Water Supply for domestic, industrial and commercial purposes; fire services; safeguarding of interests of the weaker sections of society including the handicapped and mentally retarded, slum improvement and upgradation; burials and burial grounds, public amenities including street lighting, parking lots, bus stops and public conveniences (Mohanty 2003)

The state of Andhra Pradesh in India aims at decentralizing governance and making it participatory with the involvement of the people, building administrative capabilities, strengthening policy making and improving performance (Mohanty 2003).

In order to achieve these goals Andhra Pradesh has developed a vision called Vision 2020. The vision spells out the areas of improvement which the state wishes to have exploited by 2020. These include operating municipalities in a competitive basis to provide adequate, high quality services; developing urban services and infrastructure by involving the private sector and fostering public private partnerships, mitigating urban problems by providing shelter and basic services for all (Mohanty 2003)

Other revenue sources of MCH include taxes, assigned revenue, user charges, sale and hire charges, grants and contributions (Mohanty 2003)

An agenda of comprehensive municipal reforms has been adopted at the Municipal Corporation of Hyderabad based on the following broad considerations (Mohanty 2003)

1. Functions and job charts of functionaries must be clear and without overlap or ambiguity;
2. Finances must be clear and commensurate with functions;
3. Functions or outputs must be commensurate with the funds provided;
4. Functionaries must be professionally competent, responsible and responsive;
5. Performance measurement – to the extent possible through quantitative indicators.
6. External and internal quality control for all functions;
7. Participatory, people oriented, simple, principled, moral, accountable, and transparent civic administration;
8. Implementation of Citizens Charter;
9. Administration of reforms in an incremental manner.

Key reforms already initiated at Hyderabad City include: rationalization of municipal reforms, preparation of clear job charts for functionaries, development of performance indicators and management information systems, all-out use of information technology to foster e-governance, simplification of budgeting, adoption of commercial(modified accrual based) accounting, integrated infrastructure planning and capital budgeting, regular enforcement of basic town planning, public health, environmental regulations, adoption of the principles of local public finance: ‘users pay’, ‘beneficiaries pay’ and ‘polluters pay’, free availability of information, transparency at all levels (Mohanty 2003).

In addition to the augmentation of resources mentioned above, MCH has also embarked on reforms on proper management of municipal expenditure. The reforms in this area include budgeting, accounting reforms, rationalization of expenditure, outsourcing,

reduction in costs, mechanisms to ensure accountability in public expenditure (Mohanty 2003)

MCH has adopted a three tier approach to development i.e. Long Term Perspective (20-25 years), Medium Terms Development Plan (5years) and an Annual Action Plan. The most critical part of the annual plan is the operational budget. To this end, the municipality has decided to use capital budgeting not only as a tool for financial planning and control but also as an instrument to steer development for achieving the city vision. The long term budgetary goal is to have the following broad allocation of budgetary sources:

Salaries and Employee benefits	20%
Maintenance Works	30%
Capital Projects	50%

According to (Reddy, Sing and Moodley, 2003), there is a widespread assumption in South Africa that local government is responsible for poverty alleviation. It is thus important that financial resources are not only made available but that they are used in an effective, efficient and transparent manner.

In South Africa the 1994 elections saw the birth of three spheres to government. These are National Government, Provincial Government and the Local Government. The old system of local government was abandoned as it reflected the goals of that era and did not adequately serve the needs of all South Africans equally (Reddy, Sing and Moodley 2003).

Local Government Authorities were established in terms of Chapter 7 of The Constitution of the Republic of South Africa, (Act 108 of 1996) which sets out the rights, duties, powers and functions of the local authorities. Parliament has been reviewing Local Government Legislation to ensure economic, efficient and effective service delivery.

The Municipal Finance Management Act, (Act 56 of 2003) guides municipal finance management in South Africa. The Act is required by the Constitution which obliges the three spheres of government i.e. (National Government, Provincial Government and Local Government) to be transparent about their budgets and financial affairs.

In South Africa the Municipal Finance Program is driven by National Treasury which liaises with municipalities through the Provincial Treasuries. The responsibilities of Provincial Treasuries as regards the MFMA are set out in Chapter 2 of the MFMA.

The involvement of National Treasury is welcomed as they are directly accountable to the Minister of Finance who is responsible for fiscal stability in the country. It is thus incumbent upon him to control finance and fiscal matters on a macro basis. It is on this basis that the introduction of the MFMA and the involvement of National Treasury are acceptable in terms of assisting and monitoring Provinces in the implementation of the Act.

The White Paper on Local Government available at www.dplg.gov.za/documents/ states that the major source of local own revenue in South Africa is property tax. The tax is currently levied in urban areas. Other sources of own revenue include electricity (41.4%), water (11.8%); and sewerage and refuse removal (8.22%).

In addition to raising own revenue, the local sphere is entitled to an equitable share (Sec 277 RSA Constitution).

Public participation is encouraged in the development of the budget and in the drawing up of Integrated Developmental Plans. This creates an opportunity for the public to present their needs and concerns. It also ensures that the public are involved in the process of prioritizing projects so that they are aware of the trade offs that need to be made between competing demands and resources.

According to (Reddy, Sing and Moodley 2003), there has been a need for reform in local government financing and reporting in South Africa because the systems that existed prior to the National Government Elections in 1994 were “ opaque and antiquated” and there was no uniform budgeting system between the municipalities.

The South African MFMA provides a remedy to the situation as it provides for areas such as municipal budgets, co-operative government, municipal debts, revenue management, expenditure management, maintenance of bank accounts, responsibilities of municipal officials and financial misconduct.

As Local Government is the sphere of government that is closest to the people, they should be capacitated to ensure that financial management systems are put on a sound footing. Capacitation is needed in the areas of budgeting, modernizing accounting practices and preparation of periodic management reports (Reddy, Sing and Moodley 2003). Such reforms would support the implementation of the Municipal Finance Management Act, (Act No 56 of 2003)

In South Africa a consulting firm, GHK Consulting have been contracted by the Development of Southern Africa to assist National Treasury of the Republic “amidst significant change, to facilitate fiscal stability at local government level and ensure a well structured, durable local government fiscal system for the future” <http://www.ghkeurope.com>.

The Worldbank has also become increasingly involved with research on reformist issues where public financial management is concerned (Visser and Erasmus 2002)

Situation of the Eastern Cape Provincial Administration

Municipal Finance is a sub-program falling under financial management program in the Finance Department of the Eastern Cape Provincial Administration. As National Treasury plays a critical role towards monitoring and capacitation of municipalities, much of the

literature therefore will come from National Treasury and is available on their website www.treasury.gov.za.

The Eastern Cape Province has got 45 municipalities. According to Gildenhuis (1997), the objectives of local government in realizing their objectives are threefold. These are

- Control and protection objective;
- Social welfare objective; and
- Economic welfare objective.

In order to realize these objectives municipalities perform various functions including building control, civil protection, floodwater control, land use control, pollution control, control of abattoirs, electricity supply, fresh produce marketing, public transport, ambulance services, housing, burial and cremation and active and passive recreation.

In the Eastern Cape the function of providing houses rests with the Department of Local Government Housing and Traditional Affairs. In an interview with the Acting Head of Department of the Department of Housing, Local Government and Traditional Affairs which was held at his office on the 13 October 2004, he confirmed that in the past the function was performed by municipalities but they demonstrated a lack of capacity. Service delivery was slacks, and there were reports of financial mismanagement particularly with respect to the tendering system and selection of service providers. The Department of Housing Local Government and Traditional Affairs decided then that the function should be overseen by them and must be performed by the Department (Baza, M. personal conversation)

Recently the Eastern Cape has been plagued by unrest as people are protesting against poor delivery of services by municipalities. The media reported on the 14 February 2005 that the National Council of the Eastern Cape Province's select committee on Local Government and Administration found during a visit to the Elundini Municipality that there is no visible service delivery and the bulk of municipal funds are spent on salaries (Daily Dispatch, 14 February 2005).

Corruption at some municipalities is reported as rife and Eastern Cape Premier Nosimo Balindlela has as a result requested presidential proclamation which would authorize the Special Investigation Unit to investigate corruption at some municipalities. Twelve such proclamations are awaited from the President of the Republic of South Africa (Daily Dispatch, 5 March 2005).

Unrest has also surfaced at Ntabankulu where a group of residents marched to the offices of the local municipality to complain about lack of service delivery. Among the issues being petitioned was a lack of transparency, nepotism and failure to make an audit report on the municipality available for public consumption (Daily Dispatch, 22 April 2005).

Similar protests have been reported by SABC TV news about the Nelson Mandela Metropolitan Council where angry residents are protesting against failure of service delivery relating to provision of low cost housing by the metro council.

Reports have also surfaced that the Council of Nyandeni municipality has resolved to have section 139 of the Constitution of the Republic of South Africa applied to the municipality. The section allows the provincial government to intervene in municipalities with problems and take over their administration. These reports have however been disputed by the mayor (Daily Dispatch, 3 May 2005).

The Daily Dispatch has also made public some of the contents of a report issued by the Department of Housing and Local Government where the department said that only seven of the forty five municipalities in the Eastern Cape had met the deadline to submit their annual financial statements for auditing in the 2003/04 financial year. In 2002/03 financial year two of the twenty six audited municipalities had received a clean bill of health from the Auditor General, while seven got qualified reports. The rest of the reports were disclaimers. The report also stated that despite heavy infrastructure backlogs facing most municipalities only a third of the municipalities' budget goes towards building much needed facilities. The rest goes to operating costs such as salaries (Daily Dispatch, 6 July 2005).

Municipal Finance

The functions of the Provincial Treasuries with regards to Municipal Finance are set out in sections 5 (3), (4), and (7) of the Municipal Finance Management Act, (Act No 56 of 2003). The Act sets out the general functions of Provincial Treasuries as follows:

- 5 (3) A provincial treasury must in accordance with a prescribed framework:
 - (a) fulfill its responsibilities in terms of this Act;
 - (b) promote the object of this Act as stated in section 2 within the framework of co-operative government set out in Chapter 3 of the Constitution; and
 - (c) assist the National Treasury in enforcing compliance with the measures established in terms of section 216 (1) of the Constitution, including those established in terms of this Act.

- (4) To the extent necessary to comply with subsection (3), a provincial treasury -
 - (a) must monitor –
 - (i) compliance of this Act by municipalities and municipal entities in the province;
 - (ii) the preparation by municipalities in the province of their budgets;
 - (iii) the monthly outcome of those budgets; and
 - (iv) the submission of reports by municipalities in the province as required in terms of this Act;
 - (b) may assist municipalities in the province in the preparation of their budgets;
 - (c) may exercise any powers and must perform any duties delegated to it by the National Treasury in terms of this Act; and
 - (d) may take appropriate steps if a municipality or municipal entity in the province commits a breach of this Act.

- (7) A provincial treasury must submit all information submitted to it in terms of this Act to the National Treasury on a quarterly basis, or when requested.

The Department of Housing Local Government and Traditional Affairs is involved with capacity building in municipalities through the Municipal Support Grant Program. The program focuses on developing municipal capacity in the areas of management development, Information Technology and Human Resources. The Department budgets for the Municipal Support Grant and transfers of funds to municipalities are made in terms of 38 of the Public Finance Management Act, (Act No 1 of 1999). The Act requires that the transferee makes a written undertaking to the effect that they have got effective, efficient and transparent financial management and internal control systems in place (Public Finance Management Act 1999).

In the 2003/4 financial year the Department made transfers totalling R 42 633 000.00 to various municipalities which were aimed at assisting municipalities in terms of the Municipal Support Program.

In his 2004/5 Policy Speech, the MEC for Local Government, Housing and Traditional Affairs committed his department to consolidating municipalities and strengthening their capacity. To this end the MEC announced that R 3m had been set aside for consolidation of municipalities and R 44m has been set aside for strengthening their capacity.

As the Eastern Cape Provincial Treasury, along with other Treasuries in the country is required in terms of the Chapter 2 to the MFMA to ensure that municipalities are capacitated so that they are able to implement the Act, a Municipal Finance Implementation Strategy has thus been prepared by the Eastern Cape Provincial Treasury with the aim of assisting municipalities in the Province (Strategy for the Eastern Cape Provincial Government to Implement the MFMA, 2003). An MFMA implementation plan with set target dates for adherence to by municipalities has also been prepared (MFMA Implementation plan 2004).

As the custodian of the Municipal Finance Program, National Treasury ensures compliance with the Act through contacts with Provincial Departments. Such contacts are done through regular meetings between the Treasuries, arranging workshops and training sessions for municipal finance officials employed by the Provincial Departments.

In his Special Report to the Eastern Cape Provincial Legislature of the period 1 June 2001 to 30 June 2002, the Provincial Auditor General reported that, prior to 5 December 2000 when Local Government elections were held; the Eastern Cape had 202 municipalities established in terms of the Local Government Transition Act, No. 209 of 1993. The Local Government elections saw the introduction of new demarcation laws and the number of municipalities being reduced from 202 to 45. This was due also to the introduction of the Municipal Structures Act, No 117 of 1998 (Special Report of the Auditor General, 2002).

Municipalities continued to experience financial management problems and poor internal controls even after the demarcation process because as the Strategy for the Eastern Cape Provincial Treasury to implement the Municipal Finance Management Act states, (p 9) “authorities paid more attention to amalgamating the municipalities than on improving financial management and internal control systems” (Strategy for the Eastern Cape Provincial Government to Implement the MFMA, 2003). A problem that surfaced after the amalgamation was the fact that different municipalities had different financial management and reporting systems. A challenge facing local authorities was for the amalgamation of the different systems. Although some municipalities have been able to co-ordinate their financial systems, some are still struggling.

In the same special report alluded to above the Provincial Auditor General reported that in respect of the financial year ended 30 June 2001, out of a total of 202 municipalities, 92 municipalities had not submitted their financial statements for auditing by 30 June 2002, 68 were submitted late but before the end of June 2002 and 42 were submitted on time i.e. before the 30 September 2001.

The fact that some municipalities failed to submit their financial statements for auditing seriously limited the scope of the audit.

The Auditor General further reported on page 9 of the Special Report that in all instances where reports were issued financial records were mostly not maintained. These included debtors ledger, bank statements, funds and reserves register, appropriation account transaction listing, internal and external loan register and loan reconciliations, debtors reconciliations, creditors listings and reconciliations, supporting documentation for long term debtors, investments register, trial balance and general ledger.

In order to capacitate municipalities and assist towards phased implementation of the Act, National Treasury has identified eleven priority areas with which all municipalities, irrespective of capacity will have to comply. Although all municipalities are expected to comply with these priority areas, National Treasury has allowed for delayed implementation in certain instances. The priority areas are extracted from National Treasury - Republic of South Africa, Municipal Finance Management Act (Act 56 of 2003) Supporting Material, p28: and are as follows:

- i. Preparing an implementation plan by 1 October 2004.
- ii. The Municipal Manager must be the Accounting Officer responsible for all funds managed by the municipality (Implementation of Chapter 8 of MFMA)
- iii. Establishing a top management team as envisaged by s77 of MFMA with appropriate delegations for specific responsibility to senior management.
- iv. Implementing Chapter 3 of MFMA to ensure effective cash management and the control of all banking accounts by the Chief Financial Officer (CFO), including the primary bank account.
- v. Monthly reporting revenue and spending for the 2004/5 budget.
- vi. Implementing interim procurement regulations from 1 July 2004.
- vii. Implementing Municipal System Act Amendments and MFMA for all corporate or municipal entities, Public Private Partnerships, long term contracts and borrowing.
- viii. Completing past financial statements for submission to the Auditor General by 30 April 2004.
- xi. Submitting 2003/04 financial statements to the Auditor General by 30 September 2004 and tabling of annual reports.

- x. Complying with the membership provisions for tender committees and boards of entities by 1 July 2004.
- xi Comply fully with the Division of Revenue Act, including section 8 on completing negotiations with Eskom or Water Boards as external mechanisms.

In addition to the above, National Treasury urges municipalities to prioritize the following over the 2006 and 2007 financial years: (National Treasury, Republic of South Africa, Municipal Finance Management Act (Act 56 of 2003) Supporting Material, p31):

- i. Implementation of Chapter 4 of MFMA for the 2005/6 budget.
- ii. Establishment of Budget and Treasury office by 1 July 2005 and in respect of low to medium capacity municipalities by 1 July 2006.
- iii. Conducting an audit of all corporate or municipal entities, to harmonize with Chapter 8A of the Municipal Systems Act.
- iv. Establishment of Internal Audit Units and Audit Committees by 1 July 2005 and in respect of low to medium capacity municipalities by 1 July 2006
- v. Addressing audit queries raised by Auditor General in 2003/4 and past audits.

Even though the Act has recently been introduced in South Africa, it appears there is a store of literature which has already been written by authors both in South Africa and in other countries. Such literature will assist me in uncovering the key features of municipalities, issues affecting municipalities both locally and in other countries and the similarities in the manner in which municipalities are run.

Research Model

I will use the Functional Capability and Resource Analysis Model in conducting my research. Functional Capability and Resource Analysis views the firm as a collection of resources comprised of tangible and intangible assets and core competencies (Fleisher & Bensoussan, 2003). Robins and Decenzo, 2001 define core competencies as “any of the strengths that represent unique skills or resources that can determine the organization’s competitive edge”.

The model, according to (Fleisher & Bensoussan, 2003) entails:

1. Determining the Firm's Critical Success Factors.
2. Identifying the Firm's Resources.
3. Evaluating the Firm's Resources.
4. Identifying gaps Between the Firm's Resources and Critical Success factors.
5. Diagnosing the Firm's current strategy.
6. Formulating Rational Future Strategies

Chapter summary

Although there are some similarities with regards to the functioning of municipalities, different countries are at different stages of development with regards to capacitation of municipalities to enable them to deliver the essential services to the communities they are expected to serve. Capacitation with regards to budget processes, record keeping and expenditure management is a key feature in most of the literature I have read. The major source of revenue for almost all municipalities covered in the literature review is property tax. It has been noted however that in almost all cases the property rolls are out of date in that some properties have been excluded and the roll has not been updated with new properties. It has been noted also that national governments play a critical role in providing the necessary financing that will assist municipalities to deliver the expected services. Participatory budgeting is on the increase with most countries involving various stakeholders in the drawing up and prioritization of the budget.

National Government also plays a critical role in the capacitation of municipalities through the provision of laws and regulations that guide the manner in which municipalities are run.

Of particular interest is the fact that Brazil is the only country in the literature review that has got district municipalities included in the definition of a municipality. It is important to note that this bears a resemblance to the situation in South Africa.

