Assessment of clean audit outcomes as an effective determinant of good service delivery: a case study of Midvaal Local Municipality

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ABSTRACT

The office of the Auditor-General in South Africa conducts audits of local government institutions, among other public-sector entities, in order to assess the current financial condition of municipalities and provide audit opinions for a certain fiscal year. Municipalities are obligated to maintain clean audits to avoid financial fines. However, the significance of clean audit outcomes lies in their ability to ensure successful service provision to the citizens. The Auditor-General’s municipal audit findings reveal that several municipalities obtain clean audits, notwithstanding their inadequate performance in terms of service delivery. South Africa has a few municipalities that have successfully achieved desirable audit outcomes, with Midvaal Local Municipality being a notable example of consecutive clean audits. This study aims to evaluate whether the clean audit outcomes of Midvaal Local Municipality may serve as reliable indicators of effective service delivery within the municipality. The article utilizes a literature review and an online qualitative questionnaire survey with open-ended questions as approaches for collecting data. The article’s findings highlight that the municipality has implemented effective management processes, also known as internal controls, which enable Midvaal to deliver services to its citizens in an effective and efficient manner. This management techniques may effectively determine the quality of service delivery within the municipality. They have a favorable impact on the municipality’s financial viability, which directly results in clean audit conclusions.

Introduction

It is evident from plethora of literature (Sambo, 2019; Motubatse et tal. 2017; Van Der Walt, 2012; Mashalaba, 2016; Powell et tal. 2014; Chitiga-Mahugu and Monkam, 2013; Peters and Van Nieuwenhuyzen, 2012) that municipal audit outcomes and service delivery in South Africa are widely researched. Several authors significantly attempted to study the relationship between clean audit and service delivery (Aadnesgaard and Willows, 2016; Mbandlwa, 2022; Koekemoer, 2017; Motubatse et tal. 2017; Mnguni and Subban, 2022). There is scarcity of research on management practices (herein also referred as internal controls) that can be used as a determinant of good service delivery, which yield a positive impact on municipal financial viability, which solely translate to clean audit outcomes. This assertion and gap in literature is what this article attempted to address. Negobo and Malefane (2017:74-75) argued that most research in South Africa, focused on the assessment of internal controls and managerial practices on audit outcomes and governance, is driven by private sector firms such as Pricewaterhouse Coopers and Deloitte, for commercialization and consulting purposes. However, there is scarcity of research conducted for service delivery purposes; particularly within municipalities, which are at the forefront of service delivery due to the nature of their field of engagement (see Van der Waldt 2006:128).

Negobo and Malefane (2017), assessed how internal controls of Roodepoort City Theatre in Gauteng Province influence governance and audit findings of the Auditor-General. Based on that study, this article provides an insight into managerial practice (herein also

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referred as internal controls) of Midvaal Local Municipality, to assess if they can be used as effective a determinant of good service delivery. According to Madumo (2015) municipalities are confronted with significant challenges that hinder effective and efficient service provision and financial control. Amongst many, such difficulties can be linked to a variety of factors, including lack of expertise, inability to collect arrear debt, widespread corruption, and extravagant wages and bonuses for public officials (Laubscher, 2012). Apparent failure of municipalities to achieve desired audit outcomes, has put the term clean audit opinion/outcome under scrutiny. Moreover, according to the Institute of Security Studies (2015) clean audits are a requirement, which municipalities must uphold, but clean audit outcomes have no prospective significance, if they do not result in tangible differences such as good service delivery to its citizenry.

(De Visser, 2005; Madumo, 2015; Makwabere and Munzhezi, 2019) opine that the local sphere of government in South Africa is democratised and therefore, widely known as the closest sphere to the people and known in terms of service delivery as enated in the constitution. Dorasamy et al (2015) also argued that the challenge, however, within municipalities is finding ways to establish effective structures capable of managing funds and administering services in an effective and efficient manner. Lack of adequate monitoring and evaluation systems within municipalities makes it difficult for South African municipalities to achieve clean audits, according to the AGSA-Report (2019).

Municipalities are unable to keep track of their actual income and expenditure, which frequently compromises their budget through irregular financial reporting and improper corrective measures. Owusu (2012) observes that municipalities continue to struggle with financial management issues and a lack of service delivery even though public sector financial management reforms and effective service delivery have been on the agenda of municipality development patterns for decades. The 2014/15 Auditor-General report outlined that most municipalities failing to obtain clean audits emanate from weaknesses within the municipal their internal control drivers such as:

i. Lack of proper financial and performance management;
ii. Lack of financial governance structures;
iii. Lack of compliance with laws and regulations; and
iv. Poor internal audit functions.

