

Public Administration **CHALLENGES:** Cases from Africa

EDITORS:

**JACOBUS S WESSELS
THEAN POTGIETER AND
THEVAN NAIDOO**



juta

First published 2021

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Claremont, 7708

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ISBN: 978 1 48513 861 7

Production Specialist: Valencia Wyngaard-Arenz
Editors: John Linnegar and Ken McGillivray
Proofreader: Waldo Müller
Cover Designer: Drag and Drop (Jacques Nel)
Indexer: Lexinfo (Adami Geldenhuys)
Typeset in 11.5/14.5 pt Bembo Std
Typesetting: Wouter Reinders

Printed and bound:



school of government

Department:
National School of Government
REPUBLIC OF SOUTH AFRICA



**Funded by
the European Union**

SUSTAINED POOR AUDIT OUTCOMES: THE CASE OF THE AMATHOLE DISTRICT MUNICIPALITY

Jacobus S Wessels, Makhosandile H Kwaza and Edwin Ijeoma

INTRODUCTION

It is generally accepted that a prerequisite for improved public-service delivery is reliable financial statements and credible reporting on the activities of government institutions (AGSA 2019; MacMaster 2019: ii, 168). The Auditor-General of South Africa's (AGSA) consolidated general report on local government audit outcomes for the period 2017–2018 reveals that only 18 of 257 municipalities managed 'to publish quality financial statements and performance reports and to comply with key legislation applicable to' them, while the audit outcomes of 63 municipalities have regressed since the previous financial year (AGSA 2019: 8). Furthermore, the AGSA reports that about 74% of the municipalities did not adequately follow up on previously reported allegations of irregularities, mismanagement and fraud, and this resulted in a continuous regression in audit outcomes.

From the 2019 AGSA report, a clear identification of possible success factors for the few high-performing municipalities is noteworthy, as are the factors contributing to the underperformance of the majority of municipalities. The best practices identified by the AGSA relate to:

- (a) their responding timeously to the AGSA's recommendations;
- (b) the credibility and proactive nature of their audit action plans;
- (c) their actual implementation of these action plans; and
- (d) their monitoring of the implementation of these action plans continuously (AGSA 2019: 12, 39, 115).

In contrast, the main attributes of the failing municipalities have been shown to be:

- (a) the tone at the top and the slowness of their implementation of the recommendations of the AGSA or, even worse, their total disregard of the recommendations (AGSA 2019: 8);

- (b) the inadequacy of their action plans (AGSA 2019: 12);
- (c) their reluctance to implement any improvements or action plans; and
- (d) their inadequate monitoring of any efforts to implement action plans (AGSA 2019: 100, 127).

While these factors that the AGSA identified may serve as ample points of departure for this study, the search for a plausible understanding of this state of affairs is not confined to these factors. An open mind was therefore kept for any additional factors not previously identified that may emerge from the sense-making process.

The persistent poor audit outcomes of South African municipalities have been shown not to be confined to a specific district municipality or province; indeed, it appears to be a longstanding national problem (Oberholzer 2012; AGSA 2019). A typical example of a municipality meeting most of the failure characteristics reported on by the AGSA is the Amathole District Municipality in the Eastern Cape province of South Africa. This municipality did not receive clean audit opinions from the AGSA for several consecutive years (AGSA 2019: 107), despite the commitment made by the Executive Mayor of the Municipality in April 2012 to the then Auditor-General that the District Municipality would deliver a clean audit outcome by 30 June 2013 (Kwaza 2017: 227). The vexing question to be answered is therefore this: How can one make sense of this dismal state of affairs of the municipality's not delivering on its commitment?

The purpose of this study is therefore to obtain a deepened understanding of why municipalities repeatedly fail to achieve clean audit outcomes. For this purpose, we selected the Amathole District Municipality and its constituent local municipalities as a case study in an attempt to make sense of their response to the recommendations made in the AGSA reports to improve their audit outcomes. Therefore, this chapter

- provides an overview of the theoretical considerations employed to make sense of this case;
- contextualises within the broader South African governmental framework;
- provides a brief chronology of the case since the 2009/2010 reporting year; and, finally,
- applies selected theoretical lenses in an attempt to make sense of the case.

The sense-making process was informed by (but not confined to) a few theoretical lenses, as discussed in the next section.

THEORETICAL AND METHODOLOGICAL CONSIDERATIONS FOR MAKING SENSE OF THIS CASE

Sense-making is a well-established approach in the social sciences in general and in Public Administration in particular. It is usually applied to individuals or organisations to help understand unexpected behaviour or events (Weick 1993, 1995; Parris & Vickers 2005; Wessels & Naidoo 2019). In this case, sense-making is used by the researchers to understand the unexpected response of municipalities to recommendations by the AGSA. In response to the well-known questions posed by Weick – ‘Why do organisations unravel?’ (1993: 628), ‘What’s going on here?’ and ‘What do I do next?’ (Weick et al 2005: 412) – our study poses the following question: ‘Why do municipalities fail to achieve clean audit outcomes, despite specific recommendations to them by the AGSA on how to address reported issues?’

As indicated in the introduction to this chapter, the vast majority of municipalities in South Africa appear to refrain from adequately implementing AGSA recommendations for improving and correcting irregularities, mismanagement and fraud, with the result that audit outcomes continue to deteriorate year after year. The Amathole District Municipality, with its constituent local municipalities, appears to be a typical case in showing persistent poor audit outcomes. Instead of approaching this study from a single predetermined theoretical perspective, we therefore decided to apply several theoretical lenses or frames (Klein & Moon 2006; Klein, Moon & Hoffman 2006; Moore & Hoffman 2011) in an attempt to make sense (Starke 2018: 145) of the facts of this case necessary to the most plausible and nuanced understanding possible of the persistent poor audit outcomes of the selected case.

Our sense-making process was informed by the Data/Frame Theory, which postulates that the primary function of frames or theoretical lenses is recognition (Klein et al 2006: 90). Therefore, in our attempt to make sense of this specific case, we framed our search for diagnostic information broadly within the scope of the relationship between key role-players, such as the local communities, the auditee (the South African municipalities) and the auditor (the AGSA), and also concepts, including ‘financial statements’ and ‘audit outcomes’. This sense-making process is therefore framed to focus on the inability of those municipal role-players who are legally obliged to implement the recommendations of the AGSA to effect improved financial statements for the subsequent financial year. This study consequently takes notice of the legal responsibilities and obligations of these role-players (AGSA 2019: 37) and those factors that may impede their ability to fulfil them.

In an effort to understand this unexpected continuous regression of audit

outcomes, several theoretical lenses were considered to help with understanding this poor state of affairs. These lenses focus predominantly on the role of the auditor in a broader relationship between principal and agent. Examples of these theories include the Policeman Theory (Duits 2012); the Lending Credibility Theory (Ittonen 2010); the Theory of Inspired Confidence (Duits 2012); the Agency Theory (Duits 2012; Bendickson et al 2016); and the Stewardship Theory (Van Puyvelde et al 2012).