The next chapter aims to uncover how municipalities are actually run within the Eastern Cape Province, what are the problem areas and how are municipalities supposed to be run? Following from my findings a recommendation will be made with the aim of bridging the gap between where municipalities are and where they are supposed to be with regards to achieving their objectives.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a description of the method followed by the researcher. It explains the research design, identification of data requirements, data collection plans and procedures, operational definition of variables, reliability and validity of research instruments.

A research design is the plan according to which we obtain research participants and collect information from them. In it we describe what we are going to do with the participants, with a view to reaching conclusions about the research problem (Welman & Kruger 2002).

This study is exploratory in nature using qualitative research gathered from an interview which was guided by a questionnaire. I believe that the exploratory approach is best suited to help me respond to this question as it allows me to search literature and to talk to experts. The interviewer administered questionnaire was favoured as according Saunders, Lewis & Thornhill (2003, p283) “interviewer administered questionnaires will usually have a higher response rate than self administered questionnaires.

In qualitative research the number of observations is limited. However, although this is so, several aspects of the observation can be studied. Low numbers are justified because we want to do an in-depth study or provide a “thick description” which is not possible in the case of numerous observations. The approach is favoured because we want to do an in-depth study into a phenomenon (Ghuri and Gronhaug 2002, p88). Exploratory research is a valuable means of finding out what is happening, seeking new insights, asking questions and assessing phenomena in a new light (Saunders, Lewis & Thornhill 2003).

In this study, six district municipalities and the Metro Council have been selected. Our research question is to determine whether municipalities in the Province of the Eastern

Cape are adequately capacitated to implement the Municipal Finance Management Act No. 56 of 2003.

I used a questionnaire and probing questions to get as much information as possible out of the respondents.

The interview began with a short introduction which I read to each respondent. The introduction mentioned who I am, where I work, the purpose of the interview and the approximate time that the interview will take. In the introduction I confirmed the position of the respondent within the municipality so as to make sure that I was talking to the correct person.

All the respondents were assured that there are no risks with participation in the study as the study was purely for academic purposes. All the data gathered were securely locked and accessible only to the researcher.

Having read out the introduction I requested the respondents to confirm if I should continue with the interview.

The research was targeted at the municipal Accounting Officers, Chief Financial Officers and Financial Managers. This category of people was chosen because they are directly involved with the process of transforming municipal finance management and it was felt that they are the best candidates to provide insight with regards to the status of municipal finance management and the state of readiness with regards to implementing the new Act.

All six district municipalities i.e. Cacadu, Chris Hani, Ukhahlamba, OR Tambo, Amathole, Alfred Nzo and the Nelson Mandela Metropolitan Council were included in the sample so as to make sure that an overview of the status of the readiness of municipalities in the entire Province of the Eastern Cape is presented.

It was planned that the sample size be limited to twenty one (21) employees comprising of seven Municipal Managers, seven Chief Financial Officers and seven Financial Managers. From this sample, only 14 employees were however interviewed i.e. six Municipal Managers, seven Chief Financial Officers, one Financial Manager. In Alfred Nzo District Municipality we managed also to secure an appointment with the Mayor. The Mayor is the political head of the Municipality and he gives political direction in terms of priorities that the Municipality must focus on. (Public Finance Management Act 1999). As such, the Municipal Manager is directly accountable to the Mayor. The Mayor was thus in a position to respond to our questionnaire as he is aware of the functions of the Municipal Manager and the responsibility for implementation of the Municipal Finance Management Act.

Upon conducting the interviews I discovered that the financial managers functioned at an operational level and were not strategic managers. As the questionnaire was strategic in nature it required responses from a person who operated at that level and as a result they could not respond to some of the questions I asked. To compensate for the reduction in the sample, I decided to include Corporate Service Managers from three municipalities i.e. Nelson Mandela Metropolitan Council, Ukhahlamba district Municipality and OR Tambo district Municipality. The Corporate Service Managers are members of the municipalities top management team and they are directly involved in the transformation of the municipalities especially with regards to matters of human resource management, training and development of employees. Although they were not able to respond to all issues raised in the questionnaire, they were able to respond to matters that related to their function. The Corporate Service Managers in the selected municipalities were chosen because they were available to meet us at the time we visited their municipalities for interviews.

Even though Corporate Service Managers of the other municipalities were not included in our sample, we made frequent contact with them during the interview as when either of our respondents i.e. Municipal Manager and Chief Financial Officer were unable to

respond with certainty to a question that was raised in the questionnaire, these managers would be called in to assist with the responses.

At the time of the interviews, the Municipal Manager of the Nelson Mandela Metropolitan Municipality in Port Elizabeth was out of town and she referred my request for an interview to the Chief Financial Officer who was also Acting Municipal Manager at the time following her absence from office (Refer to appendix 1).

At the end of the interview sessions, a total of eighteen personnel had been interviewed.

3.2 Identification of data requirements

The questionnaire was drawn up after a review of various literature sources including books, material extracted from the internet, publications from National Treasury, discussions with officials from Eastern Cape Provincial Treasury – Municipal Finance Section and various Acts including the Municipal Finance Management Act No 56 of 2003 and the Municipal Structures Act No. 117 of 1998. Although various sources of literature were studied, the major source of literature that was used in drawing up the questionnaire is the Municipal Finance Management Act No. 56 of 2003. The Act was used as it is the actual document proposed by the South African National Minister of Finance to modernize financial reporting at the municipalities. The Act actually assigns specific responsibilities to certain individuals. It states what must be done, who must do it and by when various activities need to be done.

Purposive sampling has been used. This type of sampling allows me to collect data that will best answer my research questions and meet my objectives (Saunders, Lewis & Thornhill 2003). The form of sampling is useful as I am working with a small sample of 21 people and I will select respondents who are well informed as they will give me as much information as possible about the subject matter because they are involved with the processes being investigated. The type of sampling is also favoured as I am adopting the grounded theory approach. With grounded theory there is no predetermined theoretical or descriptive framework and data is analysed as it is collected to see what patterns emerge.

3.3 Data collection plans and procedures

The questionnaire was used as the source of data collection. It consisted of 63 closed ended and one open ended question. Although the questionnaire had 63 questions, it was fairly easy to administer as the majority of questions were closed ended. Also, the questions were standardized such that they were interpreted in the same way by all respondents (Saunders, Lewis & Thornhill 2003). The questionnaire was administered personally by the interviewer. Through face to face communication it was possible for me to read the facial expressions of the interviewees and hear the tone of their responses and thus detect any contradictions or incongruence which may otherwise not be observable through a questionnaire. I used probes to clear any ambiguity or cases where the respondents gave an unclear answer and further clarity was required.

Interviews were set up with the respondents and these were held in the respondents' offices. I set up appointments through the respondents' personal assistants by telephoning them requesting appointments with the respondents. The personnel assistants responded telephonically acknowledging receipt of the request for an interview. They then asked me to confirm the request for the appointment in writing and state explicitly the purpose of the appointment. After confirming with the respondents, the personnel assistants came back to me telephonically with a suggested date for the interview.

I personally travelled to the respondents' offices so that they were not inconvenienced to travel to the meeting. Kilometres travelled to meet the respondents ranged from the lowest number of 10 kilometres travelled to Amathole District Municipality in East London to 600 kilometres travelled to get to and return from the Metro Council in Port Elizabeth and 700 kilometres travelled on a return trip to Alfred Nzo District Municipality in Mt. Ayliff. Travelling to these municipalities proved useful as where I required clarity with certain matters the respondents would show me supporting material which they had in their offices to corroborate their responses. Separate interviews were held with each of the respondents in the same municipality so that I got a fair view of what the situation is at the municipality with regards to the capacity of the municipality and its readiness to implement to the new Act.

The MFMA is broken down into sixteen chapters. The different chapters tackle various aspects which the municipality must do in order to comply with the Act. All compliance issues that the Act requires were included in the questionnaire. In addition to the compliance issues required by the Act, I included one compliance issue as required by section 83 of the Municipal Structures Act (Act No. 117 of 1998).

The questionnaire took approximately forty minutes to administer. This was so as the questions were directed at people who are directly involved with the processes and as a result I got quick responses from them. The responses were hand written by the interviewer rather than being recorded on tape. This was done so that the interviewees could feel comfortable to freely express themselves without fear of being implicated at a later stage.

Interviews were conducted in one district municipality and the interview process was finalized before proceeding to the next district municipality. This was necessary so that information collected at one point is consolidated to ensure that a picture of the situation at that district municipality emerges and also that the different notes collected from the various points are not confused.

The questionnaire was designed using Windows XP Microsoft Word program. Each question used a form field that allowed for responses to be inserted in the form of an "X" or a text response. In administering the questionnaire, I read out the questions to the respondent who was also issued with his own questionnaire which he used to follow the questions as I read them. Having received the response from the respondent, I would then insert the response in the appropriate box.

During the interview I listened carefully to the tone of the response so that I could detect any areas where the respondents were not giving full and detailed responses. In these instances I would probe further and request to see material to corroborate the response of the respondent. Also, probes were made where the respondents appeared to be shunning

from giving full responses to certain questions asked and appeared not to be voluntarily giving detailed responses as they had done with the other questions.

The questionnaire was structured as follows:

Section 1: Biographical information

The section used both closed and open ended questions to get information on the position of the respondent within the organization and also to confirm the district municipality in which the respondent was employed.

Section 2

The section used both closed ended and open ended questions to gather information on issues about which the municipality should be in compliance with in terms of the Act. Sixty six closed ended questions and one open ended question were asked. Space was provided for respondents to write a text answer in response to the open ended question.

The section covered questions on

- Delegations;
- Municipal bank accounts;
- Municipal budgets;
- Political leadership;
- Financial management;
- Revenue management;
- Expenditure management;
- Supply chain management;
- Financial reporting and auditing;
- Organizational Structure;
- Resources;
- Training;
- Capacity building; and
- E-Governance.

The last question required that the respondents give any areas besides those mentioned in the questionnaire where they believe municipalities need further capacitation.

3.4 Operational definition of variables

The data variable that is being collected through the questionnaire is the opinion variable. The Likert-style of a measuring scale was used to collect data. Respondents were asked how strongly they agreed or disagreed with a statement on a five point rating scale. Opinion variables according to Saunders, Lewis & Thornhill (2003, p287) “record how respondents feel about something or what they think or believe is true or false.” The questionnaire has been designed such that it requires the respondents to tick the appropriate box about a compliance statement given in the questionnaire. The respondent answered by stating that he or she strongly agrees, agrees, is uncertain, disagrees or strongly disagrees.

The variables can be explained as follows:

- i. Strongly agrees means that the respondent believes that the municipality is definitely in compliance.
- ii. Agrees means that the respondent believes the municipality is in compliance but is not 100% certain of certain facts around the issue in question.
- iii. Uncertain means that the respondent does not have an answer to the question being asked by the researcher.
- iv. The variable “Disagrees” means that the respondent believes the municipality does not comply with the statement although there are issues that the respondent is not sure of.
- v. The variable “strongly disagrees” means that the respondent totally rejects the statement as untrue.

This method was favoured as I believe it is easy to administer. The questionnaire gave statements of compliance to confirm from respondents if they complied with certain

aspects of the Municipal Finance Management Act and the respondents responded by ticking the appropriate box.

3.5 Data Analysis

At each data collection session, I took notes of the discussions. These notes were later typed using a word processor so as to prepare a status report for the particular district municipality visited. The notes provided a descriptive record of the research but not explanations. The researcher had to make sense of the data by sifting and interpreting them (Pope, Ziebland & Mays 2000).

The data collected was studied to determine themes emerging from them. Ely et al (1999) define a theme as (1) a statement of meaning that runs through all or most of the pertinent data or (2) one in the minority that carries heavy emotional or factual impact. A theme is thus established because it appeared many times and/ or for the majority of people who were studied or very few times but carried important analytical impact (Ely et al 1999).

The data was disaggregated into meaningful and related parts. The process allowed the researcher to identify key themes emerging from the data. Data analysis was based on themes that emerged from the responses of the interviewees.

Descriptive statistics will be used to analyse the data. According to Welman & Kruger 2002, p208 “descriptive statistics is concerned with the description and/or summarization of the data obtained for a group of individual units of analysis”.

3.6 Validity and Reliability of research instruments

Measures are valid when they capture what they are supposed to do (Ghauri and Gronhaug 2002). In testing validity I presented the questionnaire to the General Manager Municipal Finance at the Eastern Cape Provincial Treasury and I requested him to comment on the questionnaire so as to determine whether it is inclusive and whether it captures all aspects of municipal finance that it is supposed to capture. This was necessary so that I make the necessary amendments before the actual data collection

sessions with municipal officials. The exercise proved useful as I was able to tell at the end of the meeting whether the questionnaire will answer my research objectives.

The questionnaire was tested among two municipal finance section officials at the Eastern Cape Provincial Treasury, one academic and two Internal Audit Managers at the Eastern Cape Provincial Administration. The pilot sample was considered adequate as it covered a variety of individuals that I felt would make a meaningful input into the structure and content of the questionnaire. Testing the questionnaire gave some idea about its face validity, that is, whether the questionnaire appears to make sense (Saunders, Lewis & Thornhill, 2003). Although the questionnaire appeared long, the pilot questionnaire took between thirty and forty minutes to complete. From the pilot testing I did, I was able to test the workability of the questionnaire. Respondents answered the questions without requiring me to give further clarity to any questions. I could thus tell that respondents had no problems in answering the questionnaire, the questions were clear and there was no ambiguity.

Officials used to pilot the questionnaire were not included in the study sample.

Reliability is concerned with consistency of the measure (Ghauri and Gronhaug 2002). Saunders, Lewis & Thornhill, 2003 further expand on the definition to say that reliability of the questionnaire is concerned with the consistency of responses to the questions asked. Reliability of the data has been confirmed through interviewing respondents at different times. This way I ensured that interview times were scheduled separately so that only one person is interviewed in a session. This ensured that the ideas of one person are not overshadowed by those of another and it also served as a measure to establish consistency of responses as responses of one person can be compared with those of another in the same district municipality to confirm consistency of responses to the same questions.

Reliability was also tested at the start of the data collection session where I made a visit to the Eastern Cape Provincial Treasury Municipal Finance Section. I interviewed the

Senior Manager with the objective of getting a macro view of the situation with regards to municipal finance management in the Eastern Cape Province prior to proceeding to conduct interviews at the micro district level. The exercise was useful as I was able to gather some information which I later compared with notes gathered at the data collection sessions with the municipal managers at district level.

Individuals used in the pilot phase were not included in the study phase.

3.7 Chapter Summary

The chapter explained the research methodology followed and why the methodology was adopted. The chapter opened with an explanation of how the research was designed and an explanation of the research methodology then followed. The necessary references were drawn from authoritative sources to provide support for the choice of research methodology. The chapter explained how the research process was conducted, who was chosen as a respondent to the questionnaire and how the respondents were chosen. The chapter also gave an indication as to considerations the researcher made in designing the questionnaire that is, what reference material was used and what other considerations were looked into to ensure that the questionnaire addressed the research objectives. An explanation of the various sections of the questionnaire was given together with a brief mention of the various areas that the questionnaire tested. The operational variables in the questionnaire were also explained. Finally the chapter considered methods followed by the researcher to ensure validity and reliability of the research instruments.

The next chapter provides a presentation and analysis of the results of the study together with a rationale for the analysis.

CHAPTER 4: PRESENTATION AND DISCUSSION OF RESULTS

4.1 Introduction

PRESENTATION OF RESULTS

The aim of this chapter is to present and discuss the results of the research project. Tables, graphs and charts will be used where necessary to display the results. Descriptive statistics will be used in the presentation of the results based on the results from frequency distributions.

In the presentation of the results, reference will be made to specific interview questions. Percentages will be brought to their nearest decimal points. Results will be presented in fourteen broad categories, namely:

- Delegations;
- Municipal bank accounts;
- Municipal budgets;
- Political leadership;
- Financial management;
- Revenue management;
- Expenditure management;
- Supply chain management;
- Financial reporting and auditing;
- Organizational Structure;
- Resources;
- Training;
- Capacity building; and
- E-Governance

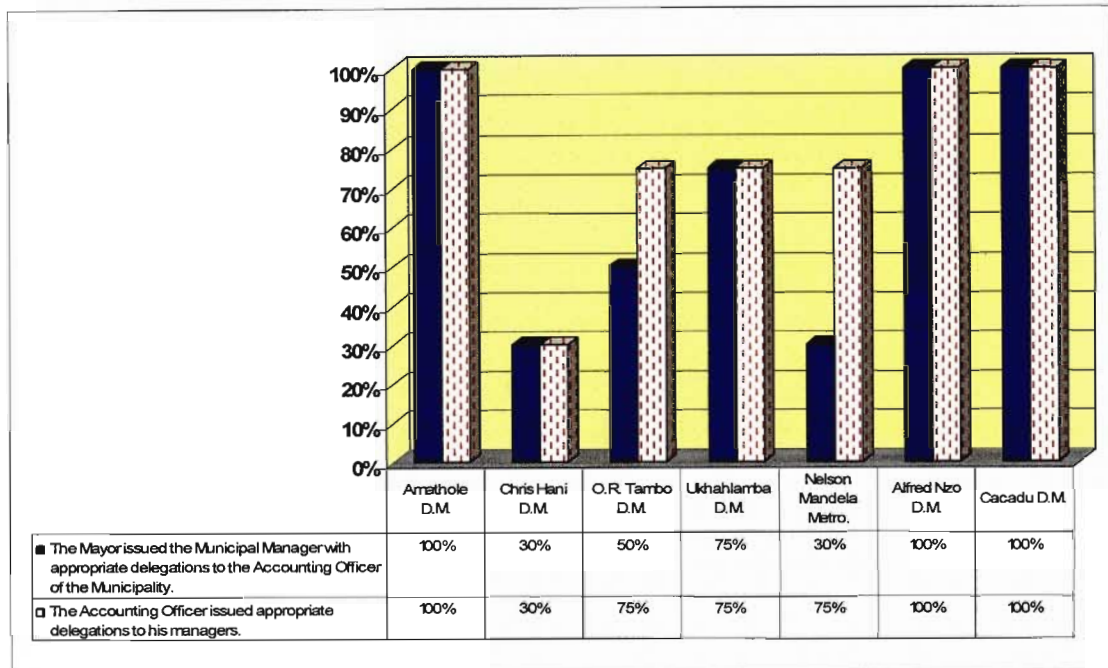
Each of the variables in the questionnaire has been assigned a level of confidence to ease presentation of results. The confidence levels have been chosen randomly as follows:

- Strongly agree - 100%
- Agree - 75%
- Uncertain - 50%
- Disagree - 30%
- Strongly Disagree - 10%

The questionnaire contained questions that underpin the research objectives and thus the results will be presented in the light of the objectives of this research as stated in chapter one.