According to AGSA-Report (2020) nearly 90% of municipalities dismally failed to obtain clean audits during the 2019/20 fiscal year. In contrast, according to AGSA-Report (2019) although majority of municipalities struggle to achieve desirable audit outcomes, South Africa has specific utmost success stories of municipalities with clean audits. In such instances, Gerber (2020) demonstrated that Midvaal Local Municipality, which this article entirely attempted to study forms part of the 8 % of municipalities in South Africa that have a successive history of clean audits. According to (AGSA-Report, 2020) the municipality has a well-structured organizational culture with deliberate political and administrative leadership that includes transparency, accountability, and good financial practices. Hence, the municipality has benefited from years of clean audit results and is recognized as the best municipality in Gauteng with good governance.

In addition, Good Governance Africa (2019:2) claimed that “good municipal financial statements” may not always reflect good service delivery. Therefore, it is crucial to carefully consider if audit outcomes translate to improved service delivery and higher levels of citizenry satisfaction at the most basic levels. Mashalaba (2016) argued that continuous clean audit outcomes awarded to municipalities and relative citizenry dissatisfaction related to service provision, often makes the concept of clean audit problematic on face value. Nevertheless, the office of the Auditor-General conducts audits of municipalities, along with many other public-sector organizations in South Africa, to determine the status of the municipal audit outcomes for a particular fiscal year. As such, the office of the Auditor-General plays a significant role in ensuring that municipalities account for how they use taxpayer’s money; therefore, enhancing pillars of a constitutional democracy (Khumalo, 2007).

According to (AGSA-Report, 2019) municipalities spent an estimated amount of R1.26 billion on consultants to assist in drafting municipal financial statements, yet most municipalities failed to obtain clean audits. From the outcomes of the audits of the Auditor-General, it is commonly found that some municipalities achieve clean audits, even though they are overwhelmed by backlog and extreme poor performance when it comes to service delivery. This appears to be the case across all provinces, with audit regression within their municipalities in South Africa (Auditor-General-Report, 2021, Mnguni and Subban, 2022; Auditor-General, 2018). In such instances, according to Ncapiay and Ntsebeza (2019) municipalities in question struggle to provide adequate basic services to its citizenry and are failing to fulfill one or more of the essential requirements of the functions of the office of the Auditor-General, which is to avoid unauthorized expenditure, irregular expenditure, and wasteful expenditure.

History of South African municipalities, comprises of crippled governance with debts, inadequate payment of water and electricity, unauthorized expenditure, and inaccurate revenue collection; thus, entirely seeking intervention from national government (Craythorne, 2006; Glasser et tal, 1998; Nel and Minnie, 2022; Ngumbela, 2021). Therefore, this article assumed, that although good financial statements of a municipality often tell the story of how well a municipality is managed financially; it does not relatively mean good service delivery, which is a point of departure also supporting the argument of this article. Furthermore, it is also significant according to (Motubate, 2017) to demystify the misconception held by many public officials within South Africa municipalities and the public at large, that public institutions with clean audit outcomes have good service delivery. Central to this
background; the major objective of this article is to identify management practices that enforce good financial management and effective service provision at Midvaal Local Municipality.

**Literature Review**

This article adopted public value theory. This theory is adopted on this article, for its potential to capture quality managerial practices in governance. Public value theory was first introduced by Mark Moore, in which he suggests that “the aim of managerial work in the public sector is to create public value” (Moore, 1995:28). The public value theory advances a public administration theory that emphasizes and underscores governance, democracy, and cooperation (Turkel and Turkel 2016:7). Yotawut (2018) defines public value theory as “an approach that explores how public organizations operationalize the principles of public value by focusing on the role of public engagement which distinguishes public services from private competitive markets”. The principles that the public sector strives towards and the value that government services provide to society can both be considered as examples of public value (Benington 2015; Benington and Moore 2011; Moore 2013).

**Auditing of local government: A South Africa perspective**

In South Africa, every municipality is audited annually, and the results vary depending on how well they performed during that specific financial year (Aadnesgaard and Willows, 2016:547). The office of the Auditor General South Africa is established in accordance with Section 188 of the Constitution (1996), as chapter 9 institution, entrusted to strengthen constitutional democracy and audit municipalities. Guided by legislative frameworks, municipalities must present their annual financial statements to the Auditor-General within three months preceded by the end of their financial year. As custodians of public funds municipalities are conduit through which public resources are utilized to address needs of its citizenry; and administering basic services such as infrastructure, water, electricity and refuse removal, as well as enhance spatial development of their communities (Kroukamp, 2017).

Post-1994 in South Africa, the newly elected democratic government undergone a series of alternative public-sector reforms; across all three spheres of government. The government adopted various established legislative frameworks to address major government ills; hence, internal auditing in the public sector, as a mechanism to transform municipal governance was prioritized. Respectively, according to Barac and Van Staden (2014), Public Finance Management Act, 1 of 1999, Municipal Finance Management Act, 56 of 2003 and Public Audit Act, 25 of 2004 was established to enforce internal audit functions (IAFs) and became integral part of public sector financial management. According to Institute of Directors South Africa (2010:96), the 1994 first King report on corporate governance (King 1) and the 2010 third King report on governance for South Africa (King 3) brought internal auditing in the public sector to spotlight. Therefore, auditing of municipalities became the center of good financial management as an overriding component of good governance. In general, literature describe auditing in the public sector as a systematic task of fairly obtaining municipal financial statements and evaluating evidence to determine whether information or actual conditions conform to established auditing criteria (Aadnesgaard and Willows, 2016). Good governance requires processes and institutions to produce results that meet the needs of society while making the best use of resources at their disposal.