The Policeman Theory, for example, seems to focus predominantly on the auditor (serving the interests of the owner of a business or the citizens of a country) acting as a policeman uncovering fraud and irregularities (Hayes et al 2005: 44). Similarly, the Lending Credibility Theory focuses primarily on the auditor's function to add credibility to the financial statements of the auditee, in that way enhancing confidence and trust among their stakeholders, owners or citizens (Ittonen 2010: 4). Furthermore, the Theory of Inspired Confidence has been shown to expect the auditor not to raise greater expectations in his report than what is justified by his investigation (Duits 2012: 23). Finally, the Agency Theory attempts to explain the separation of an institution's ownership and control by postulating a relationship between two parties, namely, the principal (the owner of a business or the citizens of a country) and the agent (the management of a company or a government institution). In this relationship, the principal appoints an agent to execute some tasks on its behalf (Ackers 2014: 47). This theory suggests that

as a result of information asymmetries and self-interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic behaviour (Institute of Chartered Accountants 2005: 6).

A more recent development from the Agency Theory is the Stewardship Theory. Whereas the agency theory assumes that agents have a low identification with an organisation (eg the state or a government sector), the stewardship theory holds that agents 'have a large identification with the mission of the organisation' such as the state or a government sector (Van Puyvelde et al 2012: 436). In the field of Public Administration, these theoretical perspectives relate to, and may enrich, the literature on public accountability and the social contract (Blair 2000; Kochis 2005; Heald 2012; Welch 2012; Devarajan et al 2014; Kroukamp 2016; Waseem, Sana & Bushra 2016).

In the public sector, a combination of the principal–agent relationship and the stewardship relationship takes the form of the local community within its boundaries as principal and the municipal administration under the leadership of the municipal manager, senior managers and the political leadership (therefore the mayor and councillors) as agent (Pilcher et al 2013: 8; Kwaza 2017: 50; AGSA 2019: 35). In the principal–agent relationship, the auditor plays a critical role in holding these agents accountable to their respective principals (Pilcher et al 2013: 7). The combined application of the agency and stewardship theories is not only useful for understanding public accountability; it also serves to enhance a deep understanding of the contribution of audits in strengthening accountability, reinforcing trust in the financial reporting process (Institute of Chartered Accountants 2005: 5) and empowering the agent to improve its audit outcomes. Therefore, this theory has been selected for this study for its usefulness in aiding understanding of the actions and interactions of the main role–players.

While an abundance of data on the financial health of South African local government is available, this study was primarily interested in those data and the information necessary to shedding more light on the reasons for municipalities' repeated failures to achieve clean audits, despite interventions to the contrary. This sense-making process was therefore informed primarily by official documents and a survey among councillors and officials from the selected municipalities.

A considerable number of official documents in the public domain were used as part of the document analysis, including these:

- the Constitution, 1996;
- national legislation, regulations and policy documents;
- the relevant annual reports of the AGSA;
- annual reports of national departments and the selected municipalities;
- annual AGSA audit reports of the selected municipalities;
- various newspaper reports relating to the selected municipalities; and
- the webpages of institutions, including the selected municipalities, the AGSA, the Department of the National Treasury and the Department of Cooperative Governance and Traditional Affairs (DCoGTA).

The primary data were originally collected as part of a postgraduate study by one of the authors of this chapter (Kwaza 2017). The target population was selected from the four municipalities (the case for this study) and consists of those key role–players responsible for monitoring the implementation of audit plans. The target population therefore comprised senior officials, political office-bearers (including members of the mayoral committees), members of the Audit Committees, members of the Performance Audit Committees and members

of the Municipal Public Accounts Committees (Kwaza 2017: 135). These committees were also used as mechanisms to monitor the implementation of the audit action plans in their municipalities. This target population consisted of 384 individuals, of whom 224 (58,3%) responded (Kwaza 2017: 133, 151). It is noteworthy that only 11,8% of the respondents were councillors, about 43% of respondents were either middle-level or top-level managers, while approximately 56% of the respondents had ten years' or longer experience in their municipalities (Kwaza 2017: 53–154).

After careful consideration of the ethical implications and subsequent eligibility of this research project for research ethics review (Wessels & Visagie 2017), research ethics clearance to involve human participants in this study was obtained from the Research Ethics Committee of the University of Fort Hare. Furthermore, endorsement for conducting the study was obtained from the accounting officers of the selected municipalities. The research team treated the confidential official information provided by these municipalities with the necessary respect and care.

The next section provides an overview of the South African local government system as the context for this study.

CONTEXT OF LOCAL GOVERNMENT IN SOUTH AFRICA

Municipalities in South Africa are constituted by Chapter 7 of the Constitution of the Republic of South Africa, 1996, as part of the local sphere of government with a right to govern local government affairs subject to national and provincial legislation (RSA 1996: s 151). In executing their constitutional rights, municipalities are bound and directed by the constitutional principles of co-operative government and intergovernmental relations (RSA 1996: Chapter 3), and they are subject to those institutions created to strengthen constitutional democracy in South Africa (RSA 1996: Chapter 9). One of these institutions is the AGSA, the function of which is to audit and report on the accounts, financial statements and financial management of all municipalities (among other state institutions). For this reason, each municipality prepares and submits annual financial statements for each financial year to the AGSA for auditing (RSA 2003: ss 121–129). The AGSA audits the financial statements of a municipality (Kwaza 2017: 6; RSA 2003: s 126(3)), then an audit report, with audit findings, audit outcomes and recommendations to deal with matters raised in the report is submitted to the accounting officer of the municipality (RSA 2004: s 20). If a municipality adequately responded to the recommendations made by the AGSA in a previous year's report, it can be expected that the annual financial statements

for the subsequent year will receive an improved audit outcome (provided that no new issues were raised) from the AGSA.

Although it is not a Chapter 9 institution, the Department of CoGTA (DCoGTA) plays an equally important role in strengthening constitutional democracy in South Africa. The mandate of this department, derived from Chapters 3, 7 and 13 of the Constitution (RSA 1996), is ‘to develop national policies and legislation with regard to Local Government, and to monitor, inter alia, the implementation’ of a myriad legislation applicable to local government and intergovernmental relations (DCoGTA 2014: 24). In terms of this mandate, DCoGTA conducted an assessment of the state of local government in 2009, directed by the question: ‘What is the state of local government in 2009 and what must be done to restore the confidence of our people in this sphere of government by 2011 and beyond?’ (DCoGTA 2009b: 5). The report referred, among other things, to the challenges of significant service-delivery backlogs, leadership and government failures, corruption and fraud, poor financial management, insufficient capacity due to a lack of scarce skills, high vacancy rates, poor performance management and inadequate training. With respect to the dire state of financial management, the report highlighted challenges such as an inability to comply with the financial management system, poor audit reports and an inability to manage their annual financial statements. Local governments’ ability to honour their financial and service-delivery commitments were evidently at risk (MacMaster 2019: 14, 72). These challenges reportedly ‘[impact] negatively on service delivery for communities’ (DCoGTA 2009b: 55). The report, moreover, suggested that the ‘policy context for financial management may be over sophisticated for many municipalities, and expectations too high’ (DCoGTA 2009b: 63) and subsequently proposed a differentiated approach to financial management for municipalities.

