

Improving Financial Practices in South African Local Municipalities: The Role of Internal Control Mechanisms in Promoting Good Governance



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ABSTRACT

In 2020, a speech by the Auditor General of South Africa emphasised the importance of implementing internal control mechanisms as safeguards against financial loss and fraud, promoting transparency, accountability, and ultimately fostering public trust in the management of funds at the local municipal level. Due to financial mismanagement in some local municipalities in South Africa, this study investigated the internal control practices of role-players in local municipalities and how they affect good governance. The research objectives explored the relevance of internal control systems, the causes of poor implementation of internal control systems, the practical effects of poor implementation of internal control systems and measures to enhance internal control systems in South African municipalities. A qualitative research approach was adopted, and document analysis was applied to find answers to the research problems. A content analysis technique was applied using the Atlas-ti software (version 23) to analyze the Consolidated General Report on Local Government Audit Outcomes (MFMA 2020–2021). This was done to uncover how municipal role-players facilitated internal control measures during the 2020–2021 fiscal year. The peer-reviewed documents were used to support and consolidate the findings from the municipal report. Findings from the study revealed that internal control measures are performed to prevent errors and irregularities, identify problems, and ensure that corrective actions are taken to facilitate good governance. The study discovered that some municipalities in South Africa do not facilitate effective internal control systems, which have invariably escalated financial misappropriations and other poor municipal financial practices. State the contribution of this study to scholarship.

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INTRODUCTION

The provision of reliable and efficient public services remains a significant challenge for many local municipalities in the South African context.¹ Factors such as corruption, poor management, lack of capacity, and expertise among officials contribute to the poor delivery of services.² The mishandling of

¹ Tyanai Masiya, Yul D Davids, and Mary S Mangai, “Assessing Service Delivery: Public Perception of Municipal Service Delivery in South Africa,” *Theoretical and Empirical Researches in Urban Management* 14, no. 2 (2019): 20–40.

² Sumei van Antwerpen and Edmund Ferreira, “Contributing Factors to Poor Service Delivery by Administrative Employees in the Gauteng Public Service in South Africa,” *Africa Development* 41, no. 1 (2016): 81–98.

funds by those in charge of municipal governance is a significant factor causing problems in the delivery of public services in South Africa.³ Unauthorised, irregular, wasteful and fruitless expenditures by local government entities divert resources away from necessary projects or services and lead to financial mismanagement and corruption.⁴ Fourie and Malan state that the recurrence of financial mismanagement in the municipal sector points to non-compliance with the internal control systems and available financial regulations that regulate how the government department should spend financial resources and acquire public products.⁵ The Public Finance Management Act 1 of 1999 (as amended by Act 29 of 1999) and the National Treasury Regulations Acts of 2000 are a few examples of such laws.

Non-compliance significantly impacts the delivery of services in local municipalities, resulting in losses for public organisations. According to Khaile, et.al., non-compliance is caused by the inability of role-players to comply with laws, regulations, policies or agreements due to shortcomings in internal systems, processes and controls.⁶ The inability to comply with laws, regulations, policies or agreements due to internal shortcomings can not only result in legal and reputational consequences for organisations but also undermine their ability to achieve their strategic objectives and meet the expectations of their stakeholders. Sibanda, et.al., affirm that non-compliance occurs when local municipalities lack proper procedures and documentation, training and education, technology and management oversight.⁷ If local municipalities do not have an efficient financial management system, they may have difficulty tracking expenses and revenues, creating accurate budgets and producing sound financial reports promptly.⁸ Therefore, local municipalities need to adopt a proactive and systematic approach to identifying and addressing non-compliance risks by continuously improving their internal systems, processes and controls, and promoting a culture of compliance throughout the organisation.

To enhance accountability in the local municipal sphere, the internal control unit was founded to stop violations of the law and to improve service delivery in South African government departments.⁹ Local municipalities facilitate internal control to ensure the integrity and efficiency of their operations and to protect against fraud, errors and other risks.¹⁰ Internal control systems can include a range of measures, such as the segregation of duties, the performance of independent reviews and audits, documentation and record-keeping, and the use of controls such as authorisations and approvals.¹¹ Internal financial control is necessary for every performing organisation, including municipalities, to improve municipal financial responsibility.¹²

Regarding good governance, Doornbos confirms that it is a broad concept that refers to how power is exercised in the management of countries, organisations, or other entities.¹³ It incorporates the use of fair and transparent processes to make and implement decisions and to hold decision-makers accountable for their actions.¹⁴ The principles of good governance include effective participation, transparency,

³ Z. Mbandlwa, N. Dorasamy, and O.M. Fagbadebo, "Leadership Challenges in the South African Local Government System," *Journal of Critical Reviews* 3, no. 1 (2020): 23–32.

