

CHAPTER 5

Audit outcomes and the state of service delivery as indicators of the quality of governance: the case of Nelson Mandela metropolitan municipality

Kanyisa Z.D. Ntsundwana  & Reuben S. Masango 

Nelson Mandela University

Introduction

The transformation from the apartheid era to democracy allowed the South African government to rectify the imbalances of the past through legislation in anticipation of having the basic needs of South African citizens addressed. Municipalities are audited every financial year from 1 July to 30 June to ensure that state resources are being used in accordance with South African legislation. The Auditor-General, appointed in accordance with Chapter 9 of the Constitution, oversees mandatory audits, and their team is tasked with providing an audit opinion upon the completion of the process. Municipalities should aim to achieve a financially unqualified audit opinion without any findings, commonly referred to as a clean audit outcome. The Auditor General of South Africa (AGSA) audits a municipality's financial statements and performance reports according to predetermined objectives and its compliance with legislation. Audits are designed to ascertain whether municipalities are actively pursuing good governance, delivering services effectively, and fulfilling the criteria for obtaining a clean audit outcome.

In this research article, the qualitative research method is used. Setia (2017:367) views qualitative research as assisting researchers in obtaining a detailed understanding of a topic rather than generalisations. The document analysis is used as a data collection technique, and the desktop analysis is utilised to analyse the audit outcomes and the state of service delivery in the Nelson Mandela Municipality, as well as the relationship of these two variables to the quality of governance within this municipality from the 2015/2016 to 2019/2020 financial years. The concepts of governance, service delivery, and audit are discussed first. This is followed by a discussion of theories pertaining to governance and service delivery in municipalities, accompanied by an exploration of the narratives surrounding audit, governance, and service delivery within the context of the Nelson Mandela Bay Municipality.

The Concepts of Governance, Service Delivery and Audit

The South African legislation on the local sphere of government is intended to fast-track service delivery and to promote a positive relationship between the community and public officials (Mofolo & Smith, 2009:430). Service delivery is the core purpose or business of municipalities. In the 2010 State of the Nation address, Former President Jacob Zuma emphasised the imperative for government officials to increase their efforts in enhancing the delivery of essential services such as housing, water, sanitation, electricity, waste management, and roads. (Mle & Maclean, 2011:1370). Furthermore, good governance guarantees the manifestation of efficiency, integrity, honesty, accountability, and transparency in government leadership. This commitment fosters effective service delivery and sustainable community development.

Governance

Motubatse, Ngwakwe and Sebola (2017:93) explain governance as upholding political and administrative authority “as it is exercised in the management of a country’s affairs”.

Cloete and Auriacombe (2007:195) perceive governance as a “system of values, policies, and institutions” used to manage a municipality’s economic, political, and social affairs with the assistance of the community. Moreover, Motubatse et al. (2017: 91, 93) view public institutions as being defined by the term “governance”, which is an “autonomous self-governing network” using scarce resources for service delivery according to proper internal control systems. Van der Nest, Thornhill and De Jager (2018:545) define governance as involving strict measures to control state resources, maintain democracy, and benefit all citizens.

Matlala and Uwizeyimana (2020:1) maintain that governance is a process of safeguarding state resources entrusted by South African citizens to local government, which should be held accountable when it fails to deliver services to the people. Govender and Reddy (2019: 2) describe governance as a municipality’s responsibility to ensure that the human rights of citizens are not violated and service delivery is efficient and effective. Munzhedzi and Makwembere (2019:667) perceive governance as bringing about change and balance in public institutions and communities. Cloete and Auriacombe (2007:195) observe that governance in municipalities is supposed to involve trust and responsiveness between the municipality and community members, thereby embodying democratic values, which should determine policy objectives for sustainable community development.

Service delivery

Van Schalkwyk (2008:264) refers to service delivery in terms of basic services, such as the provision of water, health care, and security. Pauw, Van der Linde, Fourie and Visser (2015:159) explain service delivery as an act of developing and maintaining products and services to meet a community’s basic needs. This shows that service delivery is a means through which basic services are rendered to the inhabitants and their communities. Mofolo and Smith (2009:428) explain that the Constitution of South Africa of 1996 clearly states that the purpose of a local government is to provide services

to the citizens. Hence service delivery is the Constitutional mandate of local government. Khalo (2013:580) explains that the success of South Africa's government depends on the trust of the public. The public expects it "to serve their needs and interests with fairness and manage public resources in a fair and reliable manner through the system of service delivery". The concepts of delivery of services and financial management are interlinked. Services cannot be delivered if funds are not procured and properly managed (Ngwakwe, 2012:313).

Ndevu and Muller (2018:182) view local government as a "grass-roots government sphere" that works directly with the citizens of South Africa. Mbewu and Barac (2017:16) assert that the function of the local sphere of government is to provide the community with basic services in a sustainable manner while promoting socioeconomic development and encouraging community members to interact with local officials to make them aware of their needs. In this regard, the role of public participation in local government affairs should not be underestimated because it contributes towards facilitating effective service delivery. Masenya and Molepo (2020:413) explain that the main function of local government is to develop and reshape communities to be a "democratic, integrated and non-racial society", thereby erasing the imbalances of the past. The importance of a municipality is to ensure efficiency in its financial and performance systems, thereby making good use of the revenue that it generates for effective service delivery to address poverty and socioeconomic development (Masenya & Molepo, 2020:414; Sibanda, 2017:314).

Factors influencing service delivery

Ndevu and Muller (2018:185,190) indicate factors that affect service delivery, such as community needs, expectations, and demands; the knowledge and skills of councillors and officials; and ethics and integrity. The next section provides an elaboration of these factors.

Community needs, expectations and demands

The Universal Declaration of Human Rights (UDHR), adopted by the United Nations (UN) in 1948, enshrines the requirements of the community. Article 21(2) of the UDHR states, “Everyone has the right to equal access to public service in his or her country” (United Nations, 2015:42). In addition, Article 25(1) states the following:

Everyone has the right to a standard of living, adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, old age or other lack of livelihood in circumstances beyond his control (United Nations, 2015:52).