Following the above-mentioned State of Local Government Report, in November 2009 DCoGTA published a Local Government Turnaround Strategy (DCoGTA 2009a). According to this strategy, municipalities should ‘reflect on their own performance and identify their own “tailormade” turnaround strategies’ focusing on, among other objectives, the achievement of ‘sustaining clean audit outcomes by 2014’ (DCoGTA 2009a: 20–21). This gave rise to the launch of the ambitious Operation Clean Audit by the then Minister for CoGTA in 2009. Its objective was that all municipalities and provincial departments should achieve clean audits on their financial statements by 2014 (DCoGTA 2009a; Parliamentary Monitoring Group 2012; Powell et al 2014: 1). The term ‘clean audit’ is used when referring to the highest category of audit outcome: an unqualified audit outcome with no findings (see Table 1 for a full exposition of the six audit outcome categories).

Table 1: Categories of audit outcome used by the AGSA

	Category	Meaning	Similar descriptions for category
1	Unqualified with no findings	No material misstatements were found in the financial statements No material findings on (a) reporting on performance objectives or (b) non-compliance with legislation.	Clean audit Unqualified financial statements
2	Unqualified with findings	Financially unqualified, with findings on (a) reporting on performance objectives and/or (b) non-compliance with legislation.	Financially unqualified Unqualified financial statements
3	Qualified with findings	The financial statements contain material misstatements ¹ in specific amounts, or insufficient evidence for AGSA to conclude that specific amounts included in the financial statements are not materially misstated.	Modified opinion Outstanding audits and qualified financial statements
4	Adverse opinion with findings	Material misstatements that substantially affected the credibility of the financial statements.	Modified opinion Outstanding audits and qualified financial statements
5	Disclaimer of opinion with findings	Insufficient evidence was provided upon which to base an audit opinion.	Modified opinion Outstanding audits and qualified financial statements
6	Outstanding audits	Failure to submit financial statements for audit.	Outstanding audits and qualified financial statements

Source: Adapted from Powell et al 2014: 4

The objective of a clean audit outcome (read: unqualified audit outcome with no findings) for all South African municipalities was not met, as only 14% of the municipalities managed to achieve the clean (unqualified with no findings) audit outcome target in the 2013/14 financial year (AGSA 2015c: 24). However, while the target set in 2009 was not nearly met, Table 2 indicates a slight but steady improvement in the audit outcomes of local governments in South Africa since the 2010/2011 financial year.

1 'A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects' while a misstatement refers to incorrect 'or omitted information in the financial statements or annual performance report' significant enough to influence the opinions of users of the reported information (Powell et al 2014: 4).

Table 2: Comparison of the consolidated audit outcomes for local government for the years 2009/2010 and 2014/2015

	Category	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Municipalities reported on	283	283	278	278	278	278
1	Unqualified with no findings	7 (3%)	13 (5%)	9 (3%)	22 (8%)	40 (14%)	54 (19%)
2	Unqualified with findings	122 (43%)	117 (42%)	107 (39%)	98 (35%)	109 (39%)	109 (40%)
3	Qualified with findings	61 (21%)	55 (20%)	68 (24%)	83 (30%)	71 (26%)	76 (28%)
4	Adverse opinion with findings	7 (3%)	9 (3%)	4 (1%)	9 (3%)	3 1%	4 (1%)
5	Disclaimer of opinion with findings	77 (27%)	84 (30%)	90 (33%)	66 (24%)	55 (20%)	29 (10%)
	Audit reports no issues	9 (3%)	0	0	0	10 (4%)	6 (2%)

Source: AGSA, 2011b, 2012c, 2013c, 2014c, 2015c, 2016

The dismal state of the financial affairs of local government in South Africa as reflected in their audit outcomes (AGSA 2018: 52) is difficult to understand considering the interventions initiated by the DCoGTA since 2009 and the specific recommendations for improvement by the AGSA. Moreover, the continuation of this state of affairs without obvious consequences for the accountable role-players does not make sense in the light of the stipulation in the Municipal Finance Management Act 56 (MFMA) of 2003 that a 'municipality must address any issues raised by the Auditor-General in an audit report ... within 60 days' (RSA 2003: s 131). It is therefore confounding why municipalities seemingly do not adhere to this legal imperative.

Bearing in mind the emerging best practices referred to in the introduction to this chapter, namely timeous response to the AGSA's recommendations, credible and proactive audit action plans, action plan implementation and continuous monitoring, the current study set out to explore:

- the extent to which audit action plans were prepared in time;
- the credibility and appropriateness of responding audit action plans;
- whether and how the prepared audit action plans were implemented;
- the monitoring of the implementation of audit action plans; and
- the possible existence of other factors that may contribute to the non-achievement of an unqualified audit outcome with no findings.

In an attempt to make sense of the items listed here, this study specifically explores the chronology of the Amathole District Municipality as a case of financially poorly performing municipalities in South Africa.

CHRONOLOGY OF THE AMATHOLE DISTRICT MUNICIPALITY RESPONSES TO THE AGSA AUDIT RECOMMENDATIONS FOR THE REPORTING PERIODS 2009/2010 TO 2014/2015

As stated in the introduction to this chapter, we selected the Amathole District Municipality and its constituent local municipalities to make sense of municipalities' apparent inability to implement the AGSA recommendations to improve their audit outcomes. This section provides a chronological narrative of this specific case for the period 1 July 2009 to 30 June 2015.

Amathole District Municipality as a typical case for this study

Amathole District Municipality is situated in the central part of the Eastern Cape. It stretches along the Sunshine Coast from the Fish River Mouth and along the eastern seaboard to just south of Hole in the Wall along the Wild Coast. It is bordered to the north by the Amathole Mountain Range. As a category C municipality (RSA 1996: s 155), it has municipal executive and legislative powers in an area that includes more than one municipality (RSA 1998: s 1).

The district is one of six district municipalities in the Eastern Cape province of South Africa (see Map 1) with the third largest population of 914 842 people. According to 2016 Community Survey Data (Wazimap 2020), the district area covers approximately 21 717 square kilometres (40,6 pp/km²), of which 60% is classified as rural (Amathole District Municipality 2018: 20). Only 17,8% of the population of 15 and older are employed, with an average monthly income of ZAR15 000 (Wazimap 2020). The average weighted monthly household income of this district is below the Eastern Cape average, although there has been a reported gradual decrease in the income inequality in the district (Amathole District Municipality 2018: 34–36). The data regarding the education level of the people in this district show that roughly 58% of the population 15 years and older completed Grade 9 or higher, while only 24,5% completed matric or higher (Wazimap 2020). Of the population, 67,6% receive water from the municipality, while 13% receive piped water inside their yard (Wazimap 2020).