⁴ P. A. Dlomo, "The Impact of Irregular Expenditure in the South African Public Finance with Specific Reference to the National Department of Public Works" (Cape Peninsula University of Technology, 2017).

⁵ David Fourie and Cornel Malan, "Public Procurement in the South African Economy: Addressing the Systemic Issues," *Sustainability* 12, no. 20 (2020): 8692.

⁶ Thabo S Khaile, Gregory J Davids, and Fundiswa T Khaile, "Limitations of the Principal-Agent Theory to Explain the Problem of Non-Compliance in South African Municipalities," *African Journal of Governance and Development* 10, no. 1 (2021): 164–83.

⁷ Modeni Mudzamba Sibanda, Beauty Zindi, and Tafadzwa Clementine Maramura, "Control and Accountability in Supply Chain Management: Evidence from a South African Metropolitan Municipality," *Cogent Business & Management* 7, no. 1 (2020): 1785105.

⁸ Prince Chukwuneme Enwereji, "Public Governance and Leadership: Ensuring the Welfare of the Citizenry," *African Journal of Governance and Public Leadership* 1, no. 3 (2022): 3–6.

⁹ Koliswa Matebese-Notshulwana, "Weak Procurement Practices and the Challenges of Service Delivery in South Africa," in *Public Procurement, Corruption and the Crisis of Governance in Africa* (Springer, 2021), 93–111; Sibanda, Zindi, and Maramura, "Control and Accountability in Supply Chain Management: Evidence from a South African Metropolitan Municipality."

¹⁰ Mustafa Baltaci and Serdar Yilmaz, "Keeping an Eye on Subnational Governments: Internal Control and Audit at Local Levels," *World Bank Institute, Washington, DC*, 2006.

¹¹ Shamsul Anuar Abd Rahim, Anuar Nawawi, and Ahmad Saiful Azlin Puteh Salin, "Internal Control Weaknesses in a Cooperative Body: Malaysian Experience," *International Journal of Management Practice* 10, no. 2 (2017): 131–51.

¹² Sri Rahayu, Yudi, and Rahayu, "Internal Auditors Role Indicators and Their Support of Good Governance," *Cogent Business & Management* 7, no. 1 (January 1, 2020): 1751020, <https://doi.org/10.1080/23311975.2020.1751020>.

¹³ M. Doornbos, "Good Governance": The Rise and Decline of a Policy Metaphor," in *Changing the Conditions for Development Aid* (London: Routledge, 2019), 93–108.

¹⁴ Bruno Lepri et al., "Fair, Transparent, and Accountable Algorithmic Decision-Making Processes: The Premise, the Proposed Solutions, and the Open Challenges," *Philosophy & Technology* 31, no. 4 (2018): 611–27.

responsiveness, consensus orientation, accountability, the rule of law, effectiveness and efficiency, and equity. In municipalities, these principles can help facilitate effective internal control systems that are often implemented through a combination of policies and procedures, training and oversight. Good governance assists in ensuring that financial transactions are accurately recorded and reported, budgets are adhered to, and assets are used in a responsible and accountable manner.

South African local municipalities play a crucial role in delivering essential services and driving socio-economic development at the grassroots level. However, persistent challenges in financial management and governance have hampered their ability to fulfil this mandate effectively.¹⁵ Mothupi et.al., confirm that instances of financial mismanagement, corruption, and inefficiency have eroded public trust and hindered the delivery of quality services to citizens.¹⁶ Regarding these challenges, there is a pressing need to enhance financial practices within South African local municipalities to promote good governance and ensure the effective use of public funds. Despite the recognised importance of internal control mechanisms, there remains a gap in understanding their role and effectiveness in the context of South African local municipalities.¹⁷ Limited research exists on the challenges faced by municipalities in implementing and maintaining internal controls, as well as the impact of these mechanisms on promoting good governance practices. Therefore, the objectives of the study include:

- Explore the relevance of internal control systems.
- Identify the causes of poor implementation of internal control systems.
- Examine the practical effects of poor implementation of internal control systems in local municipalities.
- Explore potential measures to enhance internal control systems in South African municipalities.