**Three main types of public sector auditing**

In many countries, public sector auditing is a prerequisite for financial accountability and good governance. According to AGSA-Report (2019) public sector auditing in South Africa, particularly within municipalities, is not progressing at the anticipated rate, since majority of municipalities are dysfunctional and barely operational. Multiple instances of non-financial compliance impede service delivery. Municipal public sector audits can be accelerated if municipal governance structures and leadership are linked with the principles and objectives of good financial management systems in the public sector (Owusu, 2012). Therefore, effective, efficient, and accountable local government in Africa and elsewhere is necessary for a capable and functional local government (Laubscher, 2012). Although public sector auditing varies based on the type of audit performed, they all contribute to good governance by:

1. Promoting transparency and accountability of public sector;
2. Identifies challenges and recommend potential improvements to reform the public sector; and
3. Serve as an instrument of policy change for sound financial management.

In general, public-sector audits can be categorized into one or more of three main types: compliance audits, performance audits, and financial audits.

**Compliance audits**

Compliance audit is an assessment of the extent to which an institution or entity is audited to check if it has been compliant with laws and authorities (ISSAI, 2012:7). In essence, compliance audit aims for accountability, transparency, and good governance by providing factual data on how public servants spend taxpayer money. It is the auditor's responsibility to determine if financial transactions, institutional operations, and information are, in every material aspect, in accordance with the established authorities controlling the audited organization while conducting a compliance audit. According to Adam et al. (2018), conducting a compliance audit also include evaluating an institution's internal auditing, financial management control systems, and managerial decision-
making regarding the planning, management, reporting, and control of the institution’s budget as well as other public resources and activities. As a result, compliance audits can be undertaken alongside other types of audits for effective audit outcomes. For assurance of non-compliance, it may be combined with a performance audit or an audit of the financial statements of an audited organization, for instance.

**Performance audits**

Despite being widely discussed in literature, performance audit is still not well understood. Although it is occasionally viewed as a substitute for traditional audit, it is crucial to emphasize its value in the public sector. According to (ISSAI, 2012) performance auditing “is a systematic, objective assessment of the accomplishments or processes of a government program or activity for the purpose of determining its effectiveness, economy, or efficiency”. Authorities and legal requirements force public sector organizations to report on performance in several countries since performance auditing is a component of audit obligations. According to New Public Management, which Holzer and Schwester (2015) highlighted that performance auditing is a generally good financial management innovation that emerged because of concerns about accountability in the public sector.

It is the duty of the performance auditor to assess and render an opinion on the performance management of public sector organizations. According to Guthrie and Parker (1999), performance auditing is essential to determine whether public funds are set aside for investment, whether public officials are acting within the bounds of the law, and whether public activities are being advanced. It also helps determine whether stakeholders of public sector institutions are receiving value for their money. Performance auditing is crucial for the public sector’s modernization and offers many advantages for quality service delivery. And if it is well-executed within the public sector, performance auditing within the public sector has the potential to improve service delivery in terms of competency, efficiency, and quality, but most importantly, it has the potential to increase government transparency.

**Financial audits**

According to (Guthrie and Parker, 1999) financial auditing it is a type of audit often conducted in the public sector and “focuses on determining if institution financial statements are represented accordingly with applicable financial reporting and regulatory framework”. Therefore, public sector institutions must have adequate resources and the capacity to improve accountability and transparency to undertake sound financial auditing. According to Goodson et al. (2012), financial auditing is a crucial component of effective governance within municipalities, since it supports the roles of insight, foresight, and oversight played by public officials.

Furthermore, effective financial audit is the cornerstone of good governance (ISSAI, 2012). As a result, through financial auditing, municipalities and other government entities can learn new information about governance of public finances, and discover flaws in terms of policies and processes, and identify inefficiencies and risks related to public finances (Jacobs, et al. 2021). Hence, financial auditing in the public sector frequently represents new opportunities for many institutions.

**Legislative framework guiding the office of the Auditor-General for municipal audits.**

In South Africa, legislated legal frameworks form the basis of the office of the Auditor-General’s function. The office of the Auditor-General has made a name for itself in the public sector, notably among municipalities, as a chapter 9 institution that pursues a South African public sector that is transparent, responsible, and effective. In such cases, the statutory frameworks governing the office of the Auditor-General mandate that municipalities handle their budgets wisely and effectively. Through consultative policies, programs, legal frameworks, and statutory institutions, the democratic government has enabled this.

**Constitution of the Republic of South Africa, 1996**

Chapter 9 of the Constitution of the Republic of South Africa, 1996 recognizes the office of the Auditor-General as one of the state institutions that aid and spearheaded constitutional democracy.