This municipality comprises six local municipalities: Mbhashe, Mquma, Great Kei, Amahlathi, Ngqushwa and Raymond Mhlaba (see Map 2). These local municipalities are categorised in terms of the Constitution of 1996 as category B municipalities (RSA 1996: s 155). While the functions and powers of municipalities are assigned by sections 156 and 229 of the Constitution, the division of the powers of the respective district and local municipalities is ruled by Chapter 5 of the Municipal Structures Act of 1998 (RSA 1998). The district and local municipalities are bound by a collective, integrated development plan in terms of which their respective responsibilities and procedures for consultation, co-operation and co-ordination are clarified (RSA 2000: s 27).

For this study, the case consists of the Amathole District Municipality and three of the six local municipalities: Amahlathi, Mbhashe and Ngqushwa.



Source: Municipalities of South Africa 2020

Map 1: The various district municipalities in the Eastern Cape province



Source: Amathole District Municipality 2020

Map 2: Amathole District Municipality and its constituent local municipalities

Audit outcomes and drivers of the selected municipalities for the period 2009/2010–2014/2015

As mentioned earlier, the Amathole District Municipality forms part of a network of municipalities in the province and the country at large. In the context of the ambitious vision of the relevant minister in 2009 that all municipalities and provincial departments would achieve clean audits on their financial statements by 2014, it is perhaps not surprising that the Executive Mayor of the District Municipality made a similar promise in April 2012 (Kwaza 2017: 227). However, an analysis of the consolidated general reports on audit outcomes of local governments for the period 2009/2010–2014/2015 confirms that none of the selected municipalities received an unqualified audit outcome with no findings (see Table 3). Consequently, this study proceeds to search for plausible reasons why they fail to achieve clean audit outcomes. In reports on their audit outcomes, the AGSA attempted to raise the matter by identifying certain best practices, namely, the timeous implementation and monitoring of credible action

plans (AGSA 2019: 12, 39, 115), but also the non-adherence to certain drivers of internal control, such as leadership, financial and performance management and governance (AGSA 2019: 166–167). The audit outcomes of the four selected municipalities are accordingly analysed in search of an improved understanding.

These four municipalities share a common district. However, a review of the audit outcomes over a period of six years revealed sharp differences between them, with the Ngqushwa Local Municipality consistently under-performing in comparison to the others. The respective audit outcomes of the four municipalities over the period of investigation are summarised below.

The Amahlathi Local Municipality includes the towns of Stutterheim, Cathcart, Keiskammahoek and Kei Road, as well as several peri-urban and rural settlements (Amathole District Municipality 2018: 21). As reflected in Table 3, the audit outcomes for this municipality varied between ‘unqualified with issues of audit emphasis’ (2009/2010, 2012/2013 and 2014/2015) and ‘qualified’ (2010/2011, 2011/2012 and 2013/2014).

Amathole District Municipality is responsible for the geographic territory of all six local municipalities (Amathole District Municipality 2018: 21). As depicted in Table 3, the Amathole District Municipality received a ‘qualified’ audit outcome during 2009/2010. However, in the following financial year, the municipality improved its audit outcomes from a ‘qualified’ to an ‘unqualified’ audit outcome.² After that, the municipality received an unqualified audit outcome for five consecutive years.

The Mbashe Local Municipality includes the towns Idutywa, Elliotdale and Willowvale as well as several peri-urban and rural settlements (Amathole District Municipality 2018: 22). As reflected in Table 3, this municipality received a ‘disclaimer’ audit outcome for the 2009/2010 financial year. However, in the following financial year, the municipality improved its audit outcomes from a ‘disclaimer’ to a ‘qualified’ audit outcome. Thereafter, the municipality received a ‘qualified’ audit outcome for five consecutive years.

2 The AGSA report does not indicate whether this opinion is unqualified with findings or unqualified without findings (see AGSA 2011a).

Table 3: Comparison of the consolidated audit outcomes for the selected municipalities for the years 2009/2010 and 2014/2015

Municipality	Financial period	Disclaimer	Adverse	Qualified	Unqualified with issues of audit emphasis	Clean Audit – Unqualified Without any issues of audit emphasis
Amahlathi Local Municipality	2009/2010				✓	
	2010/2011			✓		
	2011/2012			✓		
	2012/2013				✓	
	2013/2014			✓		
	2014/2015				✓	
Amathole District Municipality	2009/2010			✓		
	2010/2011				✓	
	2011/2012				✓	
	2012/2013				✓	
	2013/2014				✓	
	2014/2015				✓	
Mbhashe Local Municipality	2009/2010	✓				
	2010/2011			✓		
	2011/2012			✓		
	2012/2013			✓		
	2013/2014			✓		
	2014/2015			✓		
Ngqushwa Local Municipality	2009/2010			✓		
	2010/2011	✓				
	2011/2012	✓				
	2012/2013	✓				
	2013/2014	✓				
	2014/2015	✓				

Source: Information obtained from Kwaza 2017

The Ngqushwa Local Municipality comprises the town of Peddie, the coastal town of Hamburg as well as several peri-urban and rural settlements. As reflected in Table 3, the Ngqushwa Local Municipality received a ‘qualified’ audit outcome for the 2009/2010 financial year. However, in the following financial year, the

municipality regressed to a ‘disclaimer’ audit outcome. After that, the municipality consistently received a ‘disclaimer’ audit outcome for five consecutive years.

As far back as in 2011, the AGSA, in an effort to encourage clean administration, identified three control categories to become key drivers of improved audit outcomes: leadership, financial performance and management, and governance (AGSA 2011b: 1, 45). Specific indicators for these drivers were identified (see Table 4 for a brief summary).

Table 4: Brief summary of the AGSA audit outcome drivers and their indicators

	Leadership	Financial performance and management ³	Governance
Indicators	<ul style="list-style-type: none"> • Provide effective leadership • Exercise oversight • Implement effective HR management • Establish and communicate policies and procedures • Develop and monitor implementation action plans • Develop and monitor implementation action plans in the IT environment • Establish IT governance framework 	<ul style="list-style-type: none"> • Implement proper record-keeping • Implement controls • Prepare regular, accurate and complete financial and performance reports • Review and monitor compliance with legislation and regulations • Design and implement formal controls over IT systems • Application systems that generate financial statements susceptible to compromised data information 	<ul style="list-style-type: none"> • Ensure the audit committee promotes accountability and service delivery • Ensure there is an adequately resourced and functioning internal audit unit • Implement appropriate risk-management activities

Source: AGSA 2011b: 60–62

The AGSA furthermore argued that deficiencies in one or all of these drivers could be directly linked to audit opinions on the financial statements, findings on predetermined objectives and findings on compliance with laws and regulations. While these observations were made in the consolidated report on the local government audit outcomes for the reporting period 2009/2010, an analysis of the audit reports for the municipalities selected for this study revealed that these drivers were integrated in the individual annual audit reports for these municipalities.