4.2 Delegations

Figure 4.2.1 Frequency distribution of issuance of delegations



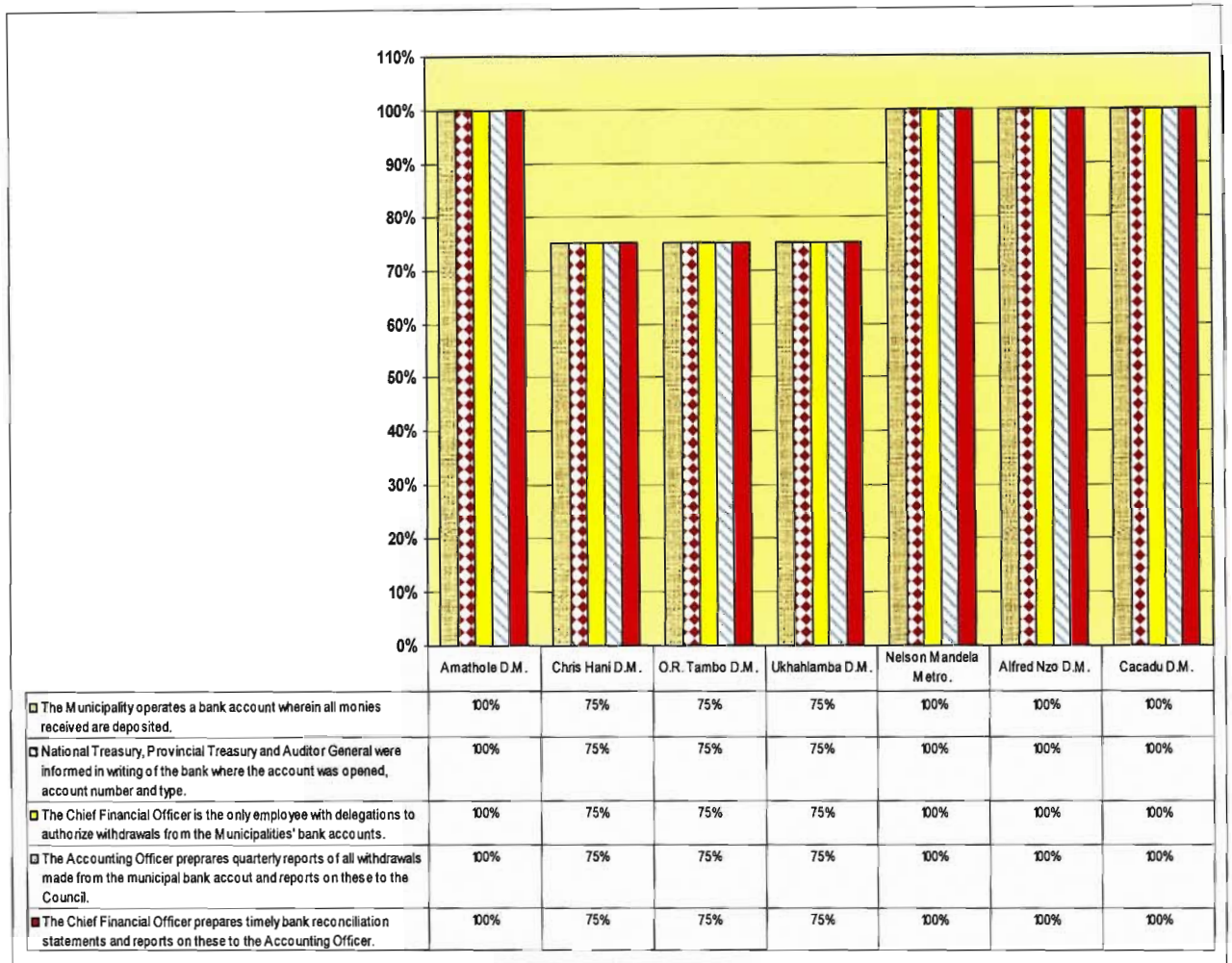
Out of the seven municipalities visited, only three respondents indicated that the municipal managers had written delegations issued to them by the mayor to perform the functions that they performed. In OR Tambo District Municipality, the Municipal Manager was on suspension and the Acting Municipal Manager could not confirm if written delegations had been made by the Mayor.

In two Municipalities namely Chris Hani District Municipality and Nelson Mandela Metropolitan Municipality, respondents informed the researcher that written delegations had not been issued to the Municipal Manager.

As delegations had not been issued to the Municipal Manager at Chris Hani, the result of this was that no reciprocal delegations had been given to lower levels of staff. The respondents stated that delegations were only referred to and implied upon in the policy document but no formal written documents to individual employees existed. Although the Municipal Manager at Nelson Mandela Metropolitan Municipality had not been issued with written delegations, he argued that he had however issued delegations to all staff that report directly to him.

4.3 Municipal bank accounts

Figure 4.3.1 Controls over the maintenance of bank accounts



The respondents agreed that all six district municipalities and the Nelson Mandela metropolitan municipality operated bank accounts wherein all monies received were deposited. They stated that with all seven municipalities, National Treasury, the Eastern Cape Provincial Treasury and the Auditor General had been informed in writing of the name of the bank wherein the account had been opened, type of account and the account number.

Although the Chief Financial Officer in OR Tambo District Municipality was aware that bank reconciliation statements had to be prepared monthly, he stated that he was experiencing challenges with the accounting system as it was prone to frequent down times. As at February 2006, which was the date of the interview, the researcher established through enquiries with the Chief Financial Officer that the last bank reconciliation which had been done was for the period ended 30 November 2005.

The respondents at this municipality informed the researcher that program managers were responsible for authorization of payments from their directorates. However final authority to withdraw rested with the Chief Financial Officer.

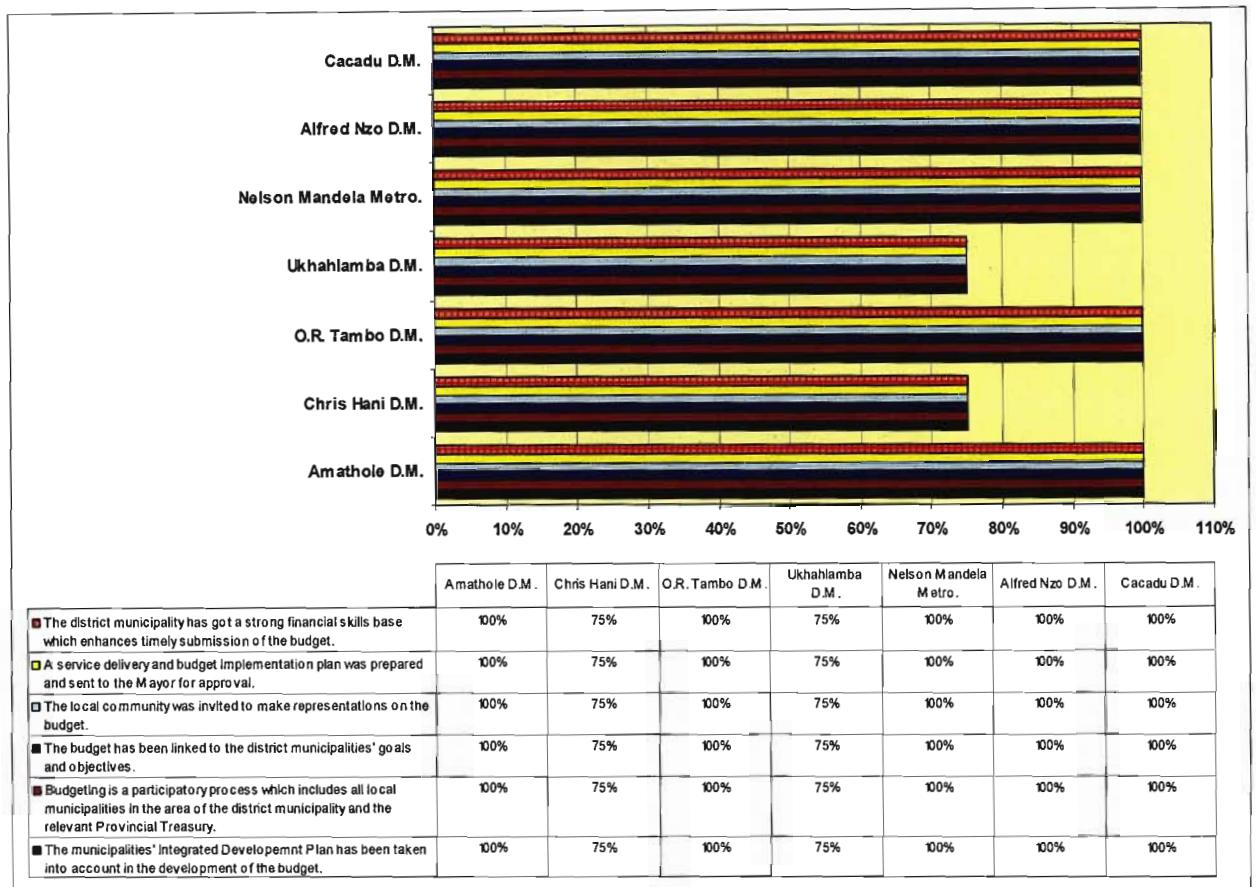
At Cacadu District Municipality, neither the Municipal Manager nor the Chief Financial Officer were certain if quarterly reports of all withdrawals made from the municipal bank account were made and reported upon to Council.

With regards to signing from the municipal bank account at Chris Hani district municipality, the respondents stated that the Chief Financial Officer, Municipal Manager and Deputy Director Finance were the only employees with authority to make withdrawals from the municipal bank account. It was also stated that the Director Finance prepared monthly reports of withdrawals from the municipal bank accounts and these were presented to the council.

At Nelson Mandela Metropolitan Municipality, the Chief Financial Officer informed the researcher that he was the authorized cheque signatory but had sub delegated the function in order to ease service delivery in the event of his absence. At Cacadu district municipality the respondent stated that only two signatures appeared on cheques i.e. that of the Municipal Manager and Chief Financial Officer. It was however also stated that at the same municipality there were various authorization levels within the system so as to ensure that proper approval processes were followed.

4.4 Municipal budgets

Figure 4.4.1 Extent of compliance with MFMA budgeting process requirements



Although there are varying levels of representations, the respondents in all six district municipalities and the Metro Municipality confirmed that budgeting was an inclusive process which involved communities and other municipal stakeholders. At Nelson Mandela Metropolitan Municipality the respondent stated that various levels of representations between the local community and the municipality took place. These include Imbizo's, Masithethisane and report backs to communities (Peoples Assembly). The Integrated Development Plan (IDP) was done after consultations (Masithethisane) and was thereafter sent to the Mayor for approval.

At Chris Hani District Municipality, the respondents stated that participation in the budgeting process was achieved through collaborations between the District Municipality and its Local Municipalities. Local communities were invited to road shows organised by Local Municipalities to enable local communities to make their inputs into the budgeting process.

The researcher was informed that budgeting was however a bottom up process, with Municipal Manager submitting the draft budget to the Mayor and the Mayor thereafter making inputs thereto. The implication is that this was done without giving priorities upfront as is required by the Act.

The researcher was informed also that, a consultant from the Development Bank of Southern Africa had checked and linked the Intergrated Development Plan of the District Municipality to the budget.

The respondent stated that the Service Delivery and Budget Implementation Plan was in draft format and that the budget of the District Municipality had been linked to the goals of the Provincial Growth and Development Plans and National priorities. It was also stated that budgeting needs had been drawn from the Local Municipalities and internally at the District Municipality. The budget had also been linked to objectives and strategies of the District Municipality.

Although the Municipal Manager and the Chief Financial Officer of Ukhahlamba District Municipality confirmed that the municipality had a strong financial skills base, they however believed there was a need for improvement and additional capacitation of employees. This could be attained by giving them training on new methods to keep them up to date with developments in the market.

In OR Tambo District Municipality, the Chief Financial Officer informed he researcher that the financial skills base of staff in the budget section stood at approximately 70% of required capacity. The IDP had been taken into account in the development of the budget.

Budgeting and development of IDP were a participatory process which included all stakeholders and the budget had been linked to the municipalities' goals and objectives. Ward councillors and representatives from the local municipalities had been invited to make representations on the budget. The respondent confirmed also that a Service Delivery and Budget Implementation Plan had been prepared and sent to the mayor for approval. The Mayor had provided political guidance in the development of the budget.

The participatory process was also adopted at Ukhahlamba District Municipality where the respondents stated that budgeting was done through local municipalities and stakeholder groups. The stakeholder groups included the youth, women, the disabled and organized business. The respondent stated that the Mayor held her own imbizo's with stakeholders to determine budget priorities and also to determine what the grassroots needs were.

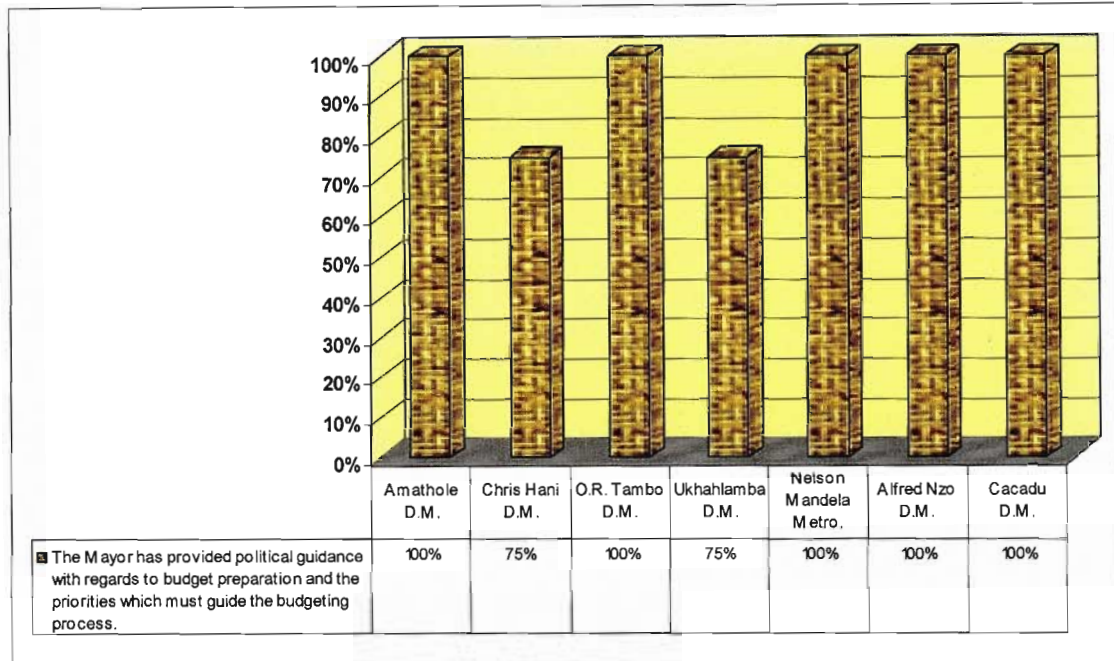
At Cacadu District Municipality, the respondent confirmed that budgeting was a participatory process. An Intergrated Development Plan (IDP) forum was in place with Mayors of local municipalities, provincial departments and the private sector invited and participating.

The respondent asserted that the District Municipality interacts with local communities through the local municipalities. Representations of local communities were brought up to the District Municipality for consideration and were included in the budget.

Similarly at Alfred Nzo District Municipality the respondents also confirmed that budgeting is a participatory process which included all stakeholders and the budget had been linked to goals of the District Municipality. A Service Delivery and Budget Implementation Plan had been prepared and sent to the Mayor for approval. The respondent also stated that the mayor provided political guidance with regard to budget priorities.

4.5 Political Leadership

Figure 4.5.1 Extent of guidance provided by Mayors in the budgeting process



With regard to political leadership 71% of the respondents strongly agreed that their mayors gave guidance with regard to the priorities that must guide the budget process whilst 29% agreed that there was political leadership with regards to giving municipalities some guidance on the priorities that must guide the budget.

4.6 Financial Management

Table 4.6.1 Level of compliance with MFMA on financial management controls

STATEMENT	DISTRICT MUNICIPALITY						
	Amathole D.M.	Chris Hani D.M.	O.R. Tambo D.M.	Ukhahlamba D.M.	Nelson Mandela Metro.	Alfred Nzo D.M.	Cacadu D.M.
A competent top management structure is in place to assist the Accounting Officer in the discharge of his duties.	100%	75%	75%	75%	100%	100%	100%
A performance management system is in place to ensure that municipal resources are used efficiently, effectively and economically.	100%	75%	100%	75%	100%	100%	100%
A risk management strategy is in place to reduce the exposure of the municipality to risk.	100%	75%	100%	75%	100%	100%	100%
Proper accounting records are maintained to record the financial affairs of the municipality.	100%	75%	75%	75%	100%	100%	100%
The municipality has and implements a: - tariffs policy; - rates policy; - credit control; and - debt collection policy	75%	75%	75%	75%	100%	100%	100%
An asset register which records all assets of the municipality is in place.	100%	75%	100%	75%	30%	100%	100%
The Chief Financial Officer ensures that all financial accounts are closed at the end of the month and reconciled with records.	100%	75%	100%	75%	100%	100%	100%
The Accounting System provides timely management information which is used for decision making.	100%	75%	75%	75%	30%	100%	100%
An analysis has been made to determine areas requiring out-sourcing so as to improve on expenditure management and increase efficiency.	100%	75%	100%	75%	100%	100%	100%
There is a process in place to determine areas where departmental cost control initiatives can be introduced.	100%	75%	100%	75%	100%	100%	100%
A variance analysis report on municipal income and expenditure is prepared and sent to the Mayor and Provincial Treasury.	75%	75%	100%	75%	100%	100%	100%
The Accounting Officer, Senior Managers, Chief Financial Officer and other financial officers meet the required competency levels.	100%	75%	75%	75%	100%	100%	100%

With regards to financial management the respondents at Amathole District Municipality stated that the municipality does not have tariffs and rates policies, as the collection of rates was done at the local municipality level. A variance analysis report of income and expenditure was only sent to the mayor and copies were not sent to the Provincial Treasury as required by legislation. The Chief Financial Officer however stated that this was an error on his part as previously he had not been aware of the requirement and was planning to send the variance reports to Provincial Treasury in future.