Section 188 of the Constitution (1996) outlines the functions of the office of the Auditor-General as follows:

i. The Auditor-General must conduct audits of national, provincial departments, and municipalities. This is done to report on their accounts, financial statements and financial management;

ii. The Auditor-General reports must be made public and submitted to any legislature that has vested interest in the reports and also tabled in parliament, provincial legislatures and municipal councils;

iii. Auditor-General must conduct discretionary audits, such as performance audits, special audits, and investigations; and

iv. Furthermore, the Auditor-General has the additional powers and functions prescribed by national legislation.

According to Mathembe (2016), the Public Audit Act of 2004 has a duty under the Constitution to regulate the position of the Auditor-General as specified in section 188 of the Constitution. The Auditor-General's office is recognized by the constitution for its capacity to uphold accountability, proper governance, and appropriate assurance provided in the financial statements, which are made available to the public.

**The Public Finance Management Act, 1 of 1999**
This legislative framework intends to modernize effective financial management of public funds within the national and provincial spheres of government. It has a statutory mission that is implemented within the public service to improve public administration procedures and quality service provision. According to Madue (2007:308) “Public Finance Management Act, 1 of 1999 is part of a broader government strategy to improve the general state of financial management in the public sector”. The Public Finance Management Act, 1 of 1999 aims to modernize public financial management systems to enforce financial management compliance within the public sector.

Public Finance Management Act, 1 of 1999 in relation to the office of the Auditor-General of South Africa:

i. The accounting officer of public entity must keep records of financial statement of the entity;

ii. At the end of each financial year, the accounting officer must prepare financial statements to be submitted to the auditors of the public entity for auditing; and

iii. Financial statements of public entities are subject to Public Finance Management Act and must be submitted to the Auditor-General for auditing in compliance with the correct format.

Public Finance Management Act, 1 of 1999 tabled down basic rules for effective and efficient sound financial management to effect section 216 of the Constitution. Therefore, it is crucial for municipalities to recruit public officials with deeper awareness of the provisions of the Public Finance Management Act, 1 of 1999.

Municipal Finance Management Act, 56 of 2003

The National Treasury has over the years made significant efforts in reforming financial management across government since 1994 and 1996 in local government. This piece of legislation reflects integrated governance of deliberative democracy based on transparency, efficacy, and efficiency of the use of public funds in an ideal political system. Motubatse et al. (2017) asserts that the Municipal Finance Management Act No. 56 of 2003, which went into force on July 31, 2004, and the Annual Division of Revenue Act served as the foundation for the National Treasury reform measures. Therefore, this legislation serves to set parameters on the management of municipal finances; it sets how budgets allocation should be utilized, with a view to stretching resources optimally, therefore enhancing service delivery.

Municipal Finance Management Act, 56 of 2003 in relation to the office of the Auditor-General of South Africa:

i. Administer oversight role on behalf of government for financial accountability within municipalities;

ii. It requires municipalities to submit their financial statements and the audit thereof within certain deadlines;

iii. It requires chief financial officers be responsible for the effective financial management of municipalities including the exercise of sound budgeting and budgetary control practices;

iv. Ensure transparency and accountability, when it comes to fiscal and financial affairs of municipalities and municipal entities; and

v. The act provides consolidated general reports, which are based on audit work performed on municipalities and their entities by the office of the Auditor-General.

According to Erasmus and Matsimela (2020), the Municipal Finance Management Act, 56 of 2003, provides a traditional legislative process rule for a performance-based local government that is well-equipped to provide high-quality service delivery to attain a developmental local government. There is no denying that effective financial management within municipalities is a challenging aspect of governance in the South African. Therefore, promoting a system of sound financial governance is significant to reform budgetary mechanisms of the public sector.

Public Audit Act, 25 of 2004

This legislation is mandated to formalize the Constitutional obligations for public sector external audits. According to the Public Audit Act, 25 of 2004, municipalities in South Africa are required by law to report annually on how well their institutions are performing in comparison to the laws' predefined objectives of the office of the Auditor-General. In such instances, the Public Audit Act, 25 of 2004 regulates and outline functions performed by the office of the Auditor-General. The aim of consolidating auditing of municipalities into legislations attempted to improve accountability and create a measurement environment for performance of municipalities.

Public Audit Act, 25 of 2004 in relation to the office of the Auditor-General of South Africa:

i. To give effect to establish and assigning functions to an Auditor-General to provide audits of institutions in the public sector;

ii. To provide for accountability arrangements of the Auditor-General;

iii. To repeal certain obsolete legislation; and

iv. To provide for matters connected therewith.
The Public Audit Act, 25 of 2004 was intended to assist the Auditor-General in carrying out his or her duties, however it lacked the authority to enforce its implementation and recommendations inside the Auditor-General’s office. This led to the signing of the long-awaited Public Audit Amendment Act, 5 of 2018, which subsequently amended the Public Audit Act, 25 of 2004, on 18 November 2018. In accordance with Deliwe (2019), the amendment Act aimed to replace the conventional responsibilities of individuals in charge of oversight. It also proposes to alter the Act to provide the Auditor-General with more power to investigate suspected material irregularities and take corrective measures, including recovering losses incurred by the state.