Ngatse-Ipangu and Dassah (2019:4) describe a community as a cluster of people who share the same values: “identity, neighbourhood and environment”. Craythorne (2006:313) points out that it is the municipality’s duty to promote a culture of governance to ensure service delivery that meets the community’s needs, expectations, and demands. Chapter 2 of the Constitution contains the Bill of Rights, which clearly states the “rights of all people in our country and affirms the democratic values of human dignity, equality and freedom” (Craythorne, 2006:313). The Bill of Rights is the foundation for community members to expect and demand that their basic needs are satisfied and that their living standards improve.

Maxegwana, Theron and Draai (2015:77) maintain that it is the municipality’s duty to provide services to the community directly or indirectly through service providers, as determined by sections 152(2) and 153(a) of the Constitution, which state that local government must promote socioeconomic development (Republic of South Africa, 1996). Dollery (2003:83) contends that the community will only be satisfied with the government when the municipality meets its needs, demands, and expectations by ensuring the “appropriateness of services and the effectiveness of service

delivery”. According to Ndevu and Muller (2018:185), failure to meet the community’s expectations and demands for promised sanitation, water, electricity, and housing results in unmanageable service delivery protests.

Knowledge and skills of councillors and officials

Councillors are elected in municipalities to fulfill the needs of the communities by “providing services equitably, effectively and sustainably”. They need to work hand-in-hand with municipal officials and are expected at all times to “act in the best interest of the community people” and promote good governance, as stated in Chapter 12, Schedules 1 and 2 of the Municipal Systems Act 32 of 2000. Ngwakwe (2012:314) reveals that councillors and municipal officials lack financial skills and do not understand the concept of financial accountability. This leads to their inability to guarantee efficient service delivery, a factor directly associated with financial considerations.

Mello (2018:3) asserts that councillors and municipal officials should at least be literate, although Craythorne (2006:71) points out that to be elected as a councillor; an individual only needs to be willing and available to stand as a candidate. A candidate must be a South African citizen, over the age of 18 and on the voter’s roll. Although many would think that the minimum educational requirement should be a grade 12 certificate, the Constitution does not support this (Craythorne, 2006:71).

Ethics and integrity

Ethics come from the Greek term “ethikos” and the Latin word “ethica”, which mean customs and morals (Sibanda, 2017:321). Councillors and municipal officials are expected to have ethics when fulfilling their mandates by providing services to communities in “good faith and honestly” as stated in Chapter 12 of the Municipal Systems Act 32 of 2000. This is in line with Martin Luther King, Jr.’s statement: “The time is always right to do what is right” (Sibanda, 2017:321).

Chapter 5

Pauw *et al.* (2017:295) define ethics as principles, rules, and moral values that allow an individual to distinguish good from bad conduct. Van der Waldt (2016:40) views ethics as giving direction to officials' actions. Ethics also involves public officials and political office-bearers adhering to legislation and knowing that they are not above the law. The Bill of Rights, Chapter 2 of the Constitution, established fundamental rights and obliges local government role players to act morally and to treat neighbours fairly and with dignity. Khalo (2013:581) points out that the word "integrity" originates from the Latin word "integrita", which means honesty or purity. Therefore, Khalo (2013:581) views integrity as "fairness, honesty and truthfulness". Integrity is about having values and standards as well as avoiding wrongdoing.

Ngwakwe (2012: 315) identifies political godfatherism, inadequate supply chain management, and poor financial management as constraints to ethical conduct. Khalo (2013:581) observes that when citizens elect political office-bearers to fulfill their needs, they entrust them with state resources. Chapter 10 of the Constitution states that all municipalities must promote and maintain a high standard of professional ethics and integrity. However, South Africa is faced with the inability of public officials to keep the trust of the public because of a lack of ethics and integrity.

Auditing

In the context of the study, auditing is an independent, objective activity that examines and evaluates municipal activities with a view to recommending ways for a municipality to function more effectively and efficiently. Craythorne (1997:370) maintains that an audit conducted by the Auditor General of South Africa in municipalities aims to discover whether payments and receipts are lawfully recorded and to understand how money is spent or how assets are acquired and sold. The purpose of auditing is to assess a municipality's governance and accountability, essential elements for achieving its fundamental goal (Mpehle & Qwabe, 2008:260).

This goal is to provide the community with efficient and effective service delivery (Sibanda, 2017:314).

Matlala and Uwizeyimana (2020:3) emphasise that auditing, recognised as a “cornerstone of good public sector governance,” establishes control amid the expanding size of municipalities, rising community expectations, and escalating responsibilities of municipal officials. It presents honest, unfiltered information about how public resources are being utilised, thereby encouraging municipalities to be more responsible, have integrity, improve their functioning, and inspire trust between citizens and municipal officials (Matlala & Uwizeyimana, 2020:3). According to AGSA (2018:17), the auditing of municipalities enhances various aspects of governance, including the community’s trust, accountability, transparency, integrity, and the efficient management and utilization of financial resources. This, in turn, serves to eradicate corruption and address issues of poor performance within municipalities. Matlala and Uwizeyimana (2020:3) explain that auditing in municipalities provides oversight, insight, and foresight.

There are two types of audits: mandatory and discretionary audits. The Oxford Dictionary defines the word “mandatory” as being required by law or a mandate and being compulsory (Hornby, 2015:895). Discretionary audits are those that the AGSA may perform at its discretion or according to its judgement and do not involve issuing an audit outcome (Lennox & Pittman, 2011:1656). AGSA (2017:8) clarifies that auditing in municipalities encompasses three aspects, with no specific order of execution. The first aspect is the *auditing of financial statements*; the second is the *auditing of performance reports*; and the third is the *auditing of compliance with legislation* that mandates satisfactory financial and performance management, good governance, accountability, transparency, and stewardship (Matlala & Uwizeyimana, 2020:3). The Auditor-General is expected to outline the five possible audit outcomes as explained below:

Chapter 5

1. *Financially unqualified audit opinion with no findings (clean audit outcome):*

This indicates that a municipality has produced financial statements that are free from material misstatements, have no errors or omissions, and are credible as well as reliable (AGSA, 2017:80). Furthermore, this signifies the utility and reliability of the financial statements, affirming that the municipality's financial records adhere to Generally Accepted Accounting Practices (GAAP) and are accurately presented due to sound financial management (Matebula, 2016:217).