The AGSA determined specific findings and implied recommendations in their respective audit reports to the municipalities in this district regarding improvements in the drivers of leadership, financial performance and management, and governance for the period 2009/2010 to 2014/2015. These recommendations are summarised below for each reporting period.

3 Financial management in this context includes responding to ‘prior year financial statement qualification findings’ (AGSA 2011b: 14).

2009/2010 reporting period

The bulk of the findings for this period relate to inaccuracies in the recording of information such as commitments, revenue, leave credits and unauthorised expenditure (AGSA 2010a, 2010c, 2010d; Kwaza 2017). A second common category of findings relates to incorrect allocations, restatements and valuations of figures, assets and equipment. The over- and understatement of either receivable balances or irregular expenditure, the lack of supporting records or documentation for employee-related costs and instances of non-compliance with legislation were also reported.

The integrated summary of audit findings for 2009/2010 provided in Tables 2 and 3 revealed severe challenges, such as weaknesses in the control environment, inadequate and insufficient systems, material non-compliance with key legislation, regulations, policies and procedures, and shortcomings with oversight (AGSA 2010a, 2010c, 2010d; Kwaza 2017). All the audit reports concluded with a section on leadership, financial performance management, and governance as factors (as implied recommended improvements) contributing to the reported state of affairs. These are summarised in Table 5.

Table 5: Summary of factors contributing to audit outcomes (2009/2010)

Factor	Instances of ...
Leadership	<ul style="list-style-type: none"> • Not setting a tone conducive to solving serious financial reporting issues • Lack of oversight over municipal policies and procedures, as well as over the preparation of financial statements • Inadequate supervision and review of internal controls
Financial performance and management	<ul style="list-style-type: none"> • Absence of a performance management system • Outdated and inappropriate policies and manuals, lack of controls • Lack of effective record and asset management systems • Lack of a metering system to measure water losses
Governance	<ul style="list-style-type: none"> • Audit committees were not operational • Internal audit functions were not functional or effective • Risk management non-existent, with only one approved risk-management plan

Source: AGSA 2010a, 2010b, 2010c, 2010d

2010/2011 reporting period

This reporting period showed an equally high frequency of findings related to incorrect classifications of expense items, property and equipment, and revenue figures (Kwaza 2017: 91–92). At a more systemic level, the lack of a contract management system and key documentation was mentioned, as were challenges related to out-of-date systems for capital commitments, processes for financial management related to revenue, VAT, lease commitments, trade

receivables, contingency liabilities and the budget process (AGSA 2011a). The non-compliance with legislation and regulations surfaced again, with specific reference to procurement and contract management. In addition, there were issues of non-application of the requirements of the Municipal Finance Management Act 56 of 2003, the Municipal Systems Act 32 of 2000, the Municipal Structures Act 117 of 1998, regulations and the Generally Recognised Accounting Practice (GRAP) for property, plant and equipment (the so-called GRAP 17) (AGSA 2011d, 2011c). Findings related to the understatement of irregular expenditure, receivables and leave accrual may raise concerns about the ethical inclinations of staff members.

The integrated summary of the audit outcomes for the reporting period 2010/11 provided earlier in this chapter once again reported on systemic deficiencies (AGSA 2011a); non-compliance with legislation, particularly internal policies and procedures; and a lack of oversight and accountability (AGSA 2011c). This reporting period presented an equally high frequency of findings related to incorrect classifications of expense items, property and equipment, and revenue figures (Kwaza 2017: 91–92). The AGSA's reporting and subsequent recommendations on the identified drivers to improve audit outcomes are summarised below (see Table 6).

Table 6: Summary of factors contributing to audit outcomes (2010/2011)

Factor	Instances of ...
Leadership	<ul style="list-style-type: none"> • Enduring suspension of senior managers • Acting appointments • Absence of administrative leadership • Restraint in monitoring, controlling, oversight and accountability
Financial performance and management	<ul style="list-style-type: none"> • Inadequate systems for <ul style="list-style-type: none"> – supporting credible financial statements; – up-to-date accounts and commitments, and – adequate and timely reviews of expenditure and transactions • Lack of adequate systems to enhance and monitor compliance
Governance	<ul style="list-style-type: none"> • Capacity constraints • Inadequately resourced internal audit function • Risk-management process not in place • Lack of response or monitoring of identified risks

Source: AGSA 2011a, 2011c, 2011d

2011/2012 reporting period

Most of the findings for this period relate to inaccuracy, incorrectness, overstatements, understatement, non-disclosure, non-compliance and a lack of supporting documentation (AGSA 2012e; Kwaza 2017: 93–94). Not only are

these findings mostly a repetition of findings from the previous years, but they constitute an ongoing trend of financial mismanagement. Procurement and contract management once again caused the AGSA to report irregular incorrect transactions and activities (AGSA 2012d).

In addition to the AGSA findings for the 2011/2012 reporting period regarding the enduring trend of, for instance, inaccurateness, incorrectness, overstatements, understatements, non-disclosure, non-compliance and a lack of supporting documentation (AGSA 2012e; Kwaza 2017: 93–94), specific findings and implied recommendations were made on the leadership, financial and performance management, and governance of these municipalities (see Table 7).

Table 7: Summary of factors contributing to audit outcomes (2011/2012)

Factor	Instances of ...
Leadership	<ul style="list-style-type: none"> • Leadership instability caused by political infighting and suspensions • Vacancies of key management positions • Lack of capacity to monitor and oversee • Inappropriate and malicious attitude to compliance with legislation
Financial performance and management	<ul style="list-style-type: none"> • Lack of required institutional capacity • Over-reliance on consultants and the audit process to improve financial performance and management • Need for adequate record management and performance management systems • Need for adequate processes of assigning responsibilities to ensure compliance with relevant legislation and regulations
Governance	<ul style="list-style-type: none"> • Incapacity of the various governance structures • Inability to monitor compliance with legislation and regulations • Inefficiency of the internal audit function in some of the municipalities • Inability of audit committees to evaluate and monitor response to possible risks effectively

Source: AGSA 2012a, 2012b, 2012c, 2012d, 2012e

2012/2013 reporting period

A general qualification of audit findings during this period relates to inadequate record management such as asset registers and supporting documents for transactions (AGSA 2013a). In addition, the findings revealed a general trend of non-performance against predetermined financial and service delivery objectives and materially unprepared financial statements being submitted for auditing. As in the previous reporting period, the integrity of reporting appears doubtful, as is evident from either an overstatement of property, plant and equipment or an understatement of irregular expenditure or non-current assets held for sale (Kwaza 2017: 98–101).

The reporting period 2012/2013 revealed a continuation in inadequate

record management (AGS 2013a), performance management and the suspicious integrity of reporting (Kwaza 2017: 98–101), to mention only a few of the problems. The implications for the drivers of leadership, financial performance management, and governance are summarised in Table 8.