Although the Performance Management Development System was in use, the respondents stated that the municipality was not current with regards to assessments of staff.

The researcher confirmed through discussion with the respondents that the top management structure of the District Municipality consisted of the Chief Financial Officer, Human Resources Manager, Administration Manager, Strategic Manager and Health and Safety Manager and that all top managers reported directly to the Accounting Officer.

The researcher was informed also that the risk management strategy for the district municipality was still being developed and was as a result in draft format. An asset management policy which included issues of asset acquisitions, depreciation and asset disposals was in place.

The district municipality was computerized and they used the VENUS accounting package to process their accounts. The respondents stated that the package offered various capabilities including general ledger maintenance, billing, management of creditors, cash book management, costing, asset management and drawing of management accounts. Staffing levels stood at approximately 90% in the organogram.

At Nelson Mandela Metropolitan Municipality the respondent stated that the asset register was being prepared. The researcher learned through discussions with the Chief Financial Officer that the Metropolitan Council was battling with the collation of assets in the three areas i.e. Despatch, Uitenhage and Port Elizabeth which formed up the

municipality. Problems arose because these were previously independent municipalities which had recently amalgamated to form one municipality. The accounting system was built in house and was slow and outdated and the respondent stated that it did not always give all the required information. The top management structure consisted of the Municipal Manager, Chief Financial Officer, Expenditure & Budgeting, Customer Care, Revenue Management and Treasury Management. The Business Unit Managers reported to top management. The business units were Corporate Services, Infrastructure & Engineering, Human Resources, Electricity and Energy, Environment and Health, Recreation, Culture, Safety and Security and Land Managers. The respondent confirmed that both the individual and organisational Performance Management Systems were in place. The IDP sets out Key Performance Areas and performance was assessed on achievement of Key Performance Areas (KPA). The respondent confirmed also that a Risk Management strategy was in place and was monitored through bi monthly meetings which were held at the District Municipality. All senior managers possessed a university or other tertiary qualification whilst some were in possession of post graduate qualifications.

Although the Act required that reports of withdrawals be prepared quarterly and sent to the council, at Chris Hani District Municipality, the respondent was informed by the Director Finance that he prepared monthly reports of withdrawals from the municipal bank accounts and these were presented to the council.

The respondent also stated that all top management positions were filled by people occupying them in a full time capacity. The top management structure was composed of The Municipal Manager, Human Resources Manager, Chief Financial Officer, Technical Manager, Planning and Community and Social Services Managers.

The accounting system was computerized with E-Venus system being used.

The municipality did not have tariffs and rates policies as the collection of these was done at the local municipality level.

The respondent informed the researcher that the District Municipality did not have a performance management system which evaluated individual performance but had recently adopted an organizational system which measured achievement of targets by the District Municipality as a whole. The organizational system was newly established and was adopted in November 2005.

The Municipal Manager alluded to problems which sometimes occurred when politicians expected the District Municipality to focus their attention on other issues which in the opinion of the Accounting Officer were not core Service Delivery areas of the District Municipality and consequently may not be budgeted for.

At Ukhahlamba District Municipality, the respondent stated that the reports produced by the accounting system were sometimes not reliable as the system had to be programmed to suit individual reporting needs of the different donors and other funders. The respondent stated also that a top management structure composed of Municipal Manager, Chief Financial Officer, Technical Manager, Community Services Manager and Corporate Services Managers was in place.

The respondent confirmed that each manager had his/her own Key Performance Indicators (KPI's). The KPI's were linked to Provincial Growth and Development Plans, National Spatial Development Framework and National Targets. The performance of each manager was measured against the set Key Performance indicators. Quarterly reports were prepared by senior managers and submitted to the Municipal Manager for review. The District Municipality was at a stage of discussing the issue of rewards and awards to individual managers to reward good performance. The respondent confirmed that the Organisational Performance Management Development System (PMDS) was in place.

Although the respondents indicated that the District Municipality had some financial management skills, they stated however that the skills base was not very strong and improvement in that regard was required. The respondent stated further that the District

Municipality was situated in a rural area and it was as a result difficult to attract and retain competent staff.

Respondents confirmed that a risk management strategy and an asset management plan were in place

It was also confirmed by the respondents that reports on month end closure status were prepared by the Chief Finance Officer and sent to the Mayoral Committee on a monthly basis and to the council quarterly. A computerised accounting package Abakus ICL was in use at the municipality.

In OR Tambo District Municipality, the respondent stated that the municipality used the BAUD system to assist in the development of its asset register. However, the respondent argued that the municipality was not able to prepare asset reconciliations as the BAUD system did not interface with the financial management system. Assets therefore had to be captured manually into the asset register. The respondent stated further that the network system was prone to frequent downtimes and as such the accounting system only provided reliable and timely information in approximately 70% of instances required. The accounting system was computerized and the municipality used the Venus system.

The respondent stated that expenditure management at the District Municipality had been achieved through outsourcing of the water metre reading function. The Chief Financial Officer rated the financial skills base of the District Municipality at approximately 70% of the required skills base. This he attributed to the fact that it was difficult to attract skills to the Umthatha area. A PMDS system which covered individual performance was in place. The organisational wide PMDS was being finalized. The respondent confirmed also that the District Municipality has a risk management strategy in place.

A competent top management structure was in place with all top management positions occupied. The exception was one for the Municipal Manager who was currently on

suspension at the time. The Human Resources Director was acting as Municipal Manager.

The respondent stated that the top management structure consisted of Finance and Asset Management, Human Resources Department, Community Development, Developmental Planning and Infrastructure departments.

The Chief Financial Officer (CFO) expressed that proper accounting records were maintained by the municipality.

The CFO informed the researcher that he ensured that accounts were closed at the end of each month. However due to system and networking problems he stated that this process was rendered difficult.

The CFO could not give a definite response on whether the accounting system provided information which was timely to facilitate decision making. He however indicated that because of problems alluded to earlier which related to the network he could only say that the system was reliable in 70% of the instances where it was required to provide information.

The respondent confirmed that the Accounting Officer and Senior Managers met the required competency levels.

The District Municipality did not levy any rates and the function was only applicable at the local level.

At Cacadu District Municipality, the respondents stated that the accounting package was developed in-house and as such it catered for the needs of the municipality.

The researcher was also informed by the respondents that the District Municipality had assessed its own capacity, identified weaknesses and had outsourced the following functions:

- Internal Audit
- Security
- Information Technology
- Levy collection

The respondent stated further that the District Municipality operated a district management area (DMA) which was composed mainly of rural farm land. The population in this farm land was very thin and the majority of the communities living in the area were not wealthy people. The municipality however had to provide services to these people who in most cases did not pay for the services they received. Very little revenue was as a result generated from this area.

The respondents also stated that the rates policy was not applicable to the District Municipality but only to the DMA as the municipality did not own any properties in the area. The Accounting Officer was satisfied that the District Municipality had a strong financial skills base. A competent top management team comprising of Municipal Manager, Chief Financial Officer, Development Facilities, Infrastructure and Health Services was in place. An individual Performance Management Development System was in place and assessments were only done for senior managers. The Municipal Manager stated that he felt the performance management system was not the best and was assessing it to evaluate options. Respondents stated further that a risk management strategy was in place and that risks had been prioritized and an audit plan had been developed there from. A computerized asset register was in place and the accounting system was computerized. The system had been developed in house. The researcher was informed by the respondent that certain activities of the municipality had been outsourced. These were Internal Audit, Security, Cleaning, Information Technology Services and Levy Collection. The District Municipality continually monitored its telephone and fuel costs to ensure that costs remained within acceptable limits to the

municipality. A variance analysis report was sent to the mayoral committee monthly and the same report was sent quarterly to the Mayor where after the Mayor presented it to Council.

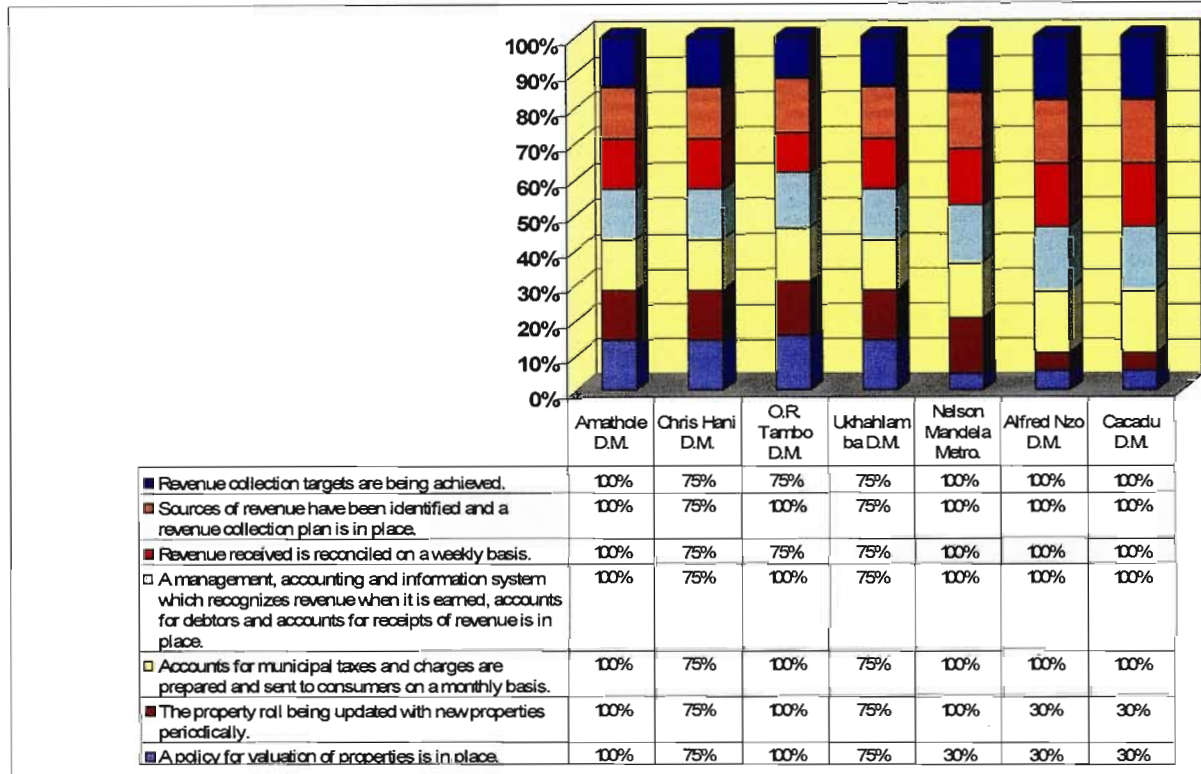
The respondents at Alfred Nzo District Municipality confirmed that a computerised accounting system was in use at the District Municipality. A risk management strategy was in place and an asset register which recorded all assets of the District Municipality was in place. The respondent stated that accounting records were closed at the end of each month. The respondent further stated that the accounting system provided for timely financial information and variance analysis reports were prepared and sent to the mayor and Provincial Treasury.

Subsequent to completing the data collection at the OR Tambo District Municipality, I learned through media reports that the Chief Financial Officer of that District Municipality had been suspended on charges of financial mismanagement.

Sound financial management practices are important in assisting the municipalities to manage their affairs in a satisfactory manner. From the analysis above, it appears that municipalities need to strengthen their financial management capabilities so that they can manage their affairs better.

4.7 Revenue Management

Figure 4.7.1 Extent of compliance with MFMA on revenue management



At Amathole District Municipality, Cacadu District Municipality and Nelson Mandela Metropolitan Municipality the Chief Financial Officers confirmed that they reconciled revenue received daily whilst at Chris Hani, OR Tambo and Ukhahlamba District Municipalities the Chief Financial Officers confirmed that they reconciled revenue received on a monthly basis. The Act however requires that revenue received be reconciled on a weekly basis.

The respondents at Amathole and Chris Hani District Municipalities stated that the maintenance and updating of property rolls and the function of charging and collecting fees for municipal services was only done at the local municipality level and was not done at the District Municipality.

At Nelson Mandela Metropolitan Municipality and Cacadu District Municipalities the respondents stated that a policy for revaluation of property was not in place whilst at Alfred Nzo District Municipality, a tender had been placed for a service provider to value municipal properties. However the respondent confirmed that a policy for valuation of properties at this District Municipality was not yet in place. Respondents at Alfred Nzo and Cacadu District Municipalities stated that property registers were not updated periodically and were outdated.

The researcher confirmed through conversation with the respondent that a revenue policy and by laws were in place at Nelson Mandela Metropolitan Municipality A revenue master-plan was in place and revenue collection stood at 96% of accounts sent out.

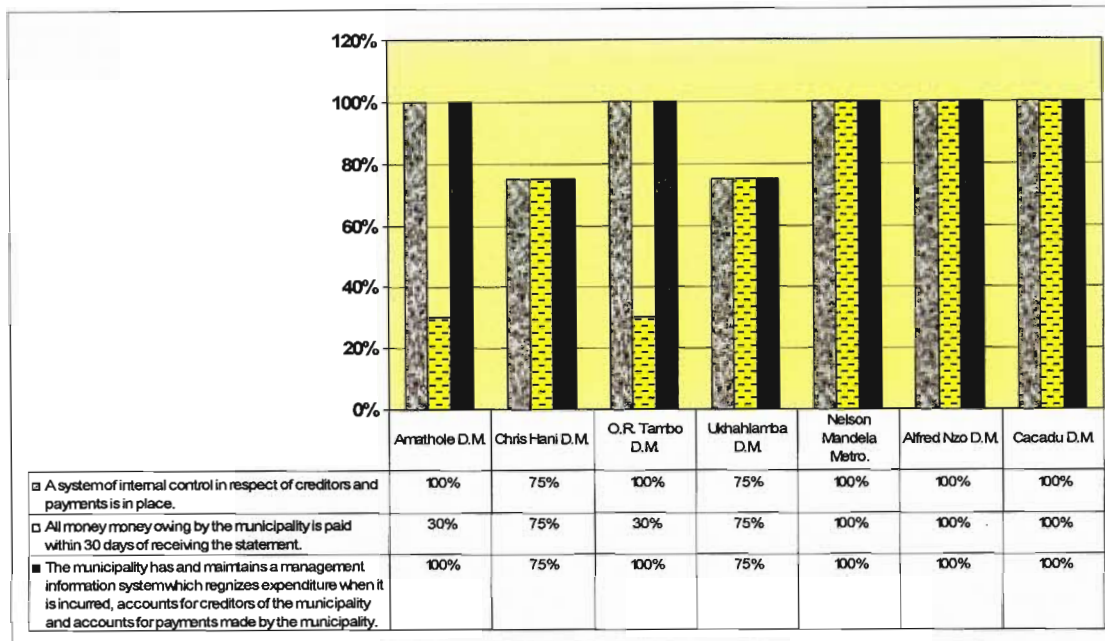
At Amathole District Municipality the Municipal Manager and the Chief Financial Officer reported that they were exceeding their revenue collection targets whilst in OR Tambo District Municipality respondents stated that revenue collection targets stood between 75 and 80%. Tariffs, credit control and debt collection policies were in place and cost control initiatives were in place. The researcher was informed by the respondents that collection of revenue from water charges had been outsourced and collection of levies was partly outsourced. Variance analysis reports were prepared. The management accounting system recognized income and expenditure as and when incurred. Sources of revenue had been identified and a revenue collection plan was in place. Sources of revenue included the kei fresh produce, water and abattoirs. Accounts were prepared and sent to consumers monthly.

The respondents at Chris Hani District Municipality stated that the municipality was exceeding its revenue collection targets.

At Cacadu District Municipality respondents confirmed that revenue was deposited at the bank daily and revenue collection targets were achieved.

4.8 Expenditure Management

4.8.1 Level of compliance with expenditure management controls



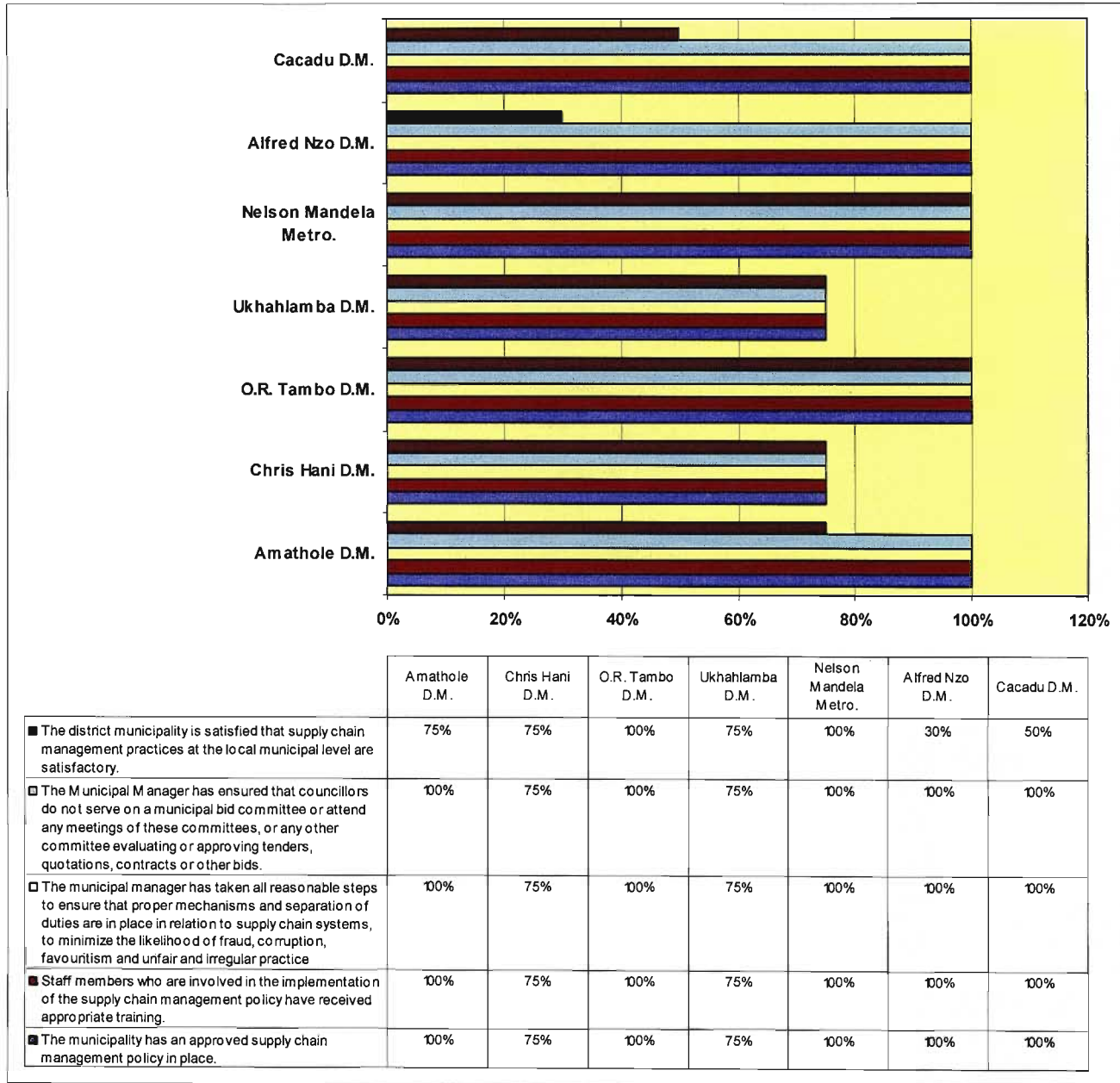
The respondents at Amathole and OR Tambo District Municipalities conceded that they were not meeting the 30 day period for payment of their creditors but were working towards achieving the target.