2. *Financially unqualified opinion with findings:*

This audit outcome reveals that a municipality has produced financial statements with no material misstatements but has not aligned its performance to the predetermined objectives to which it has committed in its Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP) (AGSA, 2017:80). Jackson and Stent (2016: 187) elaborate on this by stating that there are shortcomings in financial statements, although not material or pervasive.

3. *Qualified audit opinion:*

This occurs when a municipality has submitted financial statements in compliance with the timeframes and due dates stated in the legislation and various regulations. However, it has not produced credible and reliable financial statements, which in fact contain misstatements and fail to disclose important material (AGSA, 2017:80). Jackson and Stent (2016:189) suggest that this audit opinion is usually given when the auditor notices that the municipality has not followed appropriate accounting policies and legislation, such as the Financial Management Act 56 of 2003.

4. *Adverse opinion with findings:*

This occurs when the financial statements contain many material misstatements that contradict almost all the amounts and disclosures (AGSA, 2017:81). Jackson and Stent

(2016:189) contend that this audit outcome indicates that the financial statements and performance report are inadequate, misleading, irrelevant, and incomplete. In other words, the financial statements and accounting records do not match bank transactions.

5. *Disclaimer of audit opinion:*

Indicates that a municipality is not fulfilling its mandate, which means that the auditee did not provide sufficient, documented evidence that could warrant any audit opinion. This implies a lack of concern from municipal officials for the well-being of citizens, resulting in an inability to furnish information regarding service delivery, which may not have transpired (AGSA, 2018). AGSA (2018) and Mathebula (2016:216) assert that this represents the most unfavourable audit outcome, revealing a municipality with minimal disclosures in its financial statements, inadequate financial records, and limited proof of proper utilisation of public funds or compliance with pertinent legislation.

Matebula (2016:217) maintains that all South African municipalities should aim to obtain a financially unqualified audit opinion with no findings, which, according to Mbewu and Barac (2017:15), has been encouraged by the Operation Clean Audit (OPCA) campaign launched in 2009 by the former Minister of Cooperative Governance and Traditional Affairs, Sicelo Shiceka. A clean audit result would signify that the primary objective of the campaign was to enhance service delivery and ensure the prudent utilization of state resources. Achieving this would hinge on the collective commitment of all municipal officials and political office-bearers to champion community welfare and collaborate effectively (Marota, 2016:22). As Marianne Williamson says, "Each of us has a unique part to play in the healing of the world" (Williamson, 2012:191).

Theories Relating to Governance and Service Delivery in Municipalities

Thornhill and Cloete (2014:57) observe that theories are developed to “find solutions to problems that have been encountered”. Van der Waldt (2017:187) explains a theory as a system of analysing data and interpreting it for the advancement of society. The public value and stewardship theories that are relevant to governance, service delivery, and audit are discussed below.

Public value theory

Public value theory can be clearly explained when the terms “value” and “public” are distinctly defined. The first implies worth, and the second refers to the community or society. Thus, public value refers to what is worthy for the community as opposed to the individual, which indicates that the theory focuses on the long-term needs of society (Benington & Moore, 2007:9). Fukumoto and Bozeman (2019:636) describe public value theory in terms of three fundamental concepts. The first concept involves the delivery of benefits to citizens. The second concept underscores the state’s responsibility to safeguard the rights of citizens and society, along with citizens’ mutual obligation to protect one another. The third concept pertains to the principles guiding public officials and political office bearers towards the correct course of action (Fukumato & Bozeman, 2019:636).

Stoker (2006:52,56) claims that the public value theory signals the importance of governance in municipalities by leaders of various departments who play key roles in ensuring the well-being of citizens, democracy, and human rights. According to Stoker (2006:56), “Public value theory presents a new paradigm and reform narrative,” signalling that accountable governance and both effective and equitable service delivery contribute value to the lives of the public, addressing needs previously unmet in South Africa (Benington & Moore, 2007:11). Benington and Moore (2007:13,15) articulate that, for communities, public value resides in

functional streetlights, adequate housing, and efficient water and sewerage systems. Municipalities are expected to furnish these necessities, in addition to the essential services offered by the national and provincial spheres of government, such as education and health, contributing to the improvement of citizens' lives and fulfillment of their needs.

The stewardship theory

Davis, Schoorman, and Donaldson (1997:24) assert that the foundation of stewardship theory is rooted in psychological and sociological research. This research focuses on public managers perceived as stewards, individuals entrusted with responsibly overseeing the resources, and departments under their charge. In stewardship theory, managers, acting as stewards, find intrinsic motivation in pursuing goals aligned with the mission statement of the governing political party within a municipality, prioritising these objectives over seeking extrinsic rewards for personal gain (Pastoriza & Arino, 2008:5). Stewardship theory advocates that municipal managers can derive fulfillment from the practice of good governance and the assurance of effective service delivery (Pastoriza & Arino, 2008:5).

Stewardship encapsulates “principles of social responsibility”, involving regular communication between municipal officials and political office bearers with community members to ensure that their needs are continually addressed (Mothubatse *et al.*, 2017:95). Jarbandham (2014:50,51) defines stewardship as public officials choosing to put citizens first by delivering services to them instead of serving their own interests. Pastoriza and Arino (2008:5) argue that stewardship is about upholding governance structures mandated to deliver services. Instilling stewardship as a value in municipal managers would result in a department devoid of issues, where team members collaborate cohesively to collectively fulfill the community's needs in adherence to democratic values. Stewardship is intricately linked to good governance, involving the collaborative efforts of public officials and political office bearers. They work together to implement administrative

and financial policies, ensuring the responsible management of public assets to guarantee that communities receive the essential resources they require (Jarbandham, 2014:56).

Methodological Standard

Ullrich *et al.* (2020: 2) explain that the research methodology enables the researcher to develop confidence about the research that is conducted. Ullrich *et al.* (2020:2) emphasise that a qualitative research methodology offers researchers a diverse range of methods. The study focuses on the Nelson Mandela Bay Metropolitan Municipality, encompassing 1,959 km², which includes surrounding agricultural areas. The document analysis of the study is aimed at answering the question: What is wrong with NMBMM audit outcomes that affect the state of delivery of services as well as the quality of governance? Therefore, the document analysis involved investigating the municipality's governance indicators as revealed by audit reports on its financial statements, performance against predetermined objectives, and compliance with legislation. The data, gathered through document analysis and desktop research, employed key documents, including the consolidated general report on the local government audit outcomes spanning from 2015/2016 to 2019/2020. Additionally, the Report of the Auditor-General to the Eastern Cape Provincial Legislature and the Council on the NMBMM and its municipal entity from 2015/2016 to 2019/2020 was utilised.