The study analyses the internal control mechanisms using a consolidated annual report to provide a broader discourse on public sector financial management in South African municipalities. This is to enable stakeholders to identify common challenges, trends, and best practices that can inform strategic decision-making and foster collaboration across the public sector. The findings of this study have the potential to bring positive change within South African local municipalities, which may lead to improved financial practices, enhanced accountability, and quality service delivery for citizens.

THEORETICAL FRAMEWORK

Systems Theory

A system refers to the unit of interacting parts that work together to achieve an agreed goal. Using the lens of the Systems theory, organisations such as municipalities are viewed as interconnected parts where stakeholders can better grasp the interactions between various components, including internal control mechanisms and policies to achieve their objectives. This perspective emphasises the importance of a holistic approach to governance that considers the interconnectedness of governance processes and promotes adaptability and resilience in the face of change. Internal control mechanisms play a crucial role in facilitating this approach by providing the basics for monitoring, evaluating, and improving governance processes, thereby enhancing the capacity of the municipality to achieve its financial objectives and uphold principles of good governance.

Systems theory, as proposed by Ludwig von Bertalanffy, is a scientific branch that explores how interconnected elements operate, interact and function as a whole.¹⁸ The theory aims to understand the properties and behaviours of interrelated components and to develop principles and methods for analysing and designing structures.¹⁹ In systems theory, it is assumed that all parts of a system should function in

¹⁵ Prince Chukwuneme Enwereji and Dominique Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa," *African Renaissance* 16, no. Special Issue 3 (2019): 143–65.

¹⁶ A J Mothupi, W Musvoto, and J N Lekunze, "Financial Accountability Framework for Local Municipalities in the North West Province," *International Journal of Financial Research* 13, no. 1 (2022): 74–89.

¹⁷ Mothupi, Musvoto, and Lekunze, "Financial Accountability Framework for Local Municipalities in the North West Province."

¹⁸ Cristina Mele, Jacqueline Pels, and Francesco Polese, "A Brief Review of Systems Theories and Their Managerial Applications," *Service Science* 2, no. 1–2 (2010): 126–35.

¹⁹ Christo Coetzee and Dewald Van Niekerk, "Tracking the Evolution of the Disaster Management Cycle: A General System Theory Approach," *Jambá: Journal of Disaster Risk Studies* 4, no. 1 (2012): 1–9.

equilibrium, and the poor performance of one part inevitably affects the entire system.²⁰ The System Theory posits that optimal functionality of an organisation hinges on the effective operation of each department, as the dysfunction of one unit can disrupt the entire system. This theoretical framework emphasises the importance of fostering teamwork, coordination, efficiency, and a shared vision within the organisation. The systems model is presented in Figure 1 below:

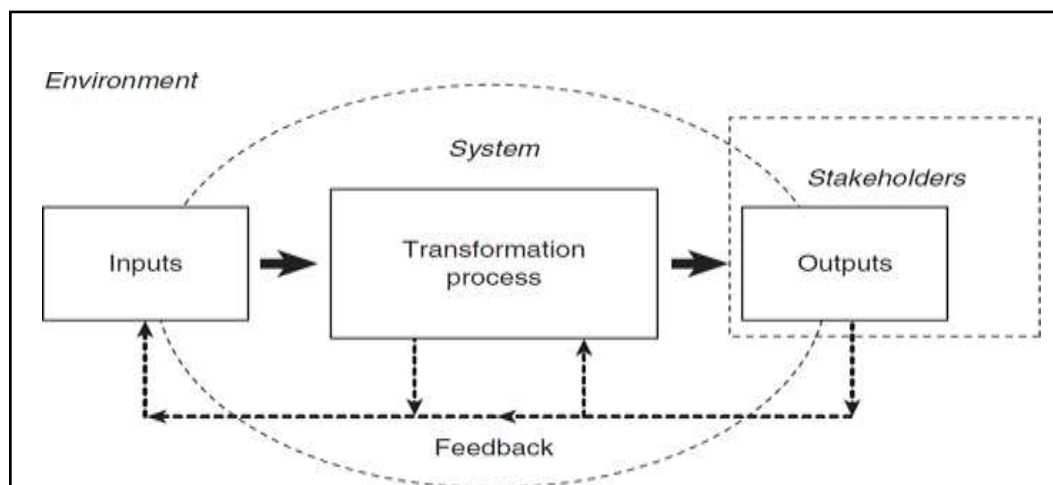


Figure 1: Systems Theory
Source: Mele et al.²¹

The systems model, illustrated in Figure 1, outlines the components of an organisation, including inputs (human resources, technology, capital), a transformational process (management actions, operations methods), and outputs (products and services, financial standing). These elements are interconnected with the environment (consumers, competitors) and reinforced by continuous feedback from all stakeholders (suppliers, government). According to Systems Theory, fostering interaction, cultivating a profound understanding of visions and environments, adapting to constraints, and ensuring effective communication are fundamental. Municipalities are encouraged to embrace the principles of this theory, aiming to facilitate the effective functioning and cooperation of all units. This approach involves establishing meaningful connections with both internal and external environments, ultimately ensuring efficient service delivery to fulfill the constitutional objectives of the municipality. The implementation of this theory will allow municipal financial staff to apply successful best practices in financial management in all financial units to regulate the revenue and expenditure of the municipality to achieve service delivery as mandated by the Constitution. In addition, all relevant municipal regulations will be checked to facilitate a fair financial resources maintenance culture.

In the municipal sector, the Systems theory has several applications to enhance internal control systems. Firstly, it can help identify and understand the various components of a municipal organisation, such as its processes, policies, and procedures, and how they interact with each other.²² It is possible to identify potential weaknesses in the system and design controls to address them by understanding these interconnections. Secondly, systems theory can be used to analyse the flow of information within a municipal organisation and identify potential bottlenecks or inefficiencies.²³ This can help improve the efficiency and effectiveness of internal controls, as well as identify opportunities for streamlining processes and procedures. Finally, systems theory can be used to design and implement control systems that are tailored to the specific needs and characteristics of a municipal organization.²⁴ Understanding the assumptions of systems theory can help ensure that internal control systems are effective in detecting and

²⁰ D. Hellriegel et al., *Management*, 3rd ed. (SA: Oxford University Press Southern Africa (Pty) Ltd., 2008).

²¹ Mele, Pels, and Polese, "A Brief Review of Systems Theories and Their Managerial Applications."

²² Mele, Pels, and Polese, "A Brief Review of Systems Theories and Their Managerial Applications."

²³ Mele, Pels, and Polese, "A Brief Review of Systems Theories and Their Managerial Applications."

²⁴ Coetzee and Van Niekerk, "Tracking the Evolution of the Disaster Management Cycle: A General System Theory Approach."

preventing fraud and errors, and in promoting compliance with laws, regulations and policies through the cooperation of different sections within an organisation.

The concept of internal control systems

According to Ncgobo and Malefane, internal control is defined as a process aimed at offering reasonable assurance that organizational objectives will be achieved by ensuring reliable financial reporting, operational efficiency and effectiveness, and adherence to relevant laws and regulations.²⁵ By implication, this definition suggests that within any organisation, internal control is a function, process and measure, as well as an organisational tool used to provide reasonable control, which ensures an organisation achieves its objectives, obligations and mandates. This process also guarantees that accurate and reliable financial data is reported, as well as facilitates the efficiency and effectiveness of operations with applicable regulations and laws.²⁶

Ncgobo and Malefane contend that the development of effective financial processes is closely linked to the establishment of a clear and structured framework for financial accountability.²⁷ Internal control implementation, as described by Gyüre, should address managing excessive risks in municipal financial management.²⁸ Furthermore, Enwereji and Uwizeyimana uphold that financial threats have reached an unsustainable level in local municipalities, thus posing a threat to the economic development of the nation.²⁹ The objectives of the internal control system are to produce reliable and effective operating procedures as well as to provide long-term financial services.³⁰ The financial regulation in local governments, according to Enwereji and Uwizeyimana, includes both external and internal considerations, with budget preparation falling under the external component and internal audit falling under the internal component.³¹ According to Omondi, the internal control system is tasked with ensuring that public financial transactions are accurately reported and effectively presented.³²

Effective financial governance in both corporate and public sectors begins with a robust internal financial control system. Such a system is essential for ensuring transparency and accountability in public sector governance.³³ Ngozo and Mtantato assert that managers must implement strong internal management and governance structures within their areas of responsibility to enhance transparency, which is vital for good governance and efficient service delivery.³⁴ Niroula and Gyawali describe internal control as a mechanism employed by municipal administrations to uphold financial regulations, promote transparency, ensure governance effectiveness, and improve reporting accuracy and operational efficiency. They further argue that the council and municipal manager bear the primary responsibility for maintaining this system to curb the misuse of public funds.³⁵ According to Enwereji and Uwizeyimana, failure to establish a functional internal control system reflects weaknesses within the Council, highlighting the critical role that internal control practices play in promoting financial accountability in local government.³⁶

²⁵ Portia Ncgobo and Shepherd R Malefane, "Internal Controls, Governance and Audit Outcomes-Case of a South African Municipality," *African Journal of Public Affairs* 9, no. 5 (2017): 74–89.