**State of South Africa municipalities**

In the last five years, the state of South Africa municipalities experienced excessive financial deterioration. The Covid-19 pandemic exacerbated the impact of this financial distress within local government, which was acutely felt by its citizenry (Munzhedzi, 2021; National Treasury, 2020; De Villiers et al, 2020). In contrast, prior to the outbreak of the pandemic, most municipalities were already under strained financial cash flow. The Auditor-General observed that 106 municipalities in the 2020/21 financial year adopted unfunded budgets, while 165 municipalities were confronted by financial crisis. Sibanda et al, 2020; Njanike et al, 2011; Ncgobo and Malefane, 2017, argue that this demonstrates lack of political oversight, functional municipal public accounts committees, and disregard for prudent budgetary practices. In essence, these excessive weaknesses left most municipalities vulnerable to maladministration and financial mismanagement with no proper remedial actions put in place.

This article acknowledges that some municipalities are dismally failing to fulfil their constitutional obligations. According to Figure 1, below, the number of municipalities in financial hardship has dramatically increased since the commencement of the 5th administration, rising from 128 in 2016/17 to 165 in 2020/21 (National Treasury, 2021),

![Municipal Financial Distress](image)

*Fig 1: Municipal Financial Distress; Source: National Treasury (2021)*

The surge in municipal protest is because of service delivery backlogs (Jones and Beattie 2011:59; Maramura et al, 2020; Mpahle, 2012; Mashamaite, 2014). Maramura et al, (2020), further argues that, despite significant effort of accelerating public service provision since 1994, local government is under severe difficulties that impede its functionality in the last two decades. For instance:

[T]he 2020/21 consolidated report of the Auditor-General, reported that a total of nine (9) audits were not finalized timeously as municipalities did not submit the financial statements by the legislated date (Auditor-General, 2021; National Treasury; 2021). Furthermore, the Auditor-General claimed that if financial health difficulties persisted, municipalities would be unable to continue operating and offering basic services to its citizenry.

**Managerial practices as proxy for good governance**

To firmly understand governance structures and responsibilities within municipalities, internal controls espouse the ability to differentiate between good and bad governance (Ncgobo and Malefane, 2017). According to research conducted by (Banicova, 2016; Park et al, 2017; Raghavan, 2011; Peterson, 2018; Ross, 2016) both external and internal controls can cause eminent change within an organisation. Njanike and Mutengezana (2011) define internal controls generally as the step-by-step programs and procedures implemented by management of an organization to help it achieve its goals and objectives while also complying with established legal frameworks.

Failure to effectively enforce and strategically implement internal controls significantly contributes to poor governance. According to Khan (1994), internal controls are established to protect an institution from procuring loss or misuse of its resources. Hence, Ncgobo and Malefane (2017), argue that to effectively implement internal controls, requires skilled managers and competent leaders with multiple management techniques, such as good financial management as well as effective governance within audit and risk committees. Njanike et al (2011) opine that internal audits and oversight controls unduly enhance financial accountability, therefore
resulting in clean audit outcomes. Furthermore, Sibanda (2017: p.314), argues that internal audit controls can be inordinately viewed as a catalyst for municipalities to achieve clean audits. On the other hand, effectively managed internal controls ultimately help to deter undesired municipal audit outcomes and help to improve service provision, resulting in citizenry satisfaction. Morehead (2007:1), further outlined that “lack of internal controls has negative implications on audit outcomes of public institutions and creates an opportunity for maladministration, fraud and corruption to thrive”.

Unqualified audit outcomes within municipalities are symptoms of a weak culture of accountability, poor control systems, and poor municipal financial reporting. This article assumed that although good financial statements of a municipality often tell the story of how well a municipality is managed financially; it does not relatively mean good service delivery. According to (Oberholzer and Diedricks 2012:1; CoGTA 2011:40; Sibanda et tal, 2020; Njanike et tal, 2011), public institutions are more likely to receive clean audits when they have effective financial management, systems development, administration and oversight, performance management, monitoring and evaluation, and adherence to rules and regulations. Given these arguments, clean audit outcomes in local government can be championed by municipalities with effective internal controls such as Midvaal Local Municipality. Within Midvaal Local Municipality, informed by public value theory; there are several managerial practices within the municipality which are evident to advance good financial management and provision of effective services to its citizenry.

**Research and Methodology**

This article employed a qualitative research approach to gather data using literature review and an online qualitative questionnaire survey with open-ended questions. For online qualitative questionnaire survey, the article used purposive sampling for selection of research participants. The participants consisted of selected officials of Midvaal Local Municipality and a few members of the community. Therefore, out of a sample of \( n=50 \) only \( n=32 \) participated in the survey. Officials in performance & audit committee, municipal public accounts & oversight committee (MPAC), Ward/PR councillors, community members, and executive mayor participated in the survey. Furthermore, this article enhanced its data collection by consulting secondary data sources that captured in detail the phenomenon of clean audit and service delivery. The article employed content analysis to analyze data obtained from literature reviewed and thematic analyses to analyze data obtained from online qualitative questionnaire survey. Data analysis was done using logical organizing of collected data based on the research problem and mainly guided by the research objectives using themes.