Audit Outcomes and the State of Service Delivery in Nelson Mandela Metropolitan Municipality (2015/2016-2019/2020)

For the past seven consecutive financial years (2012/2013 to 2019/2020), the AGSA's reports have shown that the NMBMM has received qualified audit opinions. The attainment of clean audits by the NMBMM in its pursuit of delivering quality service to communities and promoting good governance relies on evaluating four key elements. This evaluation is

conducted through an analysis of the Consolidated General Reports on the Local Government Audit Outcomes and Reports of the Auditor-General submitted to the Eastern Cape Provincial Legislature and the council on the Nelson Mandela Metropolitan Municipality and its municipal entity for the financial period spanning from 2015/2016 to 2019/2020.

Fair presentation of financial statements

NMBMM's financial statements for the periods 2015/2016 and 2019/2020 were neither reliable nor credible because it did not fairly present the municipality's financial position. The statements exhibited bias, lacked prudence, and did not conform to the applicable South African standards outlined in GRAP (NMBMM, 2016-2020). Poor accounting practices had a negative influence on the economic decisions of the municipality. During the financial years 2015/2016 and 2019/2020, NMBMM failed to record its daily, weekly, and monthly transactions of the municipality, and its financial record-keeping was regressing. The weak processing, reconciling, and control were due to the lack of information technology (IT) systems, which had already been reported by the Auditor-General but were never checked by the municipality (NMBMM, 2018). The implementation of robust financial control systems is imperative for the NMBMM to ensure monthly preparation of financial statements by municipal officials. This practice is crucial for promptly identifying and rectifying any discrepancies. To enhance its system capabilities, the NMBMM should consider outsourcing an IT technician who can effectively fix and upgrade the existing system.

NMBMM's performance management

The NMBMM did not keep proper records and submit quality performance reports for the period 2015/2016 to 2019/2020. The performance report for 2017/2018 did not contain documentation relating to the time of its response to emergencies, such as electrical outages, owing to its inadequate record-keeping (AGSA, 2018:84). Unreliable,

untrustworthy, and ineffectual performance reports prove that communities have not received the services that they were promised and that municipal leaders lack commitment to ensure that the needs of the communities are met.

The NMBMM has faced challenges in achieving the objectives outlined in its Integrated Development Plan (IDP) and budget. Despite showing improvement in 2016/2017, the municipality experienced regression and continued to struggle in delivering services effectively (NMBMM, 2017). The Auditor-General's report highlighted that the NMBMM fell short of meeting 8% of its targets but reported a discrepancy of only 6.6%, indicating a nuanced difference. Notably, the response time for NMBMM's traffic and fire services varied between 7 minutes and 29 seconds to 12 minutes and 16 seconds for emergencies, whereas the municipality's performance report mentioned a planned response time of 15 minutes (NMBMM, 2018).

Furthermore, the municipality faced delays in various projects and services. Building plan applications took 7.16 days to be processed instead of the targeted 3 days, with only 25% meeting the intended timeframe. Progress on infrastructure projects such as the Coegakop Water Treatment Plant and Cape Recife Wastewater Works upgrade fell significantly below the planned completion percentages. Water and sewerage connection targets were also not fully met, with a notable shortfall in borehole drilling and sewer pipeline installation. The initial goal of 1468 water connections was reduced to 979 completed connections, and a planned 1498 sewerage connections dropped to 979 installations. Additionally, the targeted boreholes were not drilled, and the planned 3 km of sewer pipelines dwindled to a mere 0.6 km, representing a 5% revised target instead of the intended 100% (NMBMM, 2016; AGSA, 2017:85).

It is of vital importance that the NMBMM set realistic objectives and goals, especially when it relates to meeting the basic needs of communities. Training should be available to enable the performance evaluation of the implementation

of planned service delivery projects. This evaluation is crucial for identifying challenges that can be addressed. Performance management must remain connected to the needs of communities, ensuring sustained efficiency, effectiveness, and economic viability.

NMBMM compliance to key legislation

NMBMM struggled to comply with key legislation, as is evident in the audit reports. On December 19, 2018, the municipality paid 10.1 million for the cleaning of stormwater drains; however, the anticipated service was not rendered. Moreover, the municipality failed to investigate or even control the approval, authorization and payment of funds, which indicated non-compliance with Section 65(2)(a) of the Municipal Finance Management Act of 2003 (NMBMM, 2020). To proactively manage this issue, it is essential to present all the pivotal legislation in poster format and exhibit it in every department of the municipality. This ensures visibility to all municipal officials, fostering awareness of their responsibilities and emphasising the importance of adhering to the law. Implementing a system of rewards for compliance and penalties for non-compliance can further reinforce adherence to legal standards.

Criteria for governance

The NMBMM risk management was inadequate because it did not produce daily, weekly, and monthly financial and performance reports (NMBMM, 2020). The ineffectiveness of its audit committee and internal audit functions stemmed from the failure of municipal leadership to respond to recommendations issued by the Auditor-General. This lack of responsiveness hindered the resolution of issues related to unsatisfactory financial statements, performance reports, and non-compliance with laws and regulations (NMBMM, 2016). The average tenure for NMBMM municipal managers was only 15 months, the chief financial officer served for 92 months, and the majority of supply chain managers held their positions for 46 months.

The instability of key positions in NMBMM was caused mostly by political infighting that had a negative impact on the municipality control systems (AGSA, 2018:95-97). The failure of municipal governance is due to the unwillingness of municipal officials to apply these criteria, a poor understanding of legislation, and a refusal to implement the recommendations of the Auditor-General. Based on its audit findings from 2015/2016 to 2019/2020, NMBMM is experiencing a decline rather than showing improvement in both governance and service delivery. It is crucial for NMBMM to implement robust internal controls fostering a zero-tolerance culture regarding municipal management. NMBMM leaders should actively recruit capable individuals who can uphold democratic values, safeguard state resources, and commit to serving full terms in key positions.