²⁶ Ncgobo and Malefane, "Internal Controls, Governance and Audit Outcomes-Case of a South African Municipality."

²⁷ Ncgobo and Malefane, "Internal Controls, Governance and Audit Outcomes-Case of a South African Municipality."

²⁸ L. Gyüre, "The Role of Systematic Internal Control and Audit in Reducing Management Risk at Hungarian Local Municipalities," 2012, <http://www.asz.hu/public-financequarterly-articles/2012/the-role-of-systemic-internal-control...Local-governments/a-173-183-gyure>.

²⁹ Enwereji and Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa."

³⁰ J.P. Bruwer, "The Relationship(s) between the Managerial Conduct and the Internal Control Activities of South African Fast Moving Consumer Goods SMMs" (Cape Peninsula University of Technology, 2016).

³¹ Enwereji and Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa."

³² Margaret Atieno Omondi, "Internal Control Systems on Financial Accountability in National Public Secondary Schools in Kenya" (JKUAT-COHRED, 2021).

³³ R K Manyaka, "Collection of Municipal Own Revenue in South Africa: Challenges and Prospects," *Journal of Public Administration* 49, no. 1 (2014): 127–39.

³⁴ T. Ngozo and S. Mtantato, "Leadership, Management and Governance for Sustainable Public Service Delivery," 2021.

³⁵ Ballav Niroula and Achut Gyawali, "Internal Control Systems in Nepal: A Case of Nepal Telecom," *Jambura Science of Management* 3, no. 2 (2021): 99–113.

³⁶ Enwereji and Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa."

In the view of Abiodun, municipal internal control helps identify and assess potential risks to the organisation and implement controls to mitigate those risks.³⁷ In the same dimension, Chang et al. further sustain that internal control helps organisations comply with relevant laws, regulations, or policies and that financial information is accurate, complete, and reliable.³⁸ Internal control guarantees that an organisation's assets are safeguarded from theft, fraud, or misuse, thereby ensuring that the organisation's operations are efficient and effective and that resources are used effectively.³⁹ Regarding decision-making, Frazer affirms that internal controls help in providing timely information, accurate and relevant for decision-making purposes and this can be achieved by regularly reviewing and evaluating the system to identify opportunities for improvement.⁴⁰ According to Ujkani, Vokshi and Boulhaga et al., internal control systems provide reasonable assurance that an organisation's objectives are met in a manner that is consistent with management's goals and objectives, while also considering the potential risks that may impact the achievement of those objectives.⁴¹ The design and implementation of effective internal controls can help organisations operate more efficiently, effectively and with increased transparency and accountability.⁴²

Internal control has five components, according to an American organisation known as the 'Committee of Sponsoring Organisations of the Treadway Commission' (COSO),⁴³ which was formed as a collaboration to tackle corporate fraud. To this organisation, internal control means a system dedicated to guiding government entities and the executive management of organisations in specific but relevant areas of organisational governance. Holistically, these facets of organisational governance are achieved through the internal control system and are viewed as having five fundamental components. These five components are the control environment, risk evaluation, information and communication, control actions, and monitoring. According to Barra, three basic types of internal control are known or used by businesses and public organisations worldwide, and these include detective, corrective and preventive internal control systems.⁴⁴ These control measures are presented in Table 1.

Table 1: Objectives of internal control measures

Objectives	Dimensions
Preventive control	Preventive controls are specifically introduced by organisations to prevent irregularities and errors from occurring. This type of control is the first line of the defensive step taken to stop the occurrence of errors and irregularities.
Detective control	Detective controls are a set of actions and activities that an organisation undertakes to detect errors or irregularities that survived preventive control measures.
Corrective control	Corrective controls are developed to facilitate corrective steps if mistakes are detected, and this process usually follows detective control actions because they are recoveries from the consequences of errors or unexpected events that have occurred within an organisation.