**Findings and Discussions**

The following table 1, below, makes representation of themes and sub-themes of the article.

<table>
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<th>Themes</th>
<th>Sub-themes</th>
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<td>1. Management practices that enforces good financial management &amp; good service delivery at Midvaal Local Municipality.</td>
<td>Sub-theme 1: Ethical leadership. Sub-theme 2: Consequence management. Sub-theme 3: Good revenue management</td>
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<tr>
<td>2. Perceptions of Midvaal Local Municipality officials and members of community’s understand of clean audit outcomes and good service delivery.</td>
<td>Sub-theme 1: Good financial governance practices, accountability, and no budget constraints. Sub-theme 2: Clean audits as a reflection of good service delivery.</td>
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**Management practices that enforce good financial management & good service delivery at Midvaal Local Municipality**

Every municipality is entrusted to offer basic services to its citizenry, and Madumo (2015) writes that the provision of such services should be delivered “at the highest possible level of responsiveness and efficiency”. However, according to a study conducted by Sibanda et tal, (2020), failures of municipalities to achieve clean audit outcomes emanates from poor leadership, lack of relevant capacity and competency. It emerged from the findings of this article, that through its management practices (herein also referred as internal controls); Midvaal Local Municipality’s successive clean audit can be attributed to the following internal controls:

**Ethical leadership**

Secondary data from National School of Government (2020:44) indicated that, the Department of Public Service and Administration is unwaveringly committed to professionalizing the public sector through the 2019–2024 Medium Term Strategic Framework, which is seen as essential for creating a more capable, and ethical developmental state. Furthermore, document analysis indicated that ethical leadership foster the culture of moral conduct amongst municipal employees of Midvaal. Such managerial practice sets the tone for the entire organization and inspires employees to give their best efforts. The article further found that ethical leadership is an important tenet of good governance and a cornerstone of efficient service provision within the municipality. Data obtained from one of the participants, (N), suggested that:
Our capable workforce, professional staff, and ethical leadership significantly contribute to the success of the municipality.

As opposed to this, the Auditor-General Consolidated Report (2022) stated unequivocally that “…when municipal officials operate in an unethical manner and have a carelessness attitude towards principles of good governance and fail to apply sound compliance and control systems; and are not obligated to transparent practices and accountability, these could filter down to the lower levels of the municipality and thus have a negative impact on service provision”. According to Mbandlw et al. (2020:24992), recruiting ethical leaders for key posts should be an unquestionable condition for creating a functioning local government. This article found that clean audit outcomes and good service delivery of Midvaal Local Municipality is informed by the practice of institutionalized ethical leadership amongst employees within various departments of the municipality. Literature has shown that ethical leadership is a crucial management strategy for enhancing productivity, effectiveness, and service delivery in the public sector (Henson, 2019). Data analysis indicated that ethical leadership entails fairness, integrity, honesty, transparency, and accountability. Therefore, when asked about ethical leadership, one participant, (17Q), stated that:

**Ethical leadership remains the only catalyst that can lead to good governance, whilst also ensuring efficient and effective functioning of Midvaal Local Municipality.**

Literature review revealed that, Midvaal Local Municipality has enjoyed the fruits of being led by such a leader “Bongani Baloyi”, and according to Phahle (2020); under his leadership, Midvaal Local Municipality has experienced a rapid economic and organisational growth. The article found that, under his leadership as the mayor, Midvaal Local Municipality, which was ranked 16th in 2013 and is now placed 5th as of 2021, is among the best-performing municipalities in Gauteng. The article found that the most effective contributor to efficient service provision and good governance continues to be ethical leadership that fosters the competency of municipal officials within a select few South African municipalities. The article discovered that, in the pursuit of good governance, leadership positions in public office at every level of government demand professionals who are dedicated to high ethical standards. In the case of Midvaal Local Municipality, municipal manager, mayor, and councillors are more persuasive in their quest for good-quality and credible service delivery plans.

**Consequence management**

Findings of the article pointed out that, Midvaal Local Municipality credited its good governance to its ruthless consequence management systems and commitment of senior managers who go an extra mile in executing their duties (MLM, 2021). Results indicate that the municipality gives consequence management top priority to hold defaulting authorities accountable. For example, this article found that, in 2018 a senior official from the waste department found guilty of misconduct and corruption was fired by the municipality. This demonstrates that the municipality does not tolerate the culture of corruption.