In Alfred Nzo District Municipality the respondent stated that internal controls for creditors were in place and payments to creditors were made within 30 days.

The researcher was informed by respondents at Chris Hani District Municipality that no formal assessment had been done at that District Municipality to determine areas requiring outsourcing of activities. Outsourcing of functions had been done on an ad hoc basis.

4.9 Supply Chain Management

Figure 4.9.1 Level of compliance with supply chain management principles



The respondents at Amathole District Municipality stated that the supply chain management framework had recently been introduced and implementation at the District Municipality was ongoing. The Municipal Manager stated that he was not entirely happy with the implementation of supply chain management policies at the local municipal level and was currently assisting local municipalities by building capacity at that level to ensure proper implementation.

Although no specific incidences of non compliance were mentioned, the respondents were also not happy with the level of compliance with the supply chain management practice within the District Municipality and were still capacitating the municipal officials by giving them the relevant training.

Also at Alfred Nzo District Municipality, the respondents stated that they were not entirely happy with the level of implementation of supply chain management practices at the local level. Respondents also stated that Councillors did not serve in the bid committee. Supply Chain Management committees namely Specifications, Evaluation and Bid Award Committees were in place.

The respondents at Cacadu District Municipality were not sure of supply chain management practices at local level. The tender committees as required by Supply Chain Management policy were not in place at the time of the interviews.

The researcher was informed that the Supply Chain Management policy had been in effect from 1 January 2006. The policy was therefore being implemented. As such none of the supply chain management committees that are recommended by the policy had been established. The District Municipality was not certain of the stage of implementation of Supply Chain Management practices at the local level.

At Nelson Mandela Metropolitan Municipality, the researcher learnt through holding discussions with respondents that the Supply Chain Management policy had been in place since October 2005 and was being implemented. Implementation of the policy was being

done through the procurement office. The researcher was informed that a specifications committee was in place and it operated at the business unit level and that all three committees required to be established in terms of Supply Chain Management framework were in place.

Although the Chief Financial Officer at the Nelson Mandela Metropolitan Municipality was in strong agreement that supply chain management practices at the metropolitan municipality were sound, the researcher learned through media reports that the mayor was implicated in certain irregular acts regarding the tendering for a museum in Port Elizabeth. It was reported that the Mayor had interfered with the tender process thus influencing who the preferred supplier should be.

At Chris Hani District Municipality the respondents stated that only the adjudication committee was in place and the municipality was still behind with regard to setting up of other committees i.e. specifications and award committees. The adjudication committee had been in existence for six months.

The researcher was informed that no politicians served in the tender committee. An appeals committee was in place and the Municipal Manager presided over the committee. The committee only sat where there was a dispute with regard to awarding of a tender.

At Ukhahlamba District Municipality, the respondents stated that members have been nominated to serve in the supply chain management committees and the Municipal Manager has confirmed the appointments. However inauguration of the members had not been done but was due to take place shortly. One tender committee was in place and other committees were still outstanding.

The respondent at OR Tambo District Municipality stated that an approved Supply Chain Management Policy was in place. The policy had been approved in 1 October 2005 and had been in implementation since 15th December 2005. The CFO chaired the adjudication committee. The evaluation committee was chaired by an official from the requisitioning

business unit. The Accounting Officer adjudicated over contracts in excess of R 5m. The Accounting Officer had delegated adjudication of contracts below R 5m to the adjudication committee. Adequate steps had been taken to ensure that there was adequate segregation of duties between members of Supply Chain Management Unit. The researcher was informed that with effect from July 2004, councillors at this municipality had been barred from participating in the tender committees.

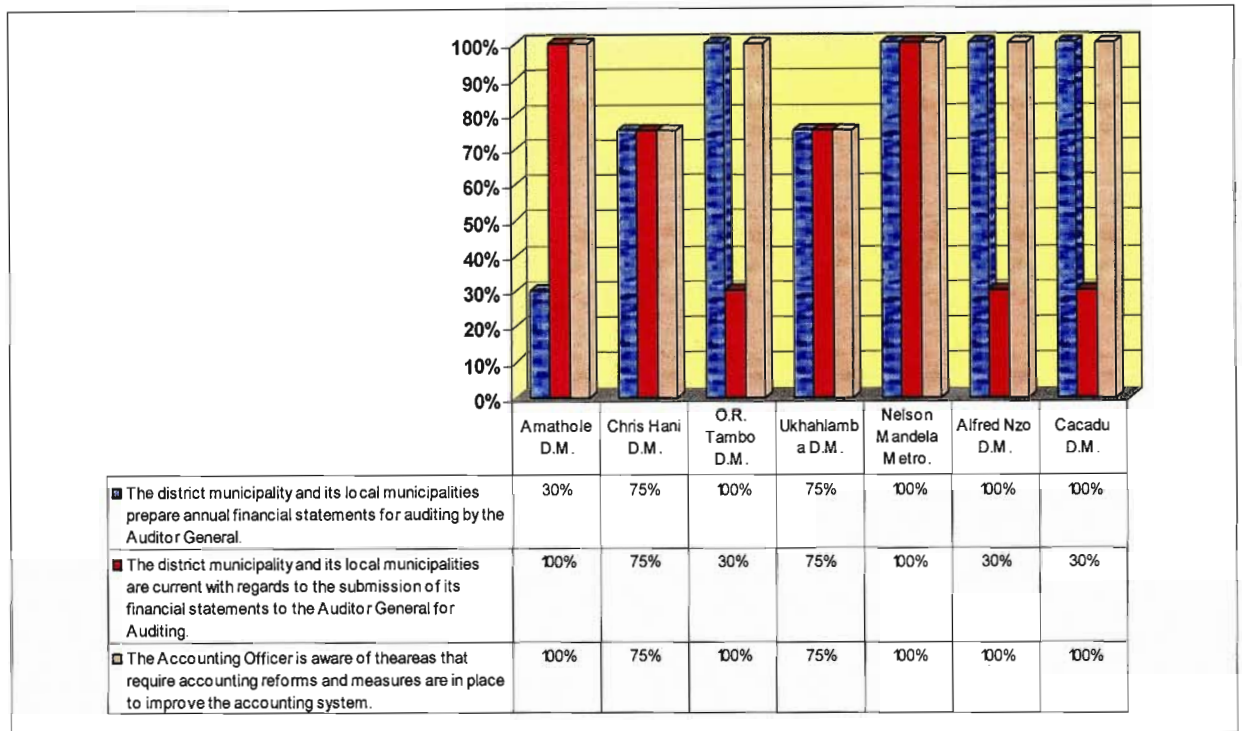
An effective supply chain management system is key to fast tracking delivery of services as items will be procured effectively and economically for the benefit of affected communities. The procurement of goods and services will assist the municipality to fulfil its mandate of ensuring service delivery in this sphere of government. When communities are satisfied with the quality of services they are receiving, harmony will prevail.

Flouting of procurement processes has been identified as one area that plagues most municipalities. This has led to slack service delivery as procurement of services is not done timeously leading to dissatisfaction among communities.

It is evident from the analysis above that municipalities are lagging with regard to implementation of supply chain management policies. They thus need to accelerate implementation of SCM policies to ensure compliance with the Act.

4.10 Financial Reporting and Auditing

Figure 4.10.1 Level of compliance with MFMA on financial reporting and auditing



Although the researcher was informed by respondents at Amathole District Municipality that the District Municipality was current with the submission of its own annual financial statements to the Auditor General for auditing, the researcher was informed also that three of the District Municipalities' local municipalities were behind. Service providers had been appointed to assist in that regard.

With regard to these municipalities, the researcher was informed that there were problems which related to opening balances as the audits of two prior years had not been finalized. The affected municipalities were Great Kei, Mnquma and Nkonkobe. The Great Kei and Mnquma municipalities had hired consultants through the municipal support grant offered by the Department of Housing and Local Government. The service provider could

not deliver on his mandate and as a result the municipalities were behind with their auditing.

The respondents informed the researcher that the District Municipality had sourced out a service provider from their own funds to assist the local municipalities in the drawing up of the financial statements. Mnquma municipality was being assisted from within and the District Municipality was using its own staff to assist the local municipality.

The respondent at Nelson Mandela Metropolitan Municipality stated that he was current with the submission of annual financial statements. The municipality did not have any local municipalities under it and as such only one set was submitted.

At Ukhahlamba District Municipality the respondent confirmed that the municipality met the deadline of submitting annual financial statements to the Office of the Auditor General. Some of the local municipalities had however not met the submission deadlines. The Municipal Manager and the Chief Financial Officer were not sure which municipalities were on target but believed that two local municipalities submitted on time and two submitted after the submission deadline.

The respondents at Chris Hani District Municipality confirmed that the municipality submitted its Annual Financial Statements to Office of the Auditor General in time for auditing. The Municipal Manager stated that he was not fully aware of the status of submission with regard to local municipalities but considers that Lukhanji, Emalahleni and Nkwanca Local Municipality had submitted.

In Alfred Nzo District Municipality, the Mayor stated that he was certain that his District Municipality was current with regard to submission of annual financial statements and concurred that both local municipalities of his district were current with regards to submission.

Although the OR Tambo District Municipality was current with submission of its annual financial statements for auditing, the respondent stated that some of the local municipalities were not current. The researcher was informed that Ntabankulu local municipality had not submitted its 2004/5 financial statements to the office of the Auditor General for auditing as at October 2005. At Qaukeni local municipality the annual financial statements for 2001/02 and 2002/03 were still outstanding and had not been submitted to the Auditor General for auditing whilst in Port St. Johns local municipality, the annual financial statements for 2001/02 and 2002/03 were still outstanding and at Nyandeni and Mhlontlo local municipalities the annual financial statements for 2002/03 were still outstanding.

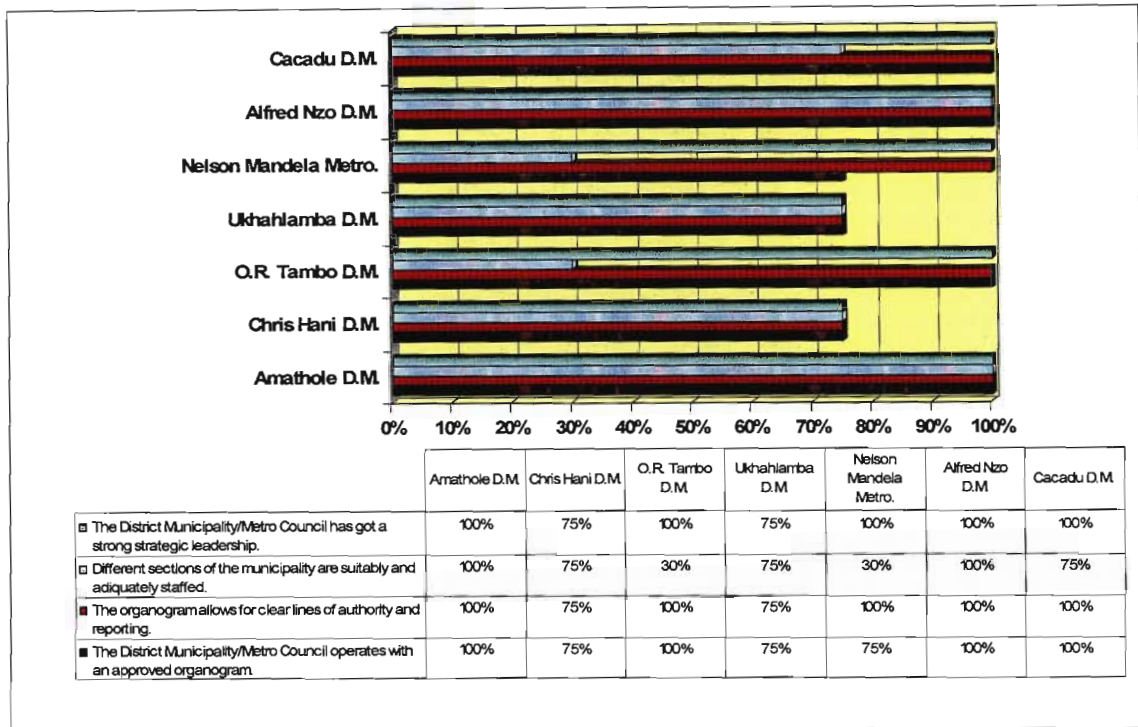
Although the Cacadu District Municipality was current with the status of submission of its own annual financial statements to the Auditor General for auditing, the Municipal Manager could not say if the local municipalities were current or not.

The respondents at Cacadu District Municipality were confident that they met the deadline for submission of Annual Financial Statements to the Office of the Auditor General but disagreed that any of the local municipalities met the submission deadline. The Municipal Manager could however not comment exactly on the position of local municipalities within his district.

It is worth noting also the fact that twelve out of the forty five municipalities in the Eastern Cape had not submitted financial statements for auditing by the Auditor General for the 2003/4 financial year as at February 2006.

4.11 Organisational Structure

Figure 4.11.1 Level of availability of resources at the municipality



The researcher was informed by respondents at Amathole District Municipality that the organogram was not filled as staffing levels stood at approximately 80%. At OR Tambo District Municipality respondents stated that staffing levels stood at approximately 60%. Although the Chief Financial Officer could not state exactly the areas where staff shortages existed he however conceded that there were lots of vacancies in the establishment.

At Chris Hani District Municipality respondents stated that the vacancy rate in the finance department was estimated at 17%.

Strategic leadership at Ukhahlamba District Municipality was confirmed by respondents as being strong with Municipal Manager having a relevant Masters Degree, Corporate

Services Manager had a PhD, Manager Technical held a BTech degree while the Financial Manager held an Honours degree in Commerce.

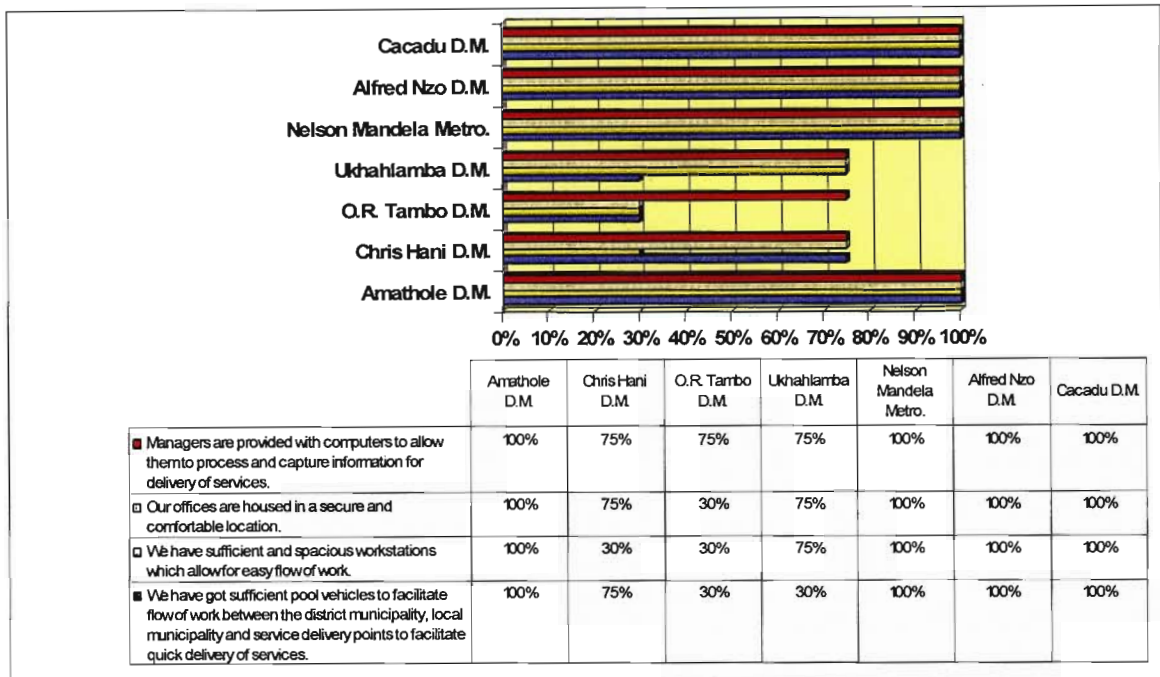
The respondent confirmed that the Mayor at Nelson Mandela Metropolitan Municipality provided the municipality with strong strategic leadership.

At Cacadu District Municipality the researcher was informed by respondents that the mayor chaired MFMA implementation committee meetings and was aware of areas requiring accounting reform.

The respondents informed the researcher that the OR Tambo District Municipality had an approved organogram which allowed for clear lines of reporting.