Table 8: Summary of factors contributing to audit outcomes (2012/2013)

Factor	Instances of ...
Leadership	<ul style="list-style-type: none"> • Replacement or suspension of senior managers • Reluctance or inability to exercise oversight responsibility • Inadequate action plans, policies and procedures, information technology systems • Lack of regular reviewing of monthly reports • Over-reliance on the auditing process to update their records • Improvements not systemic and sustainable
Financial performance and management	<ul style="list-style-type: none"> • Inadequate habits and systems, resulting in poor audit outcomes • Poor financial performance and management habits • Non-implementation of daily and monthly controls • Absence of a proper filing or record system • Dysfunctional information technology systems and inappropriate procurement systems • Not creating a sustainable platform of capable officials to enhance the improvement of audit performance towards unqualified audit outcomes with no findings • No adequate processes for assigning responsibilities and compliance
Governance	<ul style="list-style-type: none"> • Audit committees and internal audit units did not perform optimally • Governance systems unsuccessful in steering municipalities towards unqualified audit outcomes with no findings

Source: AGSA 2013a, 2013b, 2013d, 2014e

2013/2014 reporting period

The most prominent and general qualification of audit findings during this period relates to instances of inadequate systems and reporting, non-compliance with legislation and irregular expenditure of public money (AGSA 2014a, 2014e; Kwaza 2017: 104–106). To make matters worse, in some cases these irregular expenditures were understated or misrepresented in the financial statements. Other instances of misrepresentation were also reported, such as non-quantifying of material losses incurred by, for example, water leaks, and misstatement due to the incorrect calculation of the cost of road infrastructure. The continuing lack of systems supporting sound financial administration surfaced once again during this period. Table 9 provides a brief summary of the factors contributing to the audit outcomes for the reporting year 2013/2014.

Table 9: Summary of factors contributing to audit outcomes (2013/2014)

Factor	Instances of ...
Leadership	<ul style="list-style-type: none"> • Prolonged vacancies in key senior management positions • Inadequate oversight • Inadequate provision of resources • Inadequate review of annual performance reports • Non-implementation of controls • Reluctance to investigate instances of irregular, unauthorised, fruitless and wasteful expenditure • Inability to execute proper and timeous action plans to respond to previously reported deficiencies
Financial performance and management	<ul style="list-style-type: none"> • Prevailing inadequate administrative systems • Lack of basic filing systems for recordkeeping and for supporting financial and performance management material • Inadequate control and monitoring systems
Governance	<ul style="list-style-type: none"> • Inefficient and ineffective audit committees, internal audit units and risk management • Non-implementation of AGSA recommendations by internal audit units and audit committees • Material misstatements in financial statements • Risk management processes ineffective • Non-detection and prevention of instances of material non-compliance

Source: AGSA 2014a, 2014b, 2014c, 2014d, 2014e, 2014f

2014/2015 reporting period

The audit findings and qualifications during this period continue to focus primarily on severe systemic shortcomings, non-compliance with legislation (even for unqualified outcomes) and the unauthorised and irregular expenditure of public money (AGSA 2015a, 2015b; Kwaza 2017: 108–119). The following severe systemic aspects have been raised repeatedly: lack of adequate systems to maintain records of accounts payable for goods and services not yet paid for; insufficient processes for recording and recognising irregular expenditure; and the unavailability of supporting documents requested by the auditors. The trend of discovering irregular and unauthorised expenditure appears to continue from the previous reporting periods. These findings include items such as expenditure in excess of approved budget items; the understatement of irregular expenditure; fruitless, wasteful expenditure; and material losses.

The above integrated summary of audit outcomes revealed a continuation of endemic financial mismanagement and accountability challenges experienced by the selected municipalities. These challenges remained despite detailed recommendations by the AGSA to the respective accounting officers, which are summarised in Table 10.

Table 10: Summary of factors contributing to audit outcomes (2014/2015)

Factor	Instances of ...
Leadership	Sustained leadership instability Prolonged vacancies in senior management positions Correct tone not set for compliance with legislation and regulations Inability to secure a conducive environment for improved audit outcomes Insufficient and inappropriate systems and resources
Financial performance and management	Lack of a record management system Blunt non-performance or neglect Non-preparation of regular, accurate and complete financial reports Non-existence of monitoring of compliance with legislation and regulations
Governance	A shift in emphasis from non-existence to the quality of internal audit, audit committees and the risk-management performance Non-adherence to and non-implementation of recommendations by governance role-players Material misstatements in the financial statements and material non-compliance in the audit process

Source: AGSA 2015a, 2015b, 2015d

The preceding chronology of audit outcomes and drivers of the selected municipalities in the Amathole District for the period 2009/2010–2014/2015 revealed that none of these municipalities succeeded in obtaining an unqualified audit outcome with no findings as envisioned in 2009 by the relevant minister and in 2012 by the then Executive Mayor of Amathole District Municipality.

Our analysis of the audit reports for these municipalities for the reporting periods 2009/2010 until 2014/2015 reveals minor improvements in the audit findings of three of the four municipalities, while the other municipality experienced a total regression to a ‘disclaimer’ status. Furthermore, by applying the three drivers identified by the AGSA as diagnostic instruments, this analysis revealed deep-seated and sustained deficiencies in these municipalities with regard to leadership, financial and performance management, and governance. The next section reports on a survey of key municipal role-players in these four municipalities regarding their perspectives on the municipalities’ non-performance in the direction of improved audit outcomes according to the success factors identified by the AGSA.

Perspectives of municipal councillors and officials on responding to AGSA audit reports

While the preceding document analysis provides comprehensive evidence of the dismal state of affairs in these municipalities, this section sets out to present findings from a survey of key role-players involved in the financial health of

their respective municipalities, namely, council members and municipal officials (Kwaza 2017: 133, 151).

The survey's questionnaire was informed by the Local Government: Municipal Finance Management Act 56 of 2003, which stipulates that a 'municipality must address any issues raised by the Auditor-General in an audit report ... within 60 days' (RSA 2003: s 131), the AGSA's drivers for internal control (AGSA 2016: 148–149) and success factors for high-performing municipalities.

These drivers were again presented in the 2019 AGSA report as factors that may explain the underperformance of the majority of municipalities, specifically with regard to:

- (a) their timeously responding to the AGSA's recommendations;
- (b) the credibility and proactive nature of their audit action plans;
- (c) their actual implementation of these action plans; and
- (d) the continuous monitoring and implementation of these action plans (AGSA 2019: 12, 39, 115).

With these factors in mind, the purpose of the survey was to obtain the views of these key role-players on their municipalities' efforts to respond to the AGSA reports. An analysis of the survey results revealed that the majority of the respondents held the view that:

- their municipalities indeed prepared and implemented their audit action plans within the legislated timeframes (72% of the respondents);
- the selected municipalities indeed prepared credible audit action plans that address the root causes in the AGSA's audit of the previous year (61% of respondents);
- the selected municipalities indeed implemented the prepared audit action plans regularly (56% of respondents);
- the selected municipalities did properly monitor the implementation of the audit action plans through the Audit Committees, the Municipal Public Accounting Committees and Council (64% of respondents); and
- the instability in the municipality (politically and administratively) had affected the audit outcomes negatively (Kwaza 2017: 201–204).