Furthermore, the findings indicated that Midvaal Local Municipality uses consequence management to compel accountability at both the political and administrative levels. According to a study by Fourie & Malan (2022), the enforcement and implementation of consequences management against officials responsible for non-compliance will help municipalities recover financial losses. When asked about consequence management and its implementation at Midvaal Local Municipality, one participant, (23W), stated that:

**At Midvaal Local Municipality, there are definite signs of accountability and consequence management.** For instance, where necessary, issues are reported to relevant authorities for additional inquiry. The appropriate and relevant consequence management is also instituted, as and when required.

Both participant (23W) and participant (4D), a highly experienced official, agree on the need for better consequence management at Midvaal Local Municipality. As highlighted by participant (4D), consequence management is about knowing what the goal of local government is and adhering to it without straying and jeopardizing accountability, openness, and effectiveness. The findings of the article indicated that the municipality uses consequence management to curb corruption and maladministration. Furthermore, according to literature review, the municipality has rigorous community participation in the drafting of its performance plans. The results of the survey demonstrated that community participation continues to strengthen accountability and culture of consequence management. While literature review revealed that, Midvaal Local Municipality adopted unauthorised, irregular, fruitless and wasteful expenditure policy in accordance with Section 32 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 and MFMA Circular 68 to outline the implementation of consequence management within the municipality. The impact of consequence management has positive prescripts on Municipal Finance Management Act and service delivery provision. In pursued good governance; literature revealed that, public office at any level of government, requires professionals in leadership positions who are committed to the high ethical standards outlined in the institution’s mission statement.

**Good revenue management**

Effective revenue and debt management is regarded as the cornerstone of strong corporate governance in South African municipalities (Masegare, 2017:17). Section 96 of the Municipal System Act (Act 32 of 2000) further encourages municipalities to comply with Municipal Finance Management Act and collect all money owed to the municipality. The article revealed that, in its Medium-Term Revenue & Expenditure Framework 2021/2022 – 2023/2024; Midvaal Local Municipality has tried to prioritize the implementation of innovative revenue collection strategies to optimise the collection of revenue within the municipality (MLM, 2021:6). Batistus et
Midvaal Local Municipality is known for good governance and sound financial management (MLM IDP, 2015/6:79); as demonstrated by the findings of this article. However, the article discovered that there are additional factors and tendencies that pose a threat to the municipality's capacity to carry out its duties successfully and efficiently. This includes insufficient funding for the municipality operations and insufficient finance for expansion (MLM IDP 2021/22). The article revealed that the municipality funding backlogs are influenced by slower rate of revenue increase, as compared to increase in expenditure. One of the municipality’s strategic themes is to effectively increase the municipality revenue to ensure that the municipality becomes financially sustainable. MLM IDP (2020/2021:89) this strategic plan seeks to expand the municipality’s revenue sources. Based on the municipality governance performance, the article revealed that it is essential for Midvaal Local Municipality to have access to various streams of revenue collection, while subsidising indigent households. In accordance with the findings of Municipal Money, Midvaal Local Municipality managed to collect 98.6% of its revenue in the 2018/19 financial year. The municipality did not manage to fully collect all the money earned through rates and services charged as compared to 2017/18. According to AGSA-Report (2022) with its good revenue management, Midvaal Local Municipality managed to achieve 89% of its basic service delivery targets.

Perceptions of Midvaal Local Municipality officials and members of community’s understanding of clean audit outcomes and good service delivery

The survey’s findings showed that respondents, mostly from the community, did not comprehend the work of the Auditor-General, while officials from Midvaal Local Municipality did. Further analysis of the results revealed that a portion of community members and a small number of Ward/PR councillors may or may not comprehend the role played by the Auditor-General. Following the local elections in 2021, some of these Ward/PR councillors just joined the municipality recently, which is relevant to the results of the online qualitative survey.

Good financial governance practices, accountability, and no budget constraints

The findings of the online qualitative questionnaire survey show that the municipality continuously monitors its financial status; therefore, resulting in improved financial controls annually. Furthermore, document analysis indicated that good financial management supports not only good governance and transparency, but it is essential for the provision of services which communities rely on. In relation to the findings of the online qualitative survey of this article, it should be stated that successive clean audits of Midvaal Local Municipality exhibit good governance, which reflects effective/improved management practices. According to one participant (1A), the creation of Operation Clean Audit (OPCA) has made it possible for the municipality to consistently achieve its subsequent clean audits. The article found that the accounting officer chairs the Operation Clean Audit (OPCA) task team, to enforce financial responsibility within the municipality.

Survey results indicated that the municipality continues to monitor its financial status and, as a result, its financial outcomes are becoming better every year. From the findings of this article, the municipality reported a surplus of R207 million for the fiscal year that ended on June 30, 2021 (up from R76.5 million in the prior year). Moreover, the total revenue increased by 18.2%, while expenditure increased by 8.04% during the year. Therefore, the findings of the article indicate that, the successive clean audits of Midvaal Local Municipality for 8th consecutive financial years; indicate that the municipality has sound financial management and is operating in compliance with the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003). The findings of the survey indicated that, the audit units of Midvaal Local Municipality are fairly and adequately resourced, which results in better reporting to the municipal public accounts committees. From this assertion, majority of respondents, particularly officials of the municipality, suggest that the municipality’s ability to identify, record and manage all its revenue sources accurately and comprehensively has enabled the municipality to comply with MFMA Circular 64 and develop efficient and accurate financial statements submitted to the Auditor-General.