Source: Barra, "The Impact of Internal Controls and Penalties on Fraud."⁴⁵

³⁷ Eniola Anthony Abiodun, "Internal Control Procedures and Firm's Performance," *International Journal of Scientific & Technology Research* 9, no. 2 (2020): 6407–15.

³⁸ She-I Chang, Li-Min Chang, and Jhan-Cyun Liao, "Risk Factors of Enterprise Internal Control under the Internet of Things Governance: A Qualitative Research Approach," *Information & Management* 57, no. 6 (September 2020): 103335, <https://doi.org/10.1016/j.im.2020.103335>.

³⁹ P. Hopkin, *Fundamentals of Risk Management: Understanding, Evaluating and Implementing Effective Risk Management* (Kogan Page Publishers, 2018).

⁴⁰ Linval Frazer, "Does Internal Control Improve the Attestation Function and by Extension Assurance Services? A Practical Approach," *Journal of Accounting and Finance* 20, no. 1 (2020): 28–38.

⁴¹ Sead Ujkani and Nexhmie Berisha Vokshi, "An Overview on the Development of Internal Control in Public Sector Entities: Evidence from Kosovo," 2019; Mounia Boulhaga et al., "Environmental, Social and Governance Ratings and Firm Performance: The Moderating Role of Internal Control Quality," *Corporate Social Responsibility and Environmental Management* 30, no. 1 (2023): 134–45.

⁴² Enwereji and Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa."

⁴³ Committee of Sponsoring Organisations of the Treadway Commission' (COSO), "Audit Files," 2013, <https://audit.org.uiowa.edu/sites/audit.org.uiowa.edu/files/2020-04/COSO.pdf>.

⁴⁴ Roberta Ann Barra, "The Impact of Internal Controls and Penalties on Fraud," *Journal of Information Systems* 24, no. 1 (2010): 1–21.

⁴⁵ Barra, "The Impact of Internal Controls and Penalties on Fraud."

According to the dimensions of Barra as presented in Table 1, all the local municipalities in South Africa should adopt the three types of internal control to achieve sustainability and good governance.⁴⁶ Consequently, Omondi suggests that the deficiencies in internal control measures are attributed to a lack of municipal top management to maintain a stable control climate, inability to maintain consistency in governance, inability to collaborate, and a lack of capacity to respond as required.⁴⁷ According to Huefner, an ineffective internal control system can lead to fraudulent expenditure, irregular expenditure, wastage, loss or reckless use of the municipality's resources, all of which increase the local tax burden.⁴⁸ Here, fraudulent activities could be prevented by the local municipalities by applying the principles of internal control measures.⁴⁹

The Concept of Good Governance

In recent times, there has been a notable increase in the usage of the terms ‘*governance*’ and ‘*good governance*’ in the discourse surrounding the development of nations. A few individuals with various political perspectives today think that bad governance is one of the root causes of all evil in our societies.⁵⁰ As the importance of governance and good governance gains prominence in contemporary discussions on societal development, it is crucial to recognize that the impact of governance extends beyond mere political realms. Mungiu-Pippidi highlights the pervasive influence of governance on various facets of society, encompassing economic stability, social justice, and environmental sustainability.⁵¹ In this context, the pursuit of good governance emerges not only as a political imperative but as a holistic approach essential for fostering comprehensive and sustainable development in nations across the globe. The concept of ‘*governance*’ is not new; rather, it is thought to be as old as human civilisation itself. According to Asmara and Sumarwono, governance refers to the processes in making decisions and carrying them out successfully.⁵² The concept of ‘*governance*’ applies to a range of settings, such as corporate, international, national, and municipal governance.⁵³ Since governance involves the processes through which decisions are made and executed, its study examines both the formal and informal actors involved in decision-making, along with the institutions, formal and informal, that support these processes.⁵⁴

Governance can also be understood as the way power is exercised through the economic, political, and social institutions of a nation.⁵⁵ To manage the affairs of a country at all levels, governance is facilitated to implement economic, political and administrative submissions.⁵⁶ Governance is made up of policies, programmes and institutions that allow people and groups to voice their concerns, claim their legal rights, conduct their obligations and settle disputes.⁵⁷ In the civil context, governance is participatory, open, accountable and supportive, and observes the rule of law in a fair manner.⁵⁸ According to Cowen, governance encompasses the role of public authorities in shaping the environment in which economic actors function, determining how resources and benefits are distributed, and defining the

⁴⁶ Barra, “The Impact of Internal Controls and Penalties on Fraud.”