Factors which contributed to NMBMM not obtaining clean audit outcomes (2015/2016-2019/2020)

The following factors contributed to NMBMM not obtaining clean audit outcomes from 2015/2016 to 2019/2020:

Material losses

Material losses refer to physical deficits or damages, exemplified in a municipal context as the loss of resources such as water or electricity. The NMBMM incurred R170 million (2015/2016), R169.7 million (2016/2017), R162.9 million (2017/2018), R161.5 million (2018/2019), and 237.1 million (2019/2020) in water loss over the past years. The water loss is due to a non-technical loss of 39.1% due to theft; water taken illegally from fire hydrants; meter inaccuracy; ageing water meters and infrastructure; and illegal connections.

In addition, NMBMM incurred R291 million (2015/2016), R326.2 million (2016/2017), R339.5 million (2017/2018), R484.2 million (2018/2019) and R558.6 million (2019/2020) in electricity losses. NMBMM lost electricity through electricity theft; citizens who are not billed for electricity; seeing to ageing electricity infrastructure; and meter tampering and

illegal connections (NMBMM, 2016, 2017, 2018, 2019, 2020). To curb material losses, NMBMM must deploy prepaid water systems to mitigate the substantial water losses. Additionally, the municipality should conduct regular monthly maintenance checks on the community's power station, inspecting household switchboards to detect and rectify any potential illegal connections. This proactive approach should aim to significantly reduce the incidence of material losses.

Fruitless and wasteful expenditure

NMBMM lost R57.8 million (2015/2016), R110.1 million (2016/2017), R2.7 million (2017/2018) and R90.9 million (2019/2020) on fruitless and wasteful expenditure. Fruitless and wasteful expenditure can be explained as spending that could be avoided. NMBMM paid for flights to training programmes that municipal officials did not attend (NMBMM, 2017, 2018, 2019, 2020). The municipal officials need to be held accountable for the expenses that have been incurred for them, and before training plans are implemented, municipal officials need to sign agreements that commit them to the training programme expenses should they fail to attend.

Unauthorised expenditure

The NMBMM incurred R52 million (2015/2016), R431.30 million (2016/2017), R260.20 million (2017/2018) and R30.10 million (2019/2020) in unauthorised expenditure due to awarding contracts to service providers that did not qualify. The municipal leaders need to scrutinise the service providers' documents and references and ensure that they understand the contractual agreement. The NMBMM needs to ensure that the service provider has fulfilled the given task before paying the full amount. The municipality's legal team must look into the service providers who don't deliver and report them to the SAPS.

Irregular expenditure

In 2016/2017, NMBMM had the highest irregular expenditure of all the South African municipalities. The NMBMM lost

R1286,1 million (2015/2016), R8361 million (2016/2017), R3053.4 million (2017/2018) and R1372.2 million (2019/2020) due to the unauthorised utilisation of municipal money. This does not comply with legislation, municipal policies, or bylaws (NMBMM, 2016–2020). The municipality’s irregular expenditure affected the following projects: wastewater treatment works (especially the Fishwater Flats wastewater treatment works), voltage network upgrade, and sludge stabilisation (AGSA, 2018:58). The NMBMM officials that fail to utilise state resources in an efficient, effective, and economical manner need to face disciplinary action and be held fully accountable for those expenses. The municipal leaders need to evaluate, monitor, and ensure that state resources are utilised in a cost-effective manner and not for personal gain.

However, NMBMM’s failure to secure a clean audit outcome can be attributed to a multitude of contributing factors. The aforementioned issues persistently resurface in audit reports, underscoring the municipality’s ongoing inability to effectively address them.

Audit, Governance and Service Delivery Findings in the Nelson Mandela Metropolitan Municipality (2015/2016–2019/2020)

“The Constitution has been in effect for almost three decades, but the country is still faced with community dissatisfaction and far too many service delivery protests” (Reddy, 2016:3).

Mathebula (2016:214) elucidates that the municipal auditing process, as outlined, seeks to delineate strategies for municipalities to achieve a clean audit outcome by promoting good governance. Such an approach not only ensures effective and efficient service delivery but also underscores the pivotal role of audits in enhancing overall municipal performance. Mbewu and Barac (2017:15) point out that good governance in the local sphere of government will combat inefficiency and corruption. An audit might strengthen governance in

municipalities because it might identify misstatements and shortcomings in the financial statements and performance due to, for example, staff shortages, a lack of accounting competencies, and inadequate control of state resources for service delivery to the communities.

Mbewu and Barac (2017:15) explain that the absence of audits in municipalities ultimately leads to inefficacious control systems, misconduct, and poor governance remaining undetected. Mbewu and Barac (2017:16), Mofolo (2020:95), and Ntshakala and Nzimakwe (2017:71) stress the importance of auditing in municipalities for enhancing their governance structures and service delivery, which will result in clean audit outcomes. However, the NMBMM did not receive clean audit outcomes because it continuously failed to provide the Auditor-General with evidence that explained the high rate of the unauthorised, irregular, fruitless, and wasteful expenditure. In addition, they did not comply with the legislation on financial management and service delivery (AGSA, 2017:45).

The auditing of NMBMM indicated that it had not been promoting good governance and service delivery and the municipality did not follow the AGSA's recommendations. NMBMM must adhere to AGSA's guidelines, enhancing both governance and financial performance to effectively meet its service delivery objectives in accordance with legislation. This commitment is crucial for generating financial statements devoid of misstatements or findings, ultimately paving the way for achieving clean audit outcomes (Matlala & Uwizeyimana, 2020:2). Mbewu and Barac (2017:15) maintain that a municipality that has good governance can obtain clean audit outcomes because everything would be in order. In other words, the municipality's control systems, service delivery management, governance indicators, and financial management would ensure that it receives a clean audit outcome.