The implication of the positive responses is that the audit outcomes of these municipalities should have been favourable. However, as has been shown in the previous section, the opposite is true. It is evident that the respondents' views do not correspond to the reported findings of the AGSA for the six reporting periods under investigation, as discussed in the previous section. The vexing question is

therefore: How can one make sense of these contradicting findings? The next section reports on the sense-making process.

MAKING SENSE OF WHY MUNICIPALITIES FAIL TO ACHIEVE UNQUALIFIED AUDIT OUTCOMES WITH NO FINDINGS

The purpose of this section is to report on a sense-making process driven by the question: ‘What is going on here?’ (Weick et al 2005: 412) – meaning that municipalities failed to achieve clean audit outcomes. As indicated earlier in this chapter, various theories have been used over the years to make sense of auditing, the role of the auditor and the value of the work done by auditors. Common to all these theories is an assumption of the presence of key role-players with distinct functions and subsequent interactions between them. As argued earlier in this chapter, the Agency Theory has been selected for the purposes of this study for its perceived usefulness in understanding the actions and interactions of the main role-players. In this specific case study, at least three categories of role-player can be identified:

- first, the electorate (the local community) of these municipalities who constitute the principal in this relationship;
- second, the political leadership (mayor and council members) who oversee and take decisions, together with the local government administrative leadership (municipal managers and senior managers) responsible for the administration and service delivery, collectively constitute the agent in this relationship; and
- third, the AGSA, who acts as agent for the principal (the local community) to oversee the agent (political and administrative leadership of the municipality).

As mentioned above, this sense-making process is informed by a combination of two related theories, namely the Agency Theory and the Stewardship Theory. Both theories set out to make sense of the relationship between the agent and the principal. The Agency Theory defines this relationship as a contract between the principal and the agent in terms of which the agent performs some functions on behalf of the principal (Jensen & Meckling 1976: 308). While this theory has been widely used in the governance literature, some scholars suggested that the Stewardship Theory supplements it to explain the behaviour of the role-players in the field of governance and auditing (Van Puyvelde et al 2012). It is especially the second branch of the Stewardship Theory – which assumes perfectly aligned goals between the agent and the principal – that is applicable to this case study (Van Puyvelde et al 2012).

This case study has shown that there is no alignment between the agent (municipal political and administrative leadership) and the principal (the local community as represented by the AGSA). The sustained poor audit outcomes reported by the AGSA indicate a discrepancy between the behaviour of the agent and the values of the local community as applied to the audit process. This section subsequently reports on a retrospective sense-making process to understand (a) the role of the auditing process (Why is an unqualified audit outcome with no findings desirable?), (b) the behaviour and orientations of the various role-players in this narrative, and (c) the real obstacles in the way of improving the audit outcomes of municipalities. The first question is discussed below.

Why is an unqualified audit outcome with no findings a desirable goal for municipalities?

In this study, the need to obtain a clean audit report is framed (in terms of both theories) as the product of the relationship between three role-players, namely the AGSA as auditor, the municipality as the auditee, and the council representing the local community whose money has been used as the principal. It is assumed that in terms of the Stewardship Theory, the goals of the principal (the local community) and the agent (municipal administrations – council members and municipal officials) are compatible and aligned. The primary assumption is that the principal expects the agent to render municipal services according to the standards determined by the Constitution of 1996 and all relevant legislation and regulations. The secondary assumption is that the agent's goal is to render public services according to the same standards. While the *de facto* relationship between the two role-players is probably one of trust and collaboration (councillors and officials work together to achieve shared and aligned goals), according to the Stewardship Theory, the governance mechanism of this relationship is one of monitoring and incentives in terms of the Agency Theory. The audit outcome is therefore a transparent confirmation of this relationship of trust and the realisation of the shared goals. The outcomes of the audit process may confirm the trust bestowed by the principal in the agent to act on their behalf (Stewardship Theory) or it may confirm the embedded approach of distrust and control in terms of the Agency Theory.

While the concept 'clean audit' (unqualified audit outcome with no findings) refers to the highest finding category by the AGSA on the accounts and reporting of a municipality, in terms of the Agency Theory it implies that although the agent may have passed the test of trust for the current reporting period, the underlying approach of this relationship will still be one of distrust – the performance of the agent will therefore be continuously be monitored by the AGSA. The meaning

of this category of audit finding needs to be understood as the product of the interactions and relationships among the role-players articulated by the Agency Theory. The history of no clean audit outcomes in the municipalities selected for this study supports the control approach of the Agency Theory.

How can one make sense of the behaviour of the various role-players regarding clean audit outcomes?

Three key role-players emerged from this study, namely, the municipality consisting of the council and the administration as the primary agent, the local community as principal and the AGSA as a sanitiser of this relationship between the principal and the agent. As expected, an abundance of information was available on the agent in this relationship. The analysis of the reports of the AGSA for the selected municipalities for the reporting periods 2009/2010 to 2014/2015 revealed major leadership (political and administrative) deficiencies. These were evident from the reported enduring vacancies in senior management positions, the lack of oversight, non-existent leadership regarding the crafting and implantation of action plans, inadequate systems for human-resource management, financial performance and management, information technology, risk management and compliance management. The implication of a persistent leadership vacuum is the reverting of the principal-agent interaction within the domain of the Agency Theory. The assumption is that officials without proper leadership cannot be trusted to perform their tasks according to the mutually agreed-upon goals and standards. The resulting approach is one of control (the Agency Theory) instead of collaboration (the Stewardship Theory), and monitoring (the Agency Theory) instead of empowering (the Stewardship Theory).

In addition, the lack of capable personnel is evident from the low quality and even non-existence of proper record-keeping and regular, accurate and complete financial and performance reports, to mention only three. For a deepened understanding of the agent capability deficiencies through the lens of the Stewardship Theory, it is necessary to question and investigate the governance mechanisms in the hope of empowering the agent.

Finally, the audit reports revealed the inadequate functioning of audit committees, internal audit functionaries and risk-management systems – all of them part of the internal oversight structures of the agent regulated by the Constitution, relevant legislation and regulations. In addition, sufficient evidence exists of municipalities' not meeting the standards set by the legislative and regulatory framework constituted by parliament (not the municipal council). Yet, this study has shown that the municipal officials and council members (being

the agent in this relationship) serving in the oversight structures have a shared perception that (a) their respective municipalities did prepare and implement credible audit plans timeously and regularly; and (b) the implementation of these plans was monitored by their constituting the oversight bodies. The agents are therefore overseeing themselves! The local communities as principal in this relationship are therefore evidently not active in this relationship. They do not even appoint the AGSA, who is supposed to be their agent, nor do they receive direct feedback from their agent as the audit reports of municipalities are submitted to the provincial legislature.