⁴⁷ Omondi, “Internal Control Systems on Financial Accountability in National Public Secondary Schools in Kenya.”

⁴⁸ Ronald J Huefner, “Fraud Risks in Local Government: An Analysis of Audit Findings,” *Journal of Forensic & Investigative Accounting* 3, no. 3 (2011): 111–25.

⁴⁹ Ngobo and Malefane, “Internal Controls, Governance and Audit Outcomes-Case of a South African Municipality.”

⁵⁰ T. Hanson-Agumbah, “‘Bad Governance’ A Threat to Human Wellbeing: A Case Study of Bad Governance during the COVID Pandemic in Nigeria” (Memorial University of Newfoundland, 2022).

⁵¹ A. Mungiu-Pippidi, *Europe’s Burden: Promoting Good Governance across Borders* (Cambridge: Cambridge University Press, 2019).

⁵² Anugerah Yuka Asmara and Rudiarto Sumarwono, “Understanding the Complex Relationship between Good Governance and Economic Growth in Indonesia during the Reform Era,” *BISNIS & BIROKRASI: Jurnal Ilmu Administrasi Dan Organisasi* 27, no. 2 (2021): 78–88.

⁵³ Doornbos, “Good Governance’: The Rise and Decline of a Policy Metaphor.”

⁵⁴ Shann Turnbull, “Corporate Governance: Its Scope, Concerns and Theories,” in *Corporate Governance* (Gower, 2019), 415–40.

⁵⁵ Susana Borrás and Jakob Edler, “The Roles of the State in the Governance of Socio-Technical Systems’ Transformation,” *Research Policy* 49, no. 5 (2020): 103971.

⁵⁶ Otniel Safkaur et al., “The Effect of Quality Financial Reporting on Good Governance,” *International Journal of Economics and Financial Issues* 9, no. 3 (May 1, 2019): 277–86, <https://doi.org/10.32479/ijefi.8047>.

⁵⁷ Keith Carlisle and Rebecca L Gruby, “Polycentric Systems of Governance: A Theoretical Model for the Commons,” *Policy Studies Journal* 47, no. 4 (2019): 927–52.

⁵⁸ Anna Klimach, Agnieszka Dawidowicz, and Ryszard Żróbek, “The Polish Land Administration System Supporting Good Governance,” *Land Use Policy* 79 (2018): 547–55.

relationship between the governing and the governed.⁵⁹ Gailmard and Patty illustrate governance through consistent, transparent, and well-informed policymaking, a professional bureaucracy, an accountable executive, an active civil society, and adherence to the rule of law.⁶⁰ Babalola further outlines three key components of good governance mechanisms: internal rules and controls (including judicial and central bank independence, internal audits, and civil service regulations), voice and partnership (such as public-private dialogue platforms and citizen feedback surveys), and competition (including market-based service delivery, private sector participation in infrastructure, alternative dispute resolution methods, and privatisation of specific services).⁶¹

Governance refers to all structures, processes and routines used to decide on and control issues of public concern. Through effective governance, the method through which the public benefits from democracy acquires a normative or evaluative quality. From the perspective of ensuring the implementation of human rights, it mainly refers to the procedure by which public institutions manage public resources and conduct public affairs.⁶² Sabanal asserts that although good governance has no universally agreed definition, it may include the following eight characteristics: participation, rule of law, transparency, responsiveness, consensus-oriented, equity and inclusiveness, effectiveness and efficiency, and accountability.⁶³ The institutional and political actions and outcomes necessary to achieve development goals are referred to as good governance.⁶⁴ The primary indicator of good governance is the extent to which public actors uphold the promises of human rights and cultural, economic, political and social rights.⁶⁵ The basic goal is to determine whether the subject of governance successfully upholds the rights to a healthy body, a secure home, adequate food, a high-quality education, fair trial and personal safety. Adedayo essentially asserts that good governance guarantees the reduction of corruption, considers the perspectives of minorities and upholds the voices of the most vulnerable members of society during the decision-making process.⁶⁶ In the present and the future, good governance responds to the needs of society development.⁶⁷

METHODOLOGY

This study explored the implementation of municipal internal control systems and their impact on good governance. This study was descriptive in nature. The study