4.12 Resources

Figure 4.12.1 Level of availability of resources to municipalities



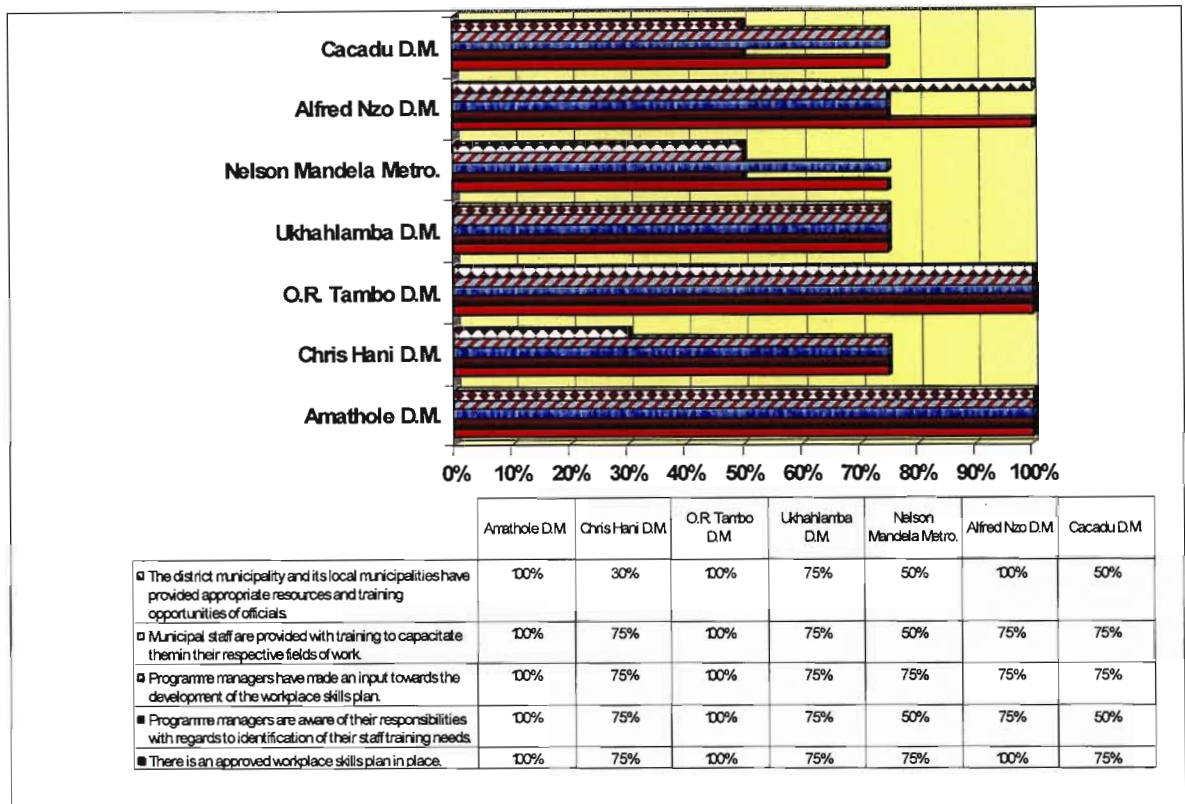
The respondents at Amathole District Municipality stated that the District Municipality is not housed in one building but staff members occupied three separate buildings. Although the Accounting Officer was concerned about this, he believed it was not much cause for concern as he had not experienced any delays in the flow of work. When asked about the level of support he got from the Eastern Cape Provincial Treasury and the Department of Housing and Local Government he hesitantly agreed that there was some support that he was receiving.

At Chris Hani District Municipality the respondents stated that office space was limited and offices were cramped with most staff sharing offices. At OR Tambo District respondents also stated that Municipality offices were not housed in a comfortable environment as office space was limited.

At Ukhahlamba and OR Tambo District Municipalities respondents said that pool vehicles were inadequate and they did not facilitate an unhindered flow of work between the District Municipality and the Local Municipalities. The researcher was informed that all professional staff at Cacadu District Municipality were equipped with computers.

4.13 Training

Figure 4.13.1 Level of compliance with training requirements as required by the MFMA



The respondent at the Nelson Mandela Metropolitan Municipality stated that the Municipality does not have a work place skills plan. Some departments within the municipality had a skills plan while others did not have one. The process of developing an organizational wide work place skills plan was not standardized. However, the researcher was informed that staff is receiving some training which focuses on improving performance in their areas of operation.

Although the Municipal Manager of Alfred Nzo District Municipality was confident that the municipality was providing training to its own staff, he however was not certain of the status of provision and training opportunities to employees at the local municipal level. The researcher was informed by the Mayor that the District Municipality had an

approved organogram which allowed for clear lines of reporting. A work place skills plan was in place and program managers were aware of their responsibilities with regard to identification of staff training needs and making inputs towards the development of the plan. Municipal staff were receiving training that was aiming at capacitating them in their areas of operation within the municipality.

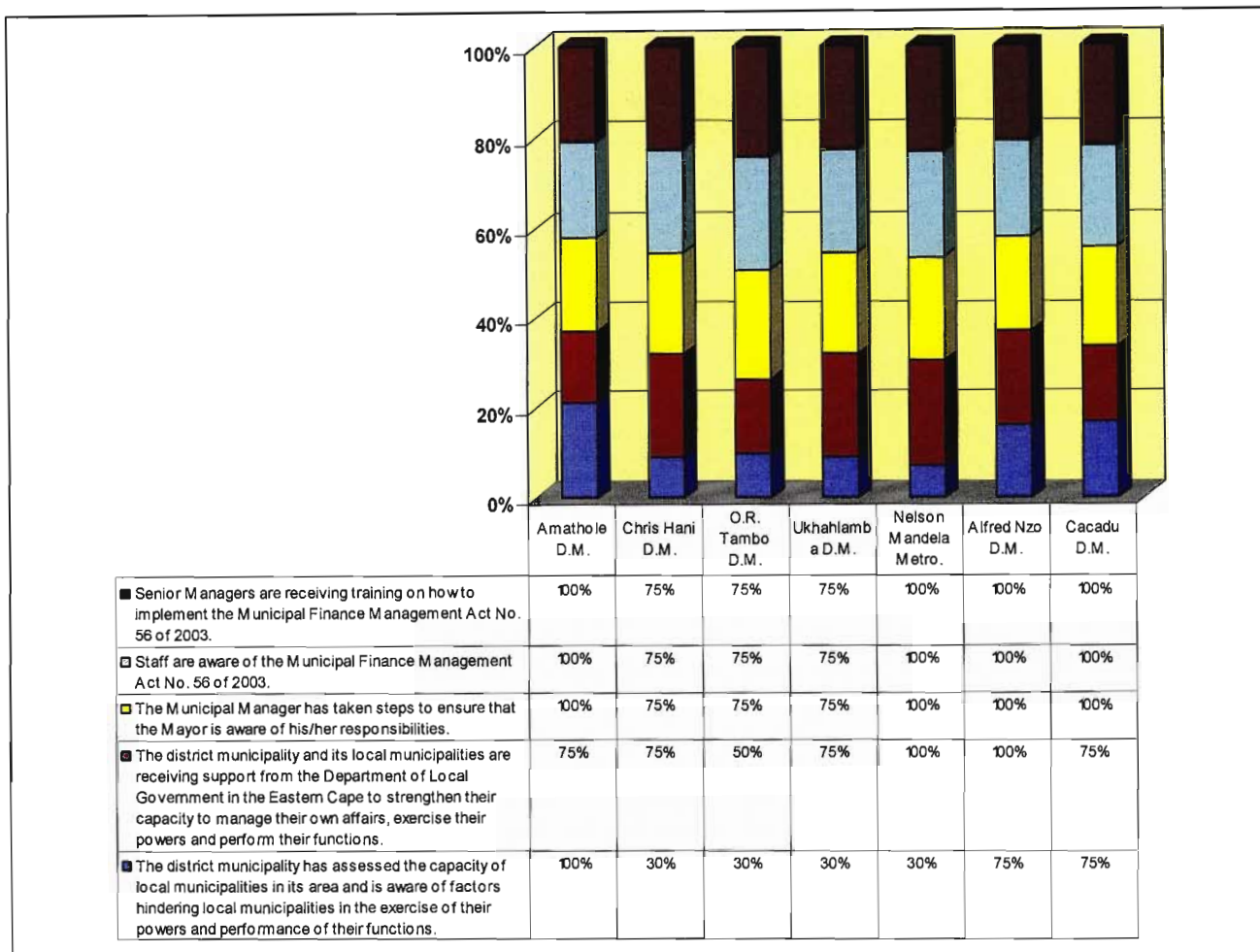
At Cacadu District Municipality, the Municipal Manager stated that he was not sure if program managers were aware of their responsibilities which relate to the development of a work place skills plan.

The Municipal Manager was also not certain of the status of staff training at the local municipality level and he informed the researcher that the District Municipality had not provided any training resources to the local municipalities.

Respondents at Ukhahlamba District Municipality stated that training for all staff at Ukhahlamba District Municipality was ongoing and the District Municipality had a Work Place Skills Plan in place.

4.14 Capacity Building

Figure 4.14.1 Extent to which municipalities are capacitated to ensure compliance with MFMA



The respondents at Amathole District Municipality stated that the District Municipality supported its local municipalities through its municipal support unit. This unit uses a special tool to assess the capacity needs of the local municipalities and assistance was offered where a capacity need had been identified. The respondents confirmed that a firm of specialists had been appointed to assess the impact of the support unit on the assistance and support that the District Municipality gave to its local municipalities. The researcher was informed that the evaluation process was ongoing. The respondents expressed their view that the impact assessment will assist the District Municipality to assess whether

their intervention strategies were useful. The respondents stated further that support of the District to Local Municipalities had also come through establishment of the Internal Audit function as a shared service. Local municipalities as such did not have their own internal audit units and the internal audit function was centralized at the district municipality. An Audit Committee had been established at the district municipality and the Local Municipalities were getting assistance from the District Municipality to establish their own audit committees.

The respondents stated also that the Amathole District Municipality was involved with the integration of district activities. With regards to financial management, this had been achieved through regular sessions where the district and its local municipalities met to share expertise, discuss concerns and share ideas on best practices. The sessions were chaired by the Chief Financial Officer.

Respondents at the District Municipality stated that they were not entirely happy with the level of support they were receiving from the Provincial Department of Housing Local Government and Traditional Affairs towards strengthening their capacity.

The respondents at Chris Hani District Municipality informed the researcher that the District Municipality had not done a formal assessment of the capacity of its local municipalities in order to determine areas where the municipalities might be needing assistance. However the researcher was informed that the District Municipality capacitated its Local Municipalities through establishment of a Municipal Managers' forum where the Municipal Manager of the District Municipality met with Municipal Managers of Local Municipalities to share views on issues of mutual concern. Some co-ordination between the District Municipality and the Local Municipalities was achieved also through the Mayors of the District Municipality and the Local Municipalities adopting a similar meeting structure.

The respondent informed the researcher that at Chris Hani District Municipality, it was planned that Internal Audit will conduct a risk survey to determine capacity risks facing

local municipalities. Local Municipalities were assisted upon receipt of request for such assistance by the District Municipality.

The respondents believed that the support they were receiving from the Department of Housing Local Government and Traditional Affairs was minimal. Some assistance was being received however by Local Municipalities from Department of Housing and Local Government through the Municipal Support Program. Other Local Municipalities were receiving assistance through “project consolidate” whose primary function was to strengthen financial management at municipalities.

The respondents stated that a shared Internal Audit Service was in place and it reported functionally to the Audit Committee. The District Municipality was assisting its local municipalities to establish their own Internal Audit units including appointing own Audit Committees.

Although the respondents at Ukhahlamba District Municipality stated that the District Municipality had not assessed capacity of its local municipalities the researcher was informed that co-ordination of efforts was achieved through the establishment of a District Mayors forum where Mayors met to share common areas of concern. The support required by local municipalities emerged at these fora.

The researcher was informed that some co-ordination of effort had been achieved through the District Municipality operating its Internal Audit unit as a shared service with local municipalities.

The respondents at Alfred Nzo confirmed that the District Municipality had also not assessed the capacity of its two local municipalities. However the District Municipality operated its Internal Audit Unit on a shared basis. As such one of the local municipalities was receiving assistance from the District Municipality whilst the other local municipality already operated its own Internal Audit Unit. The respondent stated that the District Municipality was in the process of establishing an Audit Committee.

The respondent at OR Tambo District Municipality informed the researcher that the District Municipality has requested assistance from Amathole District Municipality to assist them with assessing capacity of its Local Municipalities. Previously the District Municipality had its own assessment tool but they later found the tool to be ineffective hence they requested help from Amathole District Municipality. The researcher was informed that the District Municipality was currently assisting Local Municipalities in the areas of preparation of budgets, preparation of annual financial statements and financial management. The District Municipality was planning to set up a new unit that will work to assist local municipalities in all functional areas. Top management and staff have been trained on the MFMA.

At Cacadu District Municipality the respondents stated that capacity building at local municipalities was being achieved through the Municipal Managers forum, Chief Financial Officers forum and from operating a Shared Internal Audit service. The District Municipality was offering assistance to Local Municipalities in the preparation of IT Disaster Recovery Plans, IT training and training of ward committee members. An international advisor has been placed at District Municipality by National Treasury to assist the District Municipality by supplementing its financial management base. The Accounting Officer was aware of areas that required accounting reforms and measures were in place to implement accounting reforms.

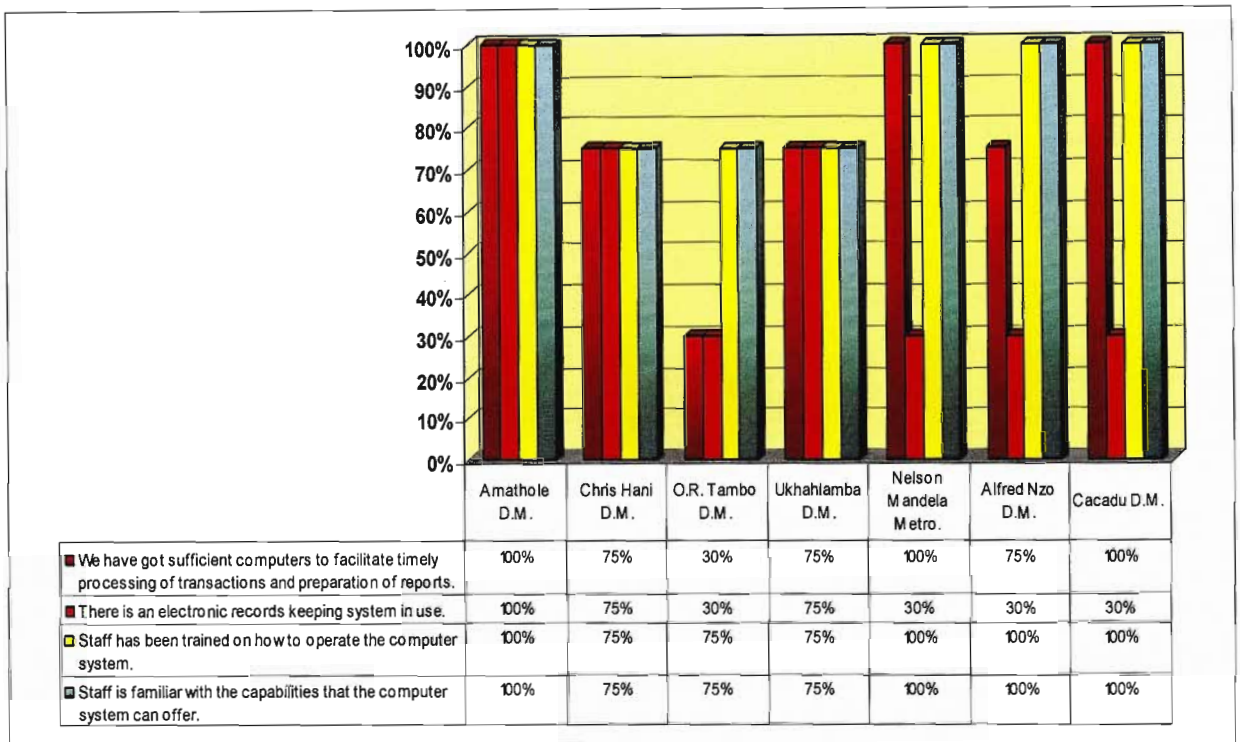
The researcher was informed that the District Municipality interacted with the Local Municipalities through various committee structures that existed between the District Municipality and the local municipality e.g. Human Resources forum, Finance Officers Forum, Engineering Committee etc. The District Municipality was receiving some form of support from the Department of Housing and Local Government. The Mayor, Municipal Manager, Senior Managers and staff have received training on implementation of the MFMA.

The municipality was receiving the services of an advisor from New Zealand who had been commissioned by National Treasury to assist the Municipality.

Whilst some District Municipalities had performed capacity checks on their local municipalities, the respondents at Alfred Nzo, OR Tambo and Chris Hani District Municipalities informed the researcher that these Municipalities have not complied with the requirement of ensuring integration between the District Municipality and its Local Municipalities as the District Municipalities had not done any checks to assess the capacity of their local municipalities.

4.15 E-Governance

Figure 4.15.1 Extent to which municipality is aware of existence computer equipment and knowledge of computer capabilities



The researcher was informed by respondents at Amathole District Municipality that capturing of data was done electronically using Venus software. An electronic records management system where records are scanned for filing was in use. The system being used was the Documentum System.

At Nelson Mandela Metropolitan Municipality the respondents stated that filing was still done manually with minutes and resolutions done electronically on computer. At OR Tambo, Cacadiu and Alfred Nzo District Municipalities the respondents stated that record keeping was also done manually. The OR Tambo District Municipality was awaiting Provincial archives to approve the policy.

The respondents at Alfred Nzo District Municipality stated that an electronic record keeping system was in use at the District Municipality. The system being used was the SAMRAS system.

Electronic document management was confirmed as being in place by respondents at the Ukhahlamba District Municipality.

4.16 Other Areas of Required Capacitation

The Chief Financial Officer and the Municipal Manager of the Amathole District Municipality felt that additional capacitation was needed in the preparation of Service Delivery and Budget Implementation plans as they felt that there is no standardization in this regard and National Treasury needed to find and implement best practice budgeting standards.

The Chris Hani District Municipality identified assistance with prioritisation of projects as an area where they needed additional assistance.

At Ukhahlamba District Municipality additional support was identified as a requirement by the respondents in areas of providing more technical skills to the district municipality, tourism and business development. Respondents at Alfred Nzo District Municipality identified Policy Development and Monitoring and Evaluation techniques as areas for additional capacitation.

At OR Tambo the Chief Financial Officer identified preparation of annual financial Statements at local municipal level, development of systems of internal control, implementation of internal controls, training in budgeting process and linking of available resources with key projects as key areas where the municipality required further capacitation.

The municipal manager of Cacadu district municipality identified the need to improve quality of reports issued to council, need to make sure municipal entities are put on board and maintenance of business continuity with regard to security of officials either than politicians as areas where the municipality needed additional assistance.

The Municipal Manager stated that the risk of business continuity arises because municipal staff are all employed on contract. There existed fears among staff that when

political heads change or a new council is appointed contracts may not be renewed as political principals may have identified their own people who they prefer to work with.