Motubatse et al. (2017:92) emphasise that good governance, successful service delivery, and clean audit

outcomes reveal that a municipality has implemented government policies and its IDP. Marota (2016:22) expresses confidence that municipalities can secure clean audit outcomes by urging public officials and political office bearers to go the extra mile in combating corruption, fostering good governance, ensuring proper financial management, and guaranteeing the full implementation of service delivery projects. Reddy (2016:1) views the local sphere of government as pivotal to democracy because it is closest to the people to whom it is mandated to deliver services to by using public resources responsibly. Reddy (2016:7) advocates that good governance, effective service delivery, and clean audit outcomes are marred by the constant infighting between political parties and the non-performance of municipal officials.

NMBMM officials are always cautioned by the Auditor General of South Africa about a lack of oversight and governance in the administrative system, which cripples its ability to deliver services to the community (NMBMM, 2018). The NMBMM lacks leadership that is committed to effective governance, which is evident in its audit outcomes. The municipality has many incomplete projects, such as the Neave Street Multi-purpose and Recreational Park upgrade for the communities of Shauderville and Korsten; the new swimming pool for New Brighton; the Helenvale safety and peace through urban upgrading (SPUU) projects; and the Ellis Street housing rectification. These projects were not supervised, and they lacked maintenance, which resulted in a delay in service delivery (NMBMM, 2018). The absence of accountability in NMBMM adversely affects citizens' lives, as, for some, essential services remain undelivered (Boso, 2019:2). In addition, the inability of municipal officials to collect debt from Port Elizabeth residents results in insufficient municipal-generated revenue (Boso, 2019:2).

The leadership, senior management, and officials of NMBMM fail to develop, implement, and manage effective internal control systems that could promptly detect wrongdoing and proactively avert potential issues. The

municipality struggles with the challenge of numerous key positions remaining vacant, causing a lag in the operation of the overall system. Furthermore, a lack of improvements and discipline results in instability in political and public leadership (Boso, 2019:2). Public officials lack the necessary skills and competencies, especially in keeping financial records, which leads to an over-reliance on consultants. This can have a negative impact on the municipality's financial planning, record-keeping, and reporting (Boso, 2019:2). The failure of reviewing and monitoring processes means that municipal officials are not held accountable for poor performance.

NMBMM leaders deliberately ignore their duties and violate the legislation without having to suffer the consequences for their actions (Boso, 2019:2). Effective governance would ensure that the municipality produces quality financial and performance reports, complies with legislation, promotes appropriate behaviour in its officials, and delivers services to the community in accordance with its administrative role (AGSA, 2018:71). Motubatse et al. (2017:91) argue that municipalities that strive to promote good governance ultimately eliminate corruption, advocate ethics at all times, provide guidance in the right direction, and improve transparency and community participation, which lead to sound financial structures that obtain clean audit outcomes. Kroukamp (2012:103) asserts that one type of governance exercises control over local government officials and state resources used to deliver services to the community fairly, without bias, and quickly, thereby avoiding service delivery protests.

Nealer and Raga (2007:172,181) emphasise the significance of achieving a clean audit outcome at the conclusion of each financial year. They elaborate that such an outcome not only acts as a foundation for improving local government but also facilitates the provision of services to meet the daily needs of the people, addresses any shortcomings in service delivery, and contributes to the development of the country's infrastructure. Marota (2016:22) maintains that there is absolutely no reason why

NMBMM cannot obtain clean audit outcomes if it meets good governance and service delivery targets by using public funds in compliance with the relevant legislation. As the largest of two category A municipalities in the province of the Eastern Cape, NMBMM should lead by example and set the standards for other municipalities. It is necessary that the NMBMM obtains a clean audit opinion to improve its governance and service delivery.

Recommendations and Conclusion

The NMBMM must rigorously enforce control, particularly over crucial resources like water and electricity, while diligently working to fulfill the community's needs, expectations, and demands. This entails addressing criminal activities such as meter tampering and illegal connections, as well as rectifying existing infrastructure issues related to water and electricity. They should strive to promote transparency and accountability and set realistic objectives, service standards, and timelines that stipulate the start and end date for the delivery of services. The municipality should additionally formulate a comprehensive daily, weekly, and monthly service delivery plan, systematically reviewing completed tasks and outstanding ones. This thorough approach ensures the realisation of objectives outlined in the IDP. It is advisable to enhance the knowledge and skills of municipal officials and political officeholders by providing training that focuses on their expected roles, particularly within the policy framework and theoretical understanding. Furthermore, it is suggested that fostering an environment that encourages whistleblowers within the municipality and the media is crucial. This proactive approach aims to expose any misuse of position or state resources by municipal officials and political office bearers, serving as a deterrent against future misconduct.

The NMBMM municipality should create platforms such as conferences and monthly performance meetings to address its shortcomings and inspire municipal officials to improve

and obtain opinions on how to improve the current situation. The municipality needs to finalise all the irregular, fruitless, wasteful, and unauthorised expenditure investigations on a yearly basis to combat misconduct and emphasise unethical actions that lead to unfavourable consequences. It is important that the municipality consider systems that will be able to trace all external suppliers before awarding tenders and they should be able to check if the suppliers have the relevant documents and references.

Further recommendations include that the NMBMM should establish an effective audit committee that conducts departmental audits of financial and performance management on a three-month basis to ensure that services promised to citizens are delivered; state resources are utilised effectively, efficiently, and economically; and misconduct and non-compliance with accounting principles, legislation, and predetermined objectives are identified immediately. Additionally, it is imperative to establish a monitoring and evaluation committee, operating in accordance with the Monitoring and Evaluation Implementation Framework for Continuing Professional Development (CPD) of 2012. This committee will be tasked with overseeing the utilisation of municipal resources, tracking the advancement of projects outlined in the IDP, and ensuring compliance with regulations. The aim is to provide insights and recommendations for the way forward. The municipality should enhance internal controls by adopting Ncgobo and Malefane's (2017:17, 77, 78) five components, encompassing an ethical and disciplined control environment, risk assessment, preventative, detective, and corrective control activities, information sharing and communication, and monitoring of activities. This proactive approach aims to ensure good governance, effective, efficient, and economical service delivery, ultimately contributing to achieving clean audit outcomes.

The general aim of the study was to investigate, explain, and analyse how audit outcomes and the state of service delivery as indicators of the quality of governance in the case of Nelson Mandela Metropolitan Municipality can be enhanced.