Clean audits are not necessarily the reflection of good service delivery

Notably, the findings of the survey support discussion of the literature review that, while a municipality's financial accounts might often reveal how well it is run financially, this does not necessarily translate into good service delivery. Furthermore, document analysis indicated that, a clean audit opinion does not mean that the municipality has discharged all its service delivery mandates, since all municipal planning and projects are mapped out in the Integrated Development Plan, which has a lifespan of 5 years linked directly to the term of office for local councillors (Manzini, 2016). One of the participants, (14N), stated that:

Even though this is my first term in government, I am familiar with the idea of a clean audit. My knowledge of it is obviously limited to my department, but from what I have learnt, clean audits are all about operating a law-abiding, ethical, and financially sound municipality that adheres to good governance standards.

In contrast, a well experienced official, (4D), stated that:

A clean audit refers to a financially unqualified opinion by the Auditor-General, indicating that each of the financial records provided by the municipality have no material findings or misrepresentations, and are in accordance with the law and regulations relating to
spending on public funds. In simple terms, and in accordance with legislative frameworks, we are interested in money in, money out of the municipality.

However, according to the findings of literature review, clean audit outcomes though evaluated based on good financial statement, the article found that it should rather be evaluated on overall municipal performance, which include the state of service provision. Literature review suggested that quality financial statements do not entail good performance and service delivery. Furthermore, the purpose of the audit, which takes place annually, is to account for financial transactions that occur within local government. In addition, according to AGSA Consolidated Report (2021:05) clean audit is not always an indicator of good service delivery and does not always correlate directly to the lived experience of all the communities in a municipal area.

While Gauteng province faces difficulties with regressed audit opinions, it became clear from the survey and literature review results that Midvaal Local Municipality has made significant strides with effective monitoring and preventative controls in place as a key contributor for favourable audit outcomes. The findings of the article indicated that, municipalities with institutionalized managerial controls and mechanisms to plan, measure, monitor, and account for their budgets and performance and to adhere to the law, like Midvaal Local Municipality, frequently also have a strong basis for good financial management and effective service provision. Wherein, these management practices can be used as an effective determinants of good service delivery within the municipality; since they yield positive impact on the municipal financial viability, which solely translates to clean audit outcomes. Aadnesgaard & Willows (2016) contend that the relation between clean audit and service delivery within South African municipalities is as a reflection of public servants’ commitment to good governance. However, the findings of the article in relation to Midvaal Local Municipality, suggested that it because of managerial practices such as compliance with legislative framework, ethical leadership, consequence management, good revenue management and political stability that influence good service delivery and subsequently the achievement of successive clean audit outcomes.

From the study conducted by Craig (2017:128) literature revealed that South African municipalities are coupled with positive, but weak relations between municipal audit outcomes and service delivery performance. It is because financial compliance has little effect on municipal operations and service provision. For example, according to the National Treasury (2021) many municipalities fail to approve financed budgets, which indicates that their financial sustainability and sound financial management are both lacking. Arguably, according to Matlala & Uwizeyimana (2020) good financial management is not a sufficient prerequisite to assist municipalities struggling to perform their legislated responsibilities. However, it is evident from the findings of the article that level of emphasis towards financial compliance by the Auditor-General along with legislative frameworks guiding municipal finances might be regarded as not helpful in terms of improving municipal performance and overall service provision. Hence, the article argues for an appropriate technique that will simultaneously assess municipal financial performance along with service delivery.

Conclusion

The article sought to assess if clean audit outcomes of Midvaal Local Municipality can be used as an effective determinants of good service delivery within the municipality. With several municipalities confronted by the crisis of achieving desirable audit outcomes. This research was prompted by Midvaal Local Municipality successive clean audit outcomes and the state of service provision within the municipality. The article demonstrated that, solemnly depending on awarded clean audit opinion of the Auditor-General to assess service provision within a municipality; is not an effective mechanism, since clean audit does not necessarily translate to citizenry satisfaction when it comes to service provision. In addition, according to AGSA Consolidated Report (2021:05) clean audit is not always an indicator of good service delivery. The article to some extent demystified the misconception held by some public officials within South Africa municipalities and the public at large, that public institutions with clean audit outcomes have good service delivery. The article argued to show that clean audit outcomes of Midvaal Local Municipality cannot be used as an effective determinant of good service delivery. However, in the case of Midvaal Local Municipality, this article demonstrated that the municipality has management practices (herein also referred as internal controls) such as ethical leadership, consequence management, good revenue management, good financial management, and accountability that advantageously places the municipality in position to provide services to its citizenry. And therefore, resulting in positive impact on the municipal financial viability, which solely translates to clean audit outcomes.

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