The municipal support unit at Provincial Treasury identified planning and budgeting, monthly reporting, annual reporting, supply chain management and performance management as areas where municipalities are seriously lagging in terms of complying with the Act and thus greater capacitation in this regard was considered necessary.

4. 17 Applying the Functional Capability and Resource Analysis Model to the study

The origins of Functional Capability and Resource Analysis (FCRA) Model evolved from the premise that the firm is a collection of heterogeneous resources and that resources controlled by firms partially explain why some firms are able to capture economic rent. Linked to this model was the critical success factor (CSF) concept. This concept states that profitability is linked directly to certain internal factors that the organisation possesses or does not possess. The model thus encourages Municipal Managers to look at both the internal and external factors to find the best strategic fit between the municipalities' strengths, weaknesses, threats and opportunities. The various components of the FCRA model have over time been grouped into one umbrella classification known as the Resource Base View (RBV) of the firm. Included in the RBV is the strategic analysis of the entities tangible assets, intangible assets, critical success factors, capabilities and core competencies (Fleisher & Bensoussan, 2003).

In conducting the research, the model has been applied in the following manner:

1. Determining the Municipalities Critical Success Factors.

Critical Success Factors are the relatively few factors that are necessary to secure and sustain competitive advantage. They can be composed of special skill, talent or something that the entity must do to satisfy its customers (Fleisher & Bensoussan, 2003).

The researcher has identified the following issues as critical success factors to the municipalities and in their ability to implement the new Act.

➤ Political Support from the Mayor

Political support from the Mayor can go a long way in ensuring proper implementation of the Act. This applies specifically to areas where direct contact with the communities is required to determine needs of the communities. The researcher has attempted to get an

insight into the level of political leadership provided by the mayor by including the subject as question 14 in the questionnaire.

➤ Budget to implement projects

The political support received from the Mayor will help ensure that projects identified as priority projects by the communities are properly budgeted for and are prioritised accordingly.

➤ People

The people aspect relates to both to the communities who will benefit from implementation of the Act and to the administrators who must ensure proper implementation of the Act. If the Act is implemented properly it will ensure that there is adequate transparency as communities will be involved in the formulation of the budget which is intended to satisfy their needs. Communities will also participate in the prioritisation of the budget and in the identification of priority projects that must be implemented.

Similarly, the administrators who are responsible for the implementation of the Act need to be trained on proper implementation thereof. They also need to be provided with adequate resources to ensure that they are able to execute their tasks.

Training of staff is included in the research questionnaire as questions 53 to 57.

➤ Financial Management capabilities

In order to be successful in the implementation of the Act, municipalities need to ensure that they have suitable qualified people who will help with the implementation of the new Act. The matter has been covered under training in sections 15, 16 and 53 to 57 of the questionnaire.

2. Identifying the Municipalities Resources.

This step requires identification of the municipalities' tangible resources, intangible resources, capabilities and competencies. Tangible assets are easy to identify and they

include vehicles, office equipment, cash, land and buildings. Questions 49 to 52 and question 63 of the research questionnaire dealt with the issue of resources and the questions attempted to get a sense as to whether the municipalities had sufficient tangible assets.

Intangible resources, capabilities and competencies are difficult to identify as they may not be readily reflected in the municipalities balance sheet.

Intangible resources of a municipality include the value of its human capital. This value is however not readily available as municipalities have not done such valuations. In order to increase the value of its human capital municipalities need to train their staff on the most up to date business practice methods and best practice across the world. In addition to this, municipalities need to ensure that they employ candidates who are suitably qualified to perform the jobs for which they have been appointed. The measure will improve the capabilities of the municipal administrators as they their performance will be enhanced by the training they have received. The issue has been specifically addressed in questions 53 to 62 of the questionnaire.

Core competence relates to those characteristics that make one manager or political leader better than the other. This may be charisma and accessibility of the political leadership and the municipal manager. The more accessible the political leadership is to the communities, the more credible will be the budget process as the communities will have a better understanding of the MFMA and its intended benefits. This will lead to better implementation of the Act.

3. Evaluating the Municipalities Resources.

This step involves running the identified resources through the VRIO test to determine if they are indeed competitively valuable resources. The model is a four question framework that allows managers to analyse individual resources as being catalysts of

competitive advantage. If the answer to a question is yes, the researcher moves on to the next question. If the answer to the question is no, the conclusion is that the resource will not lead to competitive advantage (Fleisher & Bensoussan, 2003).

The elements of the VRIO model can be explained as follows:

Value - For a resource to be valuable it must provide net increase in revenues or net decrease in costs to the municipality.

Rarity - Rarity deals with the present nature of the resources. The resources must be rare if they are to lead to competitive advantage.

Inimitability- This refers to the ability of municipalities to copy from each other or from other institutions the nature or implementation of rare resources.

Organisation- This element is intended to answer the following question: Does the municipality have the capability to take advantage of the valuable, rare and inimitable resource?

In the current study the VRIO model has been applied in the following manner:

	Tangible assets	Intangible assets	Capabilities	Competencies
Value	No	No	No	No
Rarity	No	No	No	No
Inimitability	No	No	No	No
Organisation	No	No	No	No

Analysis of the Grid

The resources owned by the municipalities have been analysed as not adding value to the revenue collection of the municipalities. Although most municipal managers have responded that they were able to meet their revenue collection targets and in some cases

have exceeded them, this is contrary to observations of the researcher where service delivery has in many instances been reported as lagging. In addition to this, property rolls which are one of the sources of revenue collection have not been updated for some time.

The resources owned by the municipalities are not rare. They are easily available and can be accessed by any municipality which has sufficient funding and has budgeted for such acquisition.

Municipalities are constrained by inadequate budgets which in many instances lead to lags in service delivery. They thus do not appear to have the capability to take advantage of the valuable, rare and inimitable resource.

In order for the municipality to have something that is rare, inimitable and of value, it must have adequate budget and a suitable staff complement with adequate skills base. Local municipalities have been assessed as lacking in the area of skills base particularly with reference to financial management skills which are necessary for proper implementation of the MFMA.

4. Identifying gaps Between the Municipalities Resources and Critical Success factors.

The step involves comparing the municipalities' resources to the critical success factors identified in step one.

The resources owned by the municipalities do not assist them in gaining a competitive advantage over other municipalities.

The success of the municipality depends on its ability to budget properly for its needs and on its capability to generate additional revenue and also to maximise revenue collection from already identified sources of revenue.

The equitable share allocated to municipalities is never sufficient to meet all of its needs in a given financial year. Municipalities thus find that they have to prioritise projects. This process leads to needs of certain communities not being met as they may not be recognised as priority projects. Service delivery thus lags. This is evidenced by numerous protests that have been reported in the media. These have been captured in the preceding chapters of the dissertation.

Irrespective of how capable people employed by the municipality can be, if there is insufficient budget, municipal objectives will not be met, staff will not receive adequate training, machinery and equipment will not be bought, serviced and replaced. Municipalities will as a result be unable to turn their weaknesses into strengths and their threats into opportunities.

Inadequacy of the budget will also lead to municipalities not being able to acquire and maintain those qualities that will make them better than other similar institutions elsewhere in the country.

In addition to this, political leaders also need to be capacitated so that they are able to reach out to their constituencies so that the mandate of the municipality is executed. If budget is insufficient such capacitation will not be possible.

The above analysis indicates that a gap exists between the critical success factors and the municipalities resources. The analysis indicates further that in order for the municipality to have the factors that are critical to its success, there must be an adequate budget allocated to the municipality. Municipalities must thus maximise on revenue collection and must develop clear performance indicators which will reflect achievement of set targets.

5. Diagnosing the municipalities' current strategy.

The budget is a major strategic tool that will assist the municipality in the attainment of its objectives. In order to achieve its current strategies particularly with regards to

implementing the new Act, municipalities need to secure foreign funding. In addition to this partnerships must be entered into with foreign countries so as to assist in the transfer of skills. The process will assist in closing the gap in the financial skills base.

6. Formulating Rational Future Strategies.

The strategic choices available to municipalities in formulating the rational for future strategies are:

Investing in Resources

- Develop contingency strategies that will be resorted to in the event the main strategies fail.

Upgrading Resources

The municipalities' have got an option to increase their funding to protect their resources against the threat of environmental change. Increased funding can be obtained by:

- Lobbying for increased funding,
- Identifying additional sources of funding,
- Maximising revenue collection from the already identified sources of revenue,
- Introducing competition among municipalities and offering rewards to those municipalities that have been successful in meeting certain performance targets.

Leveraging Resources

Municipal managers must consider securing foreign funding to ensure that service delivery lags are addressed.

It is evident from the above that municipal managers need to find the best strategic fit to balance the external threats and opportunities facing the municipalities with the internal strengths and weaknesses. Such a balance will over time ensure that value is created within the municipalities.

4.18 DISCUSSION OF RESULTS

This section discusses the most prominent features that emerged out of the results presented in the section above. These will be discussed in the light of the aim and objectives of the research by using the literature that informed the study. The main trends and patterns in the study will be presented.

Although it may be difficult to maintain the assurances of anonymity that were given to respondents during the data collection stage, care has been taken in the discussion of results to protect those who participated in the study. An attempt has been made not to be selective but to report on all data that has been collected during the data gathering stage. This has been done to ensure that facts are not misrepresented and that the statistical accuracy of the data is maintained. Adherence to ethical guidelines however does not mean that responses made are exempt from the way in which conclusions are used to make decisions (Saunders, Lewis & Thornhill 2003).

Participants had been given an assurance prior to responding to the questionnaire that their responses will be used solely for purposes of academic research and not for any other purpose. In addition to this, a request has been made to the university not to divulge the contents of this research project for a period of five years. This will ensure that the conclusions that are explicitly referred to or implicitly suggested will not lead to any course of action being taken against the respondents. This has been done to comply with the ethical requirement of protecting the respondents and the organisations that participated in the research.

4.18.1 Redefinition of the aim of the study

The aim of the study was to assess the capacity of municipalities in the Eastern Cape Province to determine the capacity they have towards implementing the Municipal Finance Management Act No. 56 of 2003.

4.18.2 Classification of results

The discussion will be classified under the following sections:

- Financial Management
- Revenue Management
- Supply Chain Management
- Financial Reporting and Auditing
- Resources
- Training
- Capacity Building

The discussion will highlight similarities and differences in the manner in which municipalities are managed and in the manner in which they are driven towards implementing the new Act.

14.18.2.1 *Financial Management*

Municipalities around the world suffer the common experience of inadequate financial resources, inadequate financial management skills which prevent delivery of services especially to the poor (IDD Research News, 2004).

However there are innovative practices which are designed to improve delivery of services to the poor. Noticeable practices have been the adoption of participatory budgeting which has been designed to give a voice to the poor. Measures have also been implemented to strengthen accountability and transparency (Municipal Finance Management Act, Act No. 56 of 2003).

A requirement of the recently established Local Authority Transfer Fund in Kenya has been the adoption of a participatory approach to the preparation of a Service Delivery Plan based on a realistic budget (Lewa & Devas 2004).

All respondents interviewed confirmed that they had developed an Integrated Development Plan (IDP). The plan sets out the projects that the municipality plans to undertake in a financial year and the costing of these projects. Also a Service Delivery and Budget Implementation plan had been developed. The development of an IDP is key element to securing a budget as municipalities will not get equitable share unless they submit an IDP.

Some sections of the Act appeared not to be complied with in terms of the requirement of the Act. This was evident for instance in the area where the Act required that reports of withdrawals be prepared quarterly and sent to the council. In one District Municipality the respondent confirmed that these reports are prepared monthly. Although this is a contravention of the Act which requires that quarterly reports be prepared, the control appears strong as there is regular monitoring and reporting of activities to the council.

A performance management system which measures attainment of key performance areas is in place. The plan is linked to bonuses as managers are rewarded for superior performance. Performance contracts are entered into by the Municipal Manager with all Managers that report directly to him. Assessments are done periodically to measure attainment of set targets and a bonus is payable at the end of the year to reward performance.

The system needs to be looked at carefully as in the past municipalities have not been working efficiently and as such the issue of bonuses that have been paid out is questionable.

The area of performance management is prone to in fighting and disagreement within the municipality, as managers fight to secure performance bonuses. Such disagreements may

ensue even in instances where the superior is of the opinion that a bonus is not warranted. Internal Audit Units are tasked with the job of evaluating the performance score sheets and a performance audit committee evaluates these score sheets after they have been checked by internal audit to give assurance on correctness of the method followed in allocating scores and on the attainment of set objectives.

The existence of a performance audit committee is a sound idea as it will help the Municipal Manager by giving him assurance that set objectives are being attained and only staff that have attained set objectives are being rewarded.

Some municipalities have taken the strategic decision of outsourcing functions that they cannot perform internally. This is a sound business decision as if a cost benefit analysis is done properly, outsourcing may turn up to be a cost cutter for the municipality.

In India, the Corporation had devised a method of contracting out collection of refuse. Penalties were imposed for non performance on the contract. This improved performance by generating healthy competition (Souza 2004).

Efforts to improve revenue collection and the extent to which charges are collected did not come out clearly from discussions with respondents. However a point of good practice can be adopted from Kenya where the municipal water utility was set up as a separate company. This has been done to promote greater autonomy and reduce the scope for political interference. The measure has improved collection of rates and debts have been recovered as a result of some high profile disconnections including the Provincial Commissioner and the Police (Lewa & Devas 2004).

14.18.2.2 *Revenue Management*

Budgeting is the main financial planning tool for ensuring implementation of strategic priorities. However the reality is often undermined by unrealistic revenue forecasting, executive discretion that displaces agreed priorities, emphasis on inputs with little link to

outputs or performance indicators, lack of systems to track and report implementation progress, weak financial management and cost control, cash based accounting systems that offer little scope for cross checking and allowing of deficits to be disguised by postponing payments (IDD Research News, 2004).

Success in revenue mobilisation depends on adopting a strategy that is aligned to the capacity of the municipality and in evaluating the strengths and weaknesses of the municipality.

Hyderabad Municipal Corporation in India had a problem with property tax because re-valuation, including registration of new properties had not been done for two decades.

Similarly in the Eastern Cape Province, rates collection is one area where municipalities could benefit by deriving additional revenue from. However property registers are not being updated periodically. Properties are not being revalued periodically. Some Local Municipalities have not issued consumers with statements to levy rates charges for a number of years.

Municipalities can as such not enjoy the benefit of increasing their collections. They are thus losing out on additional revenue that they could use to enhance further service delivery.

In Brazil revenue collection had been improved through the use of presumptive assessments and the introduction of a system that recognised taxpayers who paid in advance by allocating them incentives (Souza 2004).

14.18.2.3 *Supply Chain Management*

Municipalities displayed varying levels of compliance with regards to implementation of supply chain management policies, with some municipalities slightly ahead while others were lagging behind.

Although a supply chain management policy was in most cases in place, municipalities were lagging with regard to implementation of the policy. In many instances the tender committees referred to in the policy were not in place and yet the municipalities continued to award tenders to service providers. This pointed a violation of tender processes and non compliance with the MFMA (Municipal Finance Management Act, Act 56 of 2003).

In India, the Hyderabad Municipal Corporation achieved cost reduction through introduction of a number of reforms to its tendering system. The most significant had been the introduction of a Unit Rate Contract System. The method was designed to curb abuse, reduce monopolising of the system by certain contractors and to curb paying of bribes to municipal officials to issue out tenders. Contractors were allotted work in turns on lottery system. The method has succeeded in cutting costs considerably (Souza 2004).

An element of violation of the tender processes surfaced at one Municipality where although the researcher was informed by the respondent that politicians are barred from serving in tender committees or participating in these committees in any manner, the researcher learned subsequent to the interview that the Mayor of the Municipality had been implicated in violation of the MFMA as the media had reported that he had interfered with the selection of a preferred service provider for building of a museum.

14.18.2.4 *Financial Reporting and Auditing*

Most Local Municipalities exhibited weaknesses in the area of submission of annual financial statements for auditing. Although District Municipalities reported that they are current with the submission of annual financial statements to the Auditor General for auditing, most of the Local Municipalities were either late for submission or some did not submit at all for number of years. This is evidence of weak financial management skills base within the Local Municipalities.

Some Local Municipalities had hired consultants to assist them with preparation of annual financial statements. In some instances National Treasury had provided the municipality with a consultant to assist the municipality in the preparation of annual financial statements. The situation calls for concern as preparation of annual financial statements is a key performance area of the Chief Financial Officer. If this official cannot prepare these statements for annual reporting then this points to a serious weakness in the financial skills base available at the municipality.

Municipal Managers need to profile their staff to determine if their staff is suitably placed and whether they have sufficient capacity within the municipality.

Sound financial management practices are important in assisting the municipalities to manage their affairs in a satisfactory manner. From the analysis above, it appears that municipalities need to strengthen their financial management capabilities so that they can manage their affairs better.

Subsequent to completing the data collection in one District Municipality, the researcher learned through media reports that the Chief Financial Officer and Acting Municipal Manager of that District Municipality had been suspended on charges of financial mismanagement (Daily Dispatch, Johnic Publishing).

In another Municipality, the position of Municipal Manager was occupied by a person who was acting in that capacity as the Municipal Manager had been on suspension also on similar charges.

It appears that even with the weak financial skills base, the existing skills base is not displaying a commitment to increased service delivery but there is evidence of corruption.

14.18.2.5 *Resources*

Although respondents stated that they could not comment on the status of availability of resources at the Local Municipalities, District Municipalities do not appear to be housed in a comfortable and spacious environment. Most were housed in two or sometimes up to three separate buildings. However even with these measures to try and secure space, office space was still limited.

A comfortable working environment is a requisite to ensure a productive workforce as when people do not have workstations, air conditioners and have to travel across to another building to complete a transaction, workflow will be slow.

Computer equipment was generally not a problem as most respondents had reported that most of their staff were using computers and had been trained on how to operate the system.

There was however no evidence of sharing of resources between the District Municipality and its Local Municipalities.

Greater co-ordination is required between the District Municipality and its Local Municipalities. The structure of the fora that exist between the District Municipality and its Local Municipalities needs to be looked at, as it does not seem to be effective. Also

Municipal Managers of District Municipalities need to re look at the items that are discussed at these joint meetings to focus greater attention on issues that will capacitate Local Municipalities and assist them to meet the requirements of the MFMA.

14.18.2.6 *Training*

Training is important to improve the skills base of employees. Great skills capacity shortages have been displayed by municipalities.