Therefore, in conclusion, it is the duty of the NMBMM municipality officials and political office bearers to strive to improve and ensure that “towards the 30 years of democratic public administration” there are no service delivery protests, all municipalities obtain clean audit outcomes, and that good governance is upheld and encouraged.

References

- Auditor-General of South Africa (AGSA). (2017). *General report on the local government audit outcomes: Municipal Finance Management Act (MFMA)*, 80-88. Pretoria: Government Printers.
- Auditor-General of South Africa (AGSA). (2018). *General report on the local government audit outcomes: Municipal Finance Management Act (MFMA)*, 80-88. Pretoria: Government Printers.
- Benington, J., & Moore, M. (2007). *From private choice to public value? Institute of Governance & Public Management*, 121. kj6.nov.
- Boso. (2019). Auditor-General flags lack of accountability as the major cause of poor local government audit results [Online]. Available: <https://www.agsa.co.za/Portals/0/Reports/MFMA/2019.06.25/2019%20MFMA%20Media%20Release.pdf> (Accessed: 3 March 2021).
- Cloete, F., & Auriacombe, C.J. (2007). Governance and transparency in South Africa. *Politeia*, 26(2), 194-195.
- Craythorne, D.L. (1997). *Municipal administration: a handbook*. (4th edition). Cape Town: Juta & Co Ltd.
- Craythorne, D.L. (2006). *Municipal administration: a handbook*. (6th edition). Cape Town: Juta & Co Ltd.
- Davis, J.H., Schoorman, D., & Donaldson, L. (1997). Stewardship theory of management. *Academy of management*, 22(1), 24. <https://doi.org/10.2307/259223>

- Dollery, B. (2003). A critical evaluation of virtual local government in Australia. *Australian Journal of Public Administration*, 62(3), 83. <https://doi.org/10.1046/j.1467-8500.2003.00340.x>
- Fukumoto, E., & Bozeman, B. (2019). Public value theory: What is missing? *American Review of Public Administration*, 49(6), 635-64. <https://doi.org/10.1177/0275074018814244>
- Govender, N., & Reddy, P.S. (2019). Effectiveness of governance towards digitalization at eThekweni Metropolitan Municipality in Kwazulu-Natal Province. *Africa's Public Service Delivery and Performance Review*, 7(1), 2. <https://doi.org/10.4102/apsdpr.v7i1.336>.
- Hornby, A.S. (2015). *Oxford Advanced Learner's Dictionary*. New York: Oxford University Press.
- Jackson, R.D.C., & Stent, W.J. (2016). *Auditing Notes for South African students*. (10th edition). Hilton: LexisNexis.
- Jarbandham, D.B. (2014). The evolution of environmental stewardship as a leadership philosophy for the South African public sector: Critical considerations. *Journal of Public Administration*, 49(1), 50-57.
- Khalo, T. (2013). Accountability and oversight in municipal financial management: the role of municipal public accounts committees. *Journal of Public Administration*, 48(4), 580-581.
- Kroukamp, H. (2012). South African local government in a quandary: How to overcome ever-increasing challenges to excellence in service delivery. *Journal of New Generations Sciences*, 12(1), 103.
- Lennox, C.S., & Pittman, J.A. (2011). Voluntary audits versus mandatory audits. *The Accounting Review*, 86(5), 1656. <https://doi.org/10.2308/accr-10098>
- Marota, P. (2016). Clean Audits proven achievable and can enhance Municipal Viability. *CIGFARO*, 17, Spring.

Chapter 5

- Masenya, H.L.L., & Molepo, J.N. (2020). Amalgamation of South African municipalities: A case of JB marks local municipality. *Journal of Public Administration*, 55(3), 413-414.
- Mathebula, N.E. (2016). Audit outcomes and their role in clean administration in Municipalities within Limpopo province, South Africa: A deterrence theory approach. *SAAPAM Limpopo Chapter 5th Annual Conference Proceedings*, 214-217.
- Matlala, L.S., & Uwizeymana, D.E. (2020). Factors influencing the implementation of the auditor general's recommendations in South African municipalities. *African Evaluation Journal*, 8(1), 1-3. <https://doi.org/10.4102/aej.v8i1.44>.
- Maxegwana, M., Theron, F., & Draai, E. (2015). Efficacy of participation in local economic development. *African insight*, 44(4), 77.
- Mbewu, B.W., & Barac, K. (2017). Effective internal audit activities in local government: fact or fiction?. *Southern African Journal of Accountability and Auditing Research*, 19(1), 15-16.
- Mello, D.M. (2018). Monitoring and evaluation: The missing link in South African municipalities. *The Journal for transdisciplinary research in Southern African Municipalities* 14(1), a409. <https://doi.org/10.4102/+d.v14i1.409>.
- Mle, T.R., & Maclean, S. (2011). Ethics, integrity and good governance: The case of South Africa's local sphere of government. *Journal of Public Administration*, 46(4), 1364-1370.
- Mofolo, M.A. (2020). Ubiquity of qualified audits in South African municipalities: Case of category B municipality in the Free State Province. *Journal of Public Administration and Development Alternatives (JPADA)*, 5(1), 95.
- Mofolo, M.A., & Smith, W. (2009). Making use of 'Batho pele' principles to improve service delivery in municipalities. *Journal of contemporary management*, 6(1), 428-437.

- Motubatse, K.N., Ngwakwe, C.C., & Sebola, M. (2017). The effect of governance on clean audits in South African municipalities. *African Journal of Public Affairs*, 9(5), 92-95.
- Mpehle, Z., & Qwabe, B. (2008). Performance auditing as means to entrench professional ethos in the public sector: A South African local government perspective. *Journal of Public Administration*, 43(3.1), 258-260.
- Munzhedzi, P.H., & Makwembere, S. (2019). Good governance as a solution to local economic development challenges in South African municipalities. *Journal of Public Administration*, 54(4.1), 667.
- Ngcobo, P., & Malefane, S.R. (2017). Internal controls, governance and audit outcome. *African Journal of Public Affairs*, 9(5), 74-79.
- Ndevu, Z., & Muller, K. (2018). A conceptual framework for improving service delivery at local government in South Africa. *African Journal of Public Affairs*, 10(4), 182-190.
- Nealer, E., & Raga, K. (2007). Nature and extent of local governance in South Africa. *Journal of Public Administration*, 42(5), 181.
- Nelson Mandela Bay Metropolitan Municipality (NMBMM). (2016). *Audit Report 2015/2016*. [Online]. Available: <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2FDocuments%2F07%2E%20Audit%20Reports%2F2015%2D16%2F01%2E%20Metros%2FNMA%20Nelson%20Mandela%20Bay&FolderCTID=0x0120007B806770C97-0904FBEB117A91BE313E6&View={84CA1A01-EF8A-4DE0-8DC4-47D223CB5867}>. (Accessed: 18 August 2021).