Municipalities, as agents in this relationship, appear to function sub-optimally. The reported examples of over-reliance on consultants or the auditing process for improved financial statements can be attributed either to a lack of goal alignment among permanent staff members, or to what Van Puyvelde et al (2012: 444) refer to as a situation of inappropriate staff due to an appropriate selection system – therefore inappropriate monitoring and incentives (Agency Theory) or empowering structures (Stewardship Theory).

Following this combined theory, the role of the AGSA can be framed as one that sanitises the principal–agent relationship. Simultaneously, in an effort to minimise agency costs for the principal (who is evidently not only the local communities but the national citizenry as represented by parliament) and enhance goal alignment, the principal can be expected to increase the level of monitoring on the agent by means of legislative instruments, various levels of public accounts committees and the AGSA (Van Puyvelde et al 2012: 436).

The implication of the combined agency and stewardship theories in striving for clean audits is therefore an approach in the direction of trust: it is a principal–agent relationship on the way to goal alignment, an increased identification of the agent with the state as organisation, a collectivist pattern of human behaviour, and a growing emphasis on empowering structures as governance mechanisms.

What are the fundamental obstacles in the way of clean audit outcomes, and how can we deal with them?

It has been reported above that the AGSA identified leadership, financial performance and management, and governance as the three key drivers of clean audit outcomes. The implication of this statement is that deficiencies in these drivers can also make them key obstacles to clean audits. Each of them is described below.

Leadership

Municipal leadership is expected to overturn deficiencies and set the tone in the way things are done. These expectations are closely aligned to the Stewardship Theory's emphasis on collaboration and trust, the aligning of goals, intrinsic motivation, a high identification with the organisation, a collectivist behaviour and empowerment (see Table 11). The expectation of municipal leaders is for them to have oversight over municipal policies and procedures and this is also aligned with the Stewardship Theory's focus on compatibility and the alignment of goals. The assumption, therefore, is that municipal leaders ensure that the municipal administration aligns its operations and behaviour with the policies and goals of the council (which is the principal in this relationship).

The reported reluctance or inability of municipal leaders to exercise their oversight responsibility implies that the municipal administration (the agent) is not meeting the objectives of the policies or goals set by parliament (the real principal!). Such a goal conflict in the principal–agent relationship may necessitate the exercise of more control and stricter monitoring by the principal. The widespread incidents of leadership instability, incapacity, incapability and prolonged vacancies are all symptoms of a severely disempowered principal–agent relationship and serious neglect of governance by both role–players.

Further research is necessary in order to invent new approaches to unravelling instances of municipal leadership failures. This is evident from the:

- inadequate provision of the necessary resources (a typically low organisational identification);
- inadequate review of annual performance reports (which will probably cause goal conflicts);
- non-implementation of adequate controls (reverting the agent–principal relationship into deeper levels of distrust); and
- inability to execute proper and timeous action plans to respond to previously reported deficiencies.

Financial performance and management

While the AGSA identified financial performance and management as a second key driver of a clean audit, the reports revealed that this driver is a primary obstacle in the selected municipalities. Success indicators for financial performance and management, which became failure indicators, are, for instance, outdated and inappropriate policies and manuals, a lack of institutional capacity, the absence of performance management systems, the lack of controls and a lack of effective record-keeping and asset management systems.

From an agency and stewardship perspective, the failure indicators of this

specific principal–agent relationship are centred on this relationship’s roots of trust, goals and governance. MacMaster (2019: 175) asks in a related study whether the over-regulation and ‘excessive compliance burden on local governments’ may not be too complex, costly and demanding for the local sphere of government. This question relates to the endemic over-reliance on both consultants and the audit process to improve the municipalities’ financial performance, which can be understood through the lens of organisational identification. The evident widespread incapacity of permanent officials – despite the work experience in these municipalities of more than ten years for 56% of the surveyed respondents – does not make sense and justifies further research.

Governance

Considering the two theoretical approaches, it can be assumed that the governance mechanisms may determine whether this relationship will be one of trust or distrust or a mixture of the two. The AGSA reported widespread and deep-rooted inefficiency and incapacity of the three main governance-enhancing structures, namely the audit committees, the internal audit function, and risk management. While these structures are classified as monitoring and incentive-providing functionaries in terms of the Agency Theory, they may also serve as a baseline for empowering structures. However, based on the negative reports by the AGSA on the functioning of these governance structures in these municipalities, it is difficult to understand the surveyed role-players’ general satisfaction with them.

The question that arises from the above is whether the standard to which the AGSA audits the activities of the agents (collectively political and administrative) in this relationship is the product of the principal (the municipal councils) or whether it is imposed from another sphere. This is a matter that justifies further research.

Considering that governance structures have been conceptualised at a national level and by professional experts in this area, and since the demographic profile of the Amathole District Municipality indicates a high unemployment rate and a relatively low level of education, further research may shed more light on the capability challenges that elected councillors face in the task of using the AGSA reports to hold their agents (municipal officials) accountable.

CONCLUSION

This study sets out to obtain a deepened understanding of why municipalities repeatedly fail to achieve clean audit outcomes. For this purpose, we selected the Amathole District Municipality and its constituted local municipalities as a case to determine their response to AGSA’s repeated recommendations to improve

their audit outcomes. This chapter reported on the theoretical considerations for making sense of this case, provided the context for this specific case within the broader South African governmental framework, and presented a chronology of the case since 2012. With the insights provided by the theoretical lenses of especially the Agency Theory and the Stewardship Theory, this chapter tried to make sense of this case.

As illustrated in this study, the drive towards clean municipal audit outcomes initiated by the national minister for CoGTA in 2009 failed to meet its target of all municipalities attaining this outcome. While the national percentage of municipalities receiving clean audit outcomes increased over this period from 3% to 19%, none of the municipalities in the Amathole District obtained that level of finding.

This study revealed enduring and deep-seated systemic leadership deficiencies, financial and performance management constraints, and ineffective and inefficient governance structures. When applying the various theoretical lenses of agency and stewardship to this case, this study showed promising traces of shared collaboration and aligned goals between the principal (parliament, representing the taxpaying citizens of the entire country) and the agent (municipal councillors and officials). However, the evident lack of officials and councillors capable of meeting the standards set by the relevant regulatory environment and emphasised by the reports of the AGSA appears to confirm low organisational identification and a culture of reliance on external monitoring and incentives to meet external standards. Furthermore, the evident lack of insight evidenced by the incapability of the agent to meet the requirements of a clean audit outcome gives reason to question whether these requirements represent the values of the principal (parliament) or whether they are imposed from another sphere. There is therefore just cause for questioning the theoretical assumption that a municipal council is the principal of the AGSA when the latter audits a municipality. The actual principal is probably situated in another sphere of government, and this result in the sustained low performance of leadership, financial and performance management, and governance in many municipalities.

Finally, the study suggests that the actual principal is perceived to be not the local community, but parliament, and this also results in the sustained low performance of leadership, financial and performance management, and governance in municipalities and an inability to meet the standards for obtaining unqualified audit outcomes with no findings.

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