Employers need to assess employee training needs and develop a workplace skills plan which must be reviewed and filed annually with the department of Labour (Labour Relations Amendment Act, 2002).

There needs to be some standardisation on the manner in which the workplace skills plan is developed. The researcher noted that this process had not been standardised with some sections of the municipality reporting that they had a work place skills plan whilst other sections within the same municipality reported that they did not have one.

The Municipal Human Resources Sections need to assert their position by taking on a more vigorous role towards the identification of training needs and identifying suitable service providers. A sufficient training budget must be set aside for this purpose. If this is done, success will ensue.

14.18.2.7 *Capacity Building*

The results of the study showed that although the District Municipalities appeared to be fairly adequately capacitated to perform the functions necessary to ensure proper implementation of the Act, the Local Municipalities displayed weaknesses.

District Municipalities are charged with the responsibility of ensuring co-ordination of activities with Local Municipalities within their districts (Municipal Structures Act No. 117 of 1998).

However this function does not seem to have been performed satisfactorily because Municipal Managers argued that Local Municipalities are autonomous structures with their own Mayor and Council. They believed that they cannot just walk in to intervene unless they have been specifically requested to do so by the Local Municipality. The argument posed by District Managers is dangerous, in that even when red flags have been identified by the District Municipality, they will not intervene until the situation gets disproportionately out of hand. Service delivery will in this situation be slack, as is evidenced in reports of the media.

Municipalities are characterised by in fighting which in many instances has resulted in destruction of private property, death threats to some officials and destruction of municipal buildings (Daily Dispatch, Johnic Publishing). This situation will on its own undoubtedly retard service delivery.

Although there was some interaction between the District Municipality and its Local Municipalities, District Managers displayed a general lack of knowledge of what goes on at the Local Municipality level. Increased visibility of District officials is required to improve performance of these municipalities. This could be one of the reasons why Local Municipalities seem to be failing. More co-ordination is required to enhance the performance of Local Municipalities.

Some municipalities were on “Project Consolidate” i.e. a project which seeks to assist challenged municipalities and thereby put them on a sound footing. The project is being spearheaded by the National Department of Housing and Local Government. However the quality of work produced by consultants who had been hired under the project to assist municipalities was in some instances sloppy. There has been no evidence of skills being transferred by the consultants to municipal officials as after the consultants had left, municipalities struggled to prepare annual financial statements.



From the results presented above, there does not appear to be any standard way in which co-ordination of effort with Local Municipalities is done. However a pattern adopted by most municipalities has been the establishment of fora to share expertise and best practice. The success of these fora is however questionable as some form of weakness is displayed by Local Municipalities even though their senior officials attend these meetings.

Most District Municipalities had adopted the idea of operating their Internal Audit Units on a Shared Service basis with their Local Municipalities. This control measure will ensure independence of the unit at the Local Municipality. The unit will assist to improve the systems of internal control by highlighting weaknesses in the systems and recommending controls where weaknesses have been identified (Standards for the Professional Practice of Internal Auditing).

The Eastern Cape Provincial Treasury, like all Treasuries in the country has been tasked by the MFMA to oversee the roll out of the Act (Municipal Finance Management Act, No 56 of 2003). A special unit has thus been opened at Provincial Treasury to assist in this regard. It appears that this section needs to strengthen efforts to ensure that assistance is offered to Local Municipalities at an increased pace.

Municipalities can further enhance their capacity by allowing senior officials to be members of professional organizations such as Municipal Finance Officers Association (IMFO) and the Institute of Municipal Administration for Southern Africa (IMASA) amongst others (<http://www.municipalities.co.za/>).

4.19 Chapter Summary

The Chapter presented the findings and discussion of the research project. Graphs and Tables were used to simplify understanding where necessary. The results of the research show that different municipalities are at varying stages with regard to implementing the Act. Areas where the majority of differences were observed are in the spheres of Financial Management, Supply Chain Management, Financial Reporting and Capacity

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Building. The chapter also presented areas as identified by the respondents where municipalities need additional capacitation.

The next chapter will provide a recommendation as to what municipalities must do in order to comply with the Act and thus improve on financial management practices. A conclusion will also be provided.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter is designed to present conclusions based on the results and discussion presented in chapter 4. It will appraise municipalities on what they are doing right and provide recommendations in instances where the desired level of performance is not achieved. The process of appraisal will be based on the approach suggested by Devas N, 2004 in an article published in IDD Research News, March 2004.

5.2 Study design limitations

The study was limited by the fact that Municipal Managers or Chief Financial Officers were sometimes not available to respond to the questionnaire. To overcome this problem the researcher had to include Corporate Services Managers in the interview sample. Corporate Services Managers were selected because they are strategically placed in the top management structure of the municipality. These Managers have got control over a wide range of activities in the municipality. They were thus able to respond to some questions posed in the interview questionnaire.

The researcher had initially planned to interview financial managers. However after interviewing two managers, the researcher learned that these managers were not strategic managers but were operational in terms of their job function. They were thus unable to respond to the questions posed in the questionnaire as the questionnaire was strategic in nature.

5.3 Conclusion

There are four areas where municipalities exhibited weaknesses with regard to their stage of readiness towards implementing the Municipal Finance Management Act No 56 of 2003. These are Financial Management, Supply Chain Management, Capacity Building and Financial Reporting and Auditing.

Some levels of disparity were identified with regard to implementation of financial management controls by the various municipalities, with some municipalities slightly ahead whilst others are lagging behind. It is worth mentioning that the Eastern Cape is by nature a rural place. It is thus not easy to attract and retain competent staff to the province. People with skills would be attracted to the less rural places of the province i.e. East London and Port Elizabeth. The situation causes disparities in the distribution of skills as competent people will not prefer to work in an unattractive place.

Municipalities do not appear to have given priority to implementing proper supply chain management practices at the institutions. This has been evidenced by the fact that the supply chain management structures that are recommended by the supply chain management policy are in many instances not yet in place. Where they are in place serious violations are sometimes reported.

Whilst some district municipalities engage capacity checks on their local municipalities, Alfred Nzo, OR Tambo and Chris Hani District Municipalities have not complied with the requirement of building capacity of local municipalities as the district municipalities have not done any checks to assess the capacity of local municipalities.

It transpired that the District Municipalities are able to submit their financial statements to the Auditor General in time for auditing, while most local municipalities seemed to be struggling with preparation of annual financial statements and were thus unable to meet the submission deadline. The situation is evidence to lacking financial management skills at the local municipal level.

District Municipalities however reported strengths in the area of strategic leadership. The strength of the leadership was however overshadowed by the fact that the skills base was in many instances low. The system of participatory budgeting was in place and the needs of the poor were taken into account in the development of the budget. The Mayors were in many instances involved in the budgeting process and political priorities were communicated at the start of the budgeting process. Although implementation of the MFMA is happening at a slow pace at some institutions, there are institutions where implementation is occurring at a faster pace. The MFMA has helped strengthen accountability and transparency at these institutions. Computerisation of accounts is in place in most municipalities and this has helped ease financial reporting. The process has also eased the maintenance of audit trails. Cost control initiatives are in place at some municipalities with outsourcing of certain activities having been instituted.

Although the District Municipalities appear to be having the capacity that is necessary to implement the MFMA, the opposite holds true for the Local Municipalities as these municipalities do not appear to be adequately capacitated to implement the Act.

5.4 Recommendation

With regards to financial management, the municipalities need to consider offering increased bursaries to staff to encourage them to study and develop themselves further. An increased focus on on-the-job training will also yield positive results towards improving financial management controls.

Secondly, municipalities must prioritise their human resources budget to fill firstly those posts that are critical to the attainment of strategic objectives of the municipality. Secondary to that, municipalities need to identify critical support functions e.g. finance and infrastructure acquisition amongst others and must prioritise filling of vacancies in these areas.

Thirdly, municipalities can circumvent non compliance with supply chain management practices by appointing one of the employees as a champion to spearhead the process. If a champion or other competent person cannot be identified within the municipality, then management must consider appointing a consultant to assist them with proper implementation of the policy.

Fourthly, as local municipalities are autonomous structures with their own mayor and councillors, The Municipal Structures Act No. 117 of 1998 needs to open a lee way for District Municipalities to come to the rescue in the event of red flags being identified by the district municipality. The District Municipality should not wait for the Local Municipality to request assistance but needs to ensure performance of activities by all municipalities in the district area to achieve integrated and sustainable economic development in its area as a whole. The notion of having local municipalities behaving as autonomous structures defeats the co-ordinating role that the Municipal Structures Act No. 117 of 1998 bestows upon District Municipalities.

The District Municipality must exercise its right in terms of section 156(5) of the Constitution to eliminate any hindrances to the effective performance of its functions. This will ensure that they achieve their goals of building capacity of local municipalities and ensuring co-ordination of activities within the district.

Fifthly, municipalities can learn a lot from other similar institutions if they can embark on a process of benchmarking their own performance against that of their counterparts. This will encourage them to do introspection and will thus be in a position to identify factors that lead to poor performance.

Lastly, local municipalities need greater capacitation in the area of preparation of annual financial statements. District Municipalities need to consolidate and strengthen the support they are offering to local municipalities in this area. This can be by way of providing training to financial managers and with the CFOs' of District Municipalities working with their counterparts in the local municipality on a mentorship basis.

5.5 General attitude towards the researcher

It was noted that in cases where the Municipal Manager or Chief Financial Officer was in possession of a tertiary qualification which involved doing some kind of research, the researcher was warmly welcomed to conduct interviews. However, one municipality proved problematic and it took approximately two months of persuasion to obtain a slot for an interview with the Municipal Manager and CFO.

This was so as this municipality is plagued with problems which resulted in instability within the District Municipality. The CFO and Acting Municipal Manager have since been suspended on allegations of financial mismanagement.

5.6 Chapter Summary

The chapter presented the major highlights of the results of the study. The conclusions were presented in line with the objectives of the research.

Recommendations to improving performance were also made. The recommendations were drawn up from the conclusions of the research project.

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AMM/TN

13 December 2005

Ms T. Kakaza
c/o Department of Health
Private Bag x0038
Bhisho
5605

RESEARCH PROJECT

I acknowledge receipt of your letter dated 08 December 2005.

I have referred your request to the Acting Chief Financial Officer who will make contact with you in the near future.

Yours faithfully

**V. Zizumane
Acting Municipal Manager**

**UNIVERSITY OF
KWAZULU-NATAL**



**QUESTIONNAIRE FOR RESEARCH PROJECT UNDERTAKEN IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTERS IN BUSINESS ADMINISTRATION**

Introducing the questionnaire

Good Morning / Afternoon / Evening. My name is Thembisa Kakaza. I am employed by the Eastern Cape Government in the Department of Health as a Chief Director Internal Audit. I am doing a research project in partial fulfillment of the requirements for the degree of Masters in Business Administration with the University of KwaZulu-Natal. The research aims to assess the capacity of municipalities in the Eastern Cape Province to operate effectively with a view to implementing the new legislation in their districts.

To achieve this goal I need to ask you a number of questions.

Do you agree or disagree to participate in answering these questions. Please cross the appropriate box.

Agree

Disagree

SECTION 1

BIOGRAPHICAL DATA

Name of Municipality:

Tick the appropriate box

What is your position within municipality?

Municipal Manager Yes No

Chief Financial Officer Yes No

Other finance officer Yes No

Type of Municipality:

1.1 District municipality Yes No

1.2 Metropolitan Council Yes No

SECTION 2

Please cross the most appropriate box for each statement.

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
DELEGATIONS						
1	The Mayor has issued the Municipal Manager with appropriate delegations to be the Accounting Officer of the municipality.					
2	The Accounting Officer					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
	has issued appropriate delegations to his managers to maximize administrative and operational efficiency.					
MUNICIPAL BANK ACCOUNTS						
3	The municipality operates a bank account wherein all monies received are deposited.					
4	National Treasury, Provincial Treasury and the Auditor General have been informed in writing of the name of the bank where the account has been opened, type of account and the account number.					
5	The Chief Financial Officer is the only employee with delegations to authorize withdrawals from the municipalities' bank accounts.					
6	The Accounting Officer prepares quarterly reports of all withdrawals made from the municipal bank account and reports on these to the Council.					
7	The Chief Financial Officer prepares timely bank reconciliation statements and reports on these to the Accounting Officer.					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
MUNICIPAL BUDGETS						
8	The municipalities' Integrated Development Plan has been taken into account in the development of the budget.					
9	Budgeting is a participatory process which includes all local municipalities in the area of the district municipality, all stakeholders and the relevant Provincial Treasury.					
10	The budget has been linked to the municipalities' goals and objectives.					
11	The local community and other relevant stakeholders were invited to make representations on the budget.					
12	A service delivery and budget implementation plan has been prepared and sent to the mayor for approval.					
13	The municipality has got a strong financial skills base which enhances timely submission of the budget.					
POLITICAL LEADERSHIP						
14	The Mayor has provided political guidance with					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
	regards to budget preparation and the priorities which must guide the budgeting process.					
FINANCIAL MANAGEMENT						
15	A competent top management structure is in place to assist the Accounting Officer in the discharge of his duties.					
16	A performance management system is in place to ensure that municipal resources are used efficiently, effectively and economically.					
17	A risk management strategy is in place to reduce the exposure of the municipality to risks.					
18	Proper accounting records are maintained to record the financial affairs of the municipality.					
19	The municipality has and implements a:					
	• tariffs policy;					
	• rates policy;					
	• credit control; and					
	• debt collection policy					
20	An asset register which records all the assets of the municipality is in place.					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
21	The Chief Financial Officer ensures that all financial accounts are closed at the end of the month and reconciled with records.					
22	The Accounting System provides timely management information which is used for decision making.					
23	An analysis has been made to determine areas requiring out-sourcing so as to improve on expenditure management and increase efficiency.					
24	There is a process in place to determine areas where departmental cost control initiatives can be introduced.					
25	A variance analysis report on municipal income and expenditure is prepared and sent to the Mayor and Provincial Treasury.					
26	The Accounting Officer, Senior Managers, Chief Financial Officer and other financial officers meet the required competency levels.					
REVENUE MANAGEMENT						
27	A policy for valuation of properties is in place.					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
28	The property roll is being updated with new properties periodically.					
29	Accounts for municipal taxes and charges are prepared and sent to consumers on a monthly basis.					
30	A management, accounting and information system which recognizes revenue when it is earned, accounts for debtors and accounts for receipts of revenue is in place.					
31	Revenue received is reconciled on a weekly basis.					
32	Sources of revenue have been identified and a revenue collection plan is in place.					
33	Revenue collection targets are being achieved.					
EXPENDITURE MANAGEMENT						
34	A system of internal control in respect of creditors and payments is in place.					
35	All money owing by the municipality is paid within 30 days of receiving the statement.					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
36	The municipality has and maintains a management information system which recognizes expenditure when it is incurred, accounts for creditors of the municipality and accounts for payments made by the municipality.					
SUPPLY CHAIN MANAGEMENT						
37	The municipality has an approved supply chain management policy in place.					
38	Staff members who are involved in the implementation of the supply chain management policy have received appropriate training.					
39	The municipal manager has taken all reasonable steps to ensure that proper mechanisms and separation of duties are in place in relation to supply chain management systems, to minimize the likelihood of fraud, corruption, favouritism and unfair and irregular practices.					
40	The Municipal Manager has ensured that councillors do not serve on a municipal bid committee or attend any meetings of these					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
	committees, or any other committee evaluating or approving tenders, quotations, contracts or other bids.					
41	Supply chain management practices at the district municipality, local municipality and metropolitan council are satisfactory.					

FINANCIAL REPORTING AND AUDITING

42	The metro council/district municipality and its local municipalities prepare annual financial statements for auditing by the Auditor General.					
43	The metro council/district municipality and its local municipalities are current with regards to the submission of financial statements to the Auditor General for Auditing.					
44	The Accounting Officer is aware of the areas that require accounting reforms and measures are in place to improve the accounting system.					

STRUCTURE

45	The metro council/District Municipality operate with an approved organogram.					
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NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
46	The organogram allows for clear lines of authority and reporting.					
47	Different sections of the municipality are suitably and adequately staffed.					
48	The Metro Council/District Municipality has got a strong strategic leadership.					

RESOURCES

49	We have got sufficient pool vehicles to facilitate flow of work between the district municipality, local municipality and service delivery points to facilitate quick delivery of services.					
50	We have sufficient and spacious workstations which allow for easy flow of work.					
51	Our offices are housed in a secure and comfortable location.					
52	Managers are provided with computers to allow them to process and capture information for delivery of services.					

TRAINING

53	There is an approved work place skills plan in place.					
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NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
54	Program managers are aware of their responsibilities with regards to identification of their staff training needs.					
55	Program managers have made an input towards the development of the workplace skills plan.					
56	Municipal staff is provided with training to capacitate them in their respective fields of work.					
57	The Metro Council/District municipality and its local municipalities have provided appropriate resources and training opportunities to officials.					

CAPACITY BUILDING

58	The Metro Council/district municipality has assessed the capacity of local municipalities in its area and is aware of factors hindering local municipalities in the exercise of their powers and performance of their functions.					
59	The Metro Council/District municipality and its local municipalities are					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
	receiving support from the Department of Local Government in the Eastern Cape to strengthen their capacity to manage their own affairs, exercise their powers and perform their functions.					
60	The Municipal Manager has taken steps to ensure that the Mayor is aware of his/her responsibilities.					
61	Staff is aware of the Municipal Finance Management Act no. 56 of 2003.					
62	Senior Managers are receiving training on how to implement the Municipal Finance Management Act No.56 of 2003.					
E-GOVERNANCE						
63	We have got sufficient computers to facilitate timely processing of transactions and preparation of reports.					
64	There is an electronic records keeping system in use.					
65	Staff has been trained on how to operate the computer system.					
66	Staff is familiar with the capabilities that the					

NUMBER	STATEMENT	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
	computer system can offer.					

67. What are the areas that you think your municipality still needs capacitation with in order to successfully comply with the requirements of the Municipal Finance Management Act, No 56 of 2003.

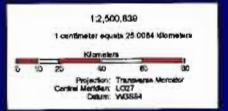
1.
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Drawing Title:
Base Map for the Eastern Cape

Client:
Office of the Premier

- Legend:**
- Major Towns
 - Road Network**
 - National Roads
 - Major Roads
 - Local Municipalities
 - District Municipalities**
 - Alfred Nzo
 - Amatole
 - Cacadu
 - Chris Hani
 - O.R. Tambo
 - Nelson Mandela Metropole
 - Ukhahlamba
 - South African Provinces




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