Chapter 5

- Nelson Mandela Bay Metropolitan Municipality (NMBMM). (2017). *Audit Report 2016/2017*. [Online]. Available: <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2FDocuments%2F07%2E%20Audit%20Reports%2F2016%2D17%2F01%2E%20Metros%2FNMA%20Nelson%20Mandela%20Bay&FolderCTID=0x0120007B806770C97-0904FBEB117A91BE313E6&View={84CA1A01-EF8A-4DE0-8DC4-47D223CB5867}> (Accessed: 18 August 2021).
- Nelson Mandela Bay Metropolitan Municipality (NMBMM). (2018). *Audit Report 2017/2018*. [Online]. Available: <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2FDocuments%2F07%2E%20Audit%20Reports%2F2017%2D18%2F01%2E%20Metros%2FNMA%20Nelson%20Mandela%20Bay&FolderCTID=0x0120007B806770C97-0904FBEB117A91BE313E6&View={84CA1A01-EF8A-4DE0-8DC4-47D223CB5867}> (Accessed: 18 August 2021).
- Nelson Mandela Bay Metropolitan Municipality (NMBMM). (2019). *Audit Report 2018/2019*. [Online]. Available: <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2FDocuments%2F07%2E%20Audit%20Reports%2F2018%2D19%2F01%2E%20Metros%2FNMA%20Nelson%20Mandela%20Bay&FolderCTID=0x0120007B806770C97-0904FBEB117A91BE313E6&View={84CA1A01-EF8A-4DE0-8DC4-47D223CB5867}> (Accessed: 18 August 2021).
- Nelson Mandela Bay Metropolitan Municipality (NMBMM). (2020). *Audit Report 2019/2020*. [Online]. Available: <http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx?RootFolder=%2FDocuments%2F07%2E%20Audit%20Reports%2F2019%2D20%2F01%2E%20Metros%2FNMA%20Nelson%20Mandela%20Bay&FolderCTID=0x0120007B806770C97-0904FBEB117A91BE313E6&View={84CA1A01-EF8A-4DE0-8DC4-47D223CB5867}> (Accessed: 18 August 2021).

- Ngatse-Ipangu, R., & Dassah, M.O. (2019). Impact of social entrepreneurs on community development in the Cape Town Metropolitan Municipality area, South Africa. *The Journal for transdisciplinary research in Southern Africa*, 15(1), 4. <https://doi.org/10.4102/td.v15i1.474>
- Ngwakwe, C.C. (2012). Public sector financial accountability and service delivery. *Journal of Public Administration*, 47(1.1), 313-315.
- Ntshakala, T., & Nzimakwe, T.I. (2017). Financial and Fiscal commission. *Journal of Public Administration and development alternatives*, 2(1), 67-81.
- Pastoriza, D., & Arino, M.A. (2008). When agents become stewards: Introducing learning in the stewardship theory. *1st IESE conference on humanizing the firm and the management profession* [Online] Available: Link (Assessed: 30 March 2021). <https://doi.org/10.2139/ssrn.1295320>
- Pauw, J.C., van der Linde, G.J.A., Fourie, D., & Visser, C.B. (2015). *Managing public money*. (3rd edition). Cape Town: Pearson.
- Reddy, P.S. (2016). The politics of service delivery in South Africa: the local government sphere in context. *The Journal for Transdisciplinary Research in Southern Africa*, 12(1), 1-7. <https://doi.org/10.4102/td.v12i1.337>
- Republic of South Africa (RSA). (1996). *Constitution of the Republic of South Africa*. Pretoria: Government Printers.
- Republic of South Africa (RSA). (2000). *Municipal Systems Act, 32 of 2000*. Pretoria: Government Printers.
- Republic of South Africa (RSA). (2003). *Local Government: Municipal Finance Management Act, 56 of 2003*. Pretoria: Government Printers.
- Setia, M.S. (2017). Methodology series module 10: Qualitative health research. *Indian Journal of Dermatology*, 62(4), 367-369. https://doi.org/10.4103/ijd.IJD_290_17

Chapter 5

- Sibanda, M.M. (2017). Control, ethics and accountability in the financial management performance of Eastern Cape municipalities. *Journal of Public Administration*, 52(2), 314-321.
- Stoker, G. (2006). Public value management: A new narrative for networked governance? *The American Review of Public Administration*, 36(41). <https://doi.org/10.1177/0275074005282583>
- Thornhill, C., & Cloete, J.J.N. (2014). *South African municipal government and administration*. (2nd edition). Pretoria: Van Schaik Publishers.
- Ullrich, C., Sturmlinger, A., Wensing, M., & Krug, K. (2020). Qualitative research methods in medical dissertations: on observational methodological study on prevalence and reporting quality of dissertation abstracts in a German university. *BMC Medical Research Methodology*, 20(1), 2: <https://doi.org/10.1186/512874-020-01186-6>.
- United Nations. (2015). Universal declaration of human rights. New York: United Nations.
- Van der Nest, DP., Thornhill, C., & De Jagar, J. (2018). Audit Committees and accountability in the South African public sector. *Journal of Public Administration*, 43(1), 545.
- Van der Waldt, G. (2016). *Managing for excellence in the public sector*. (3rd edition). Lansdowne: Juta & Co Ltd.
- Van der Waldt, G. (2017). Theories for research in Public Administration. *African Journal of Public Affairs*, 9(9), 187.
- Van Schalkwyk, A. (2008). Sustainability of service delivery in municipalities in South Africa. *Journal of Public Administration*, 43(si-1), 264.
- Williamson, M. (2012). *Law of divine compensation mastering the metaphysics of abundance*. Harper Collins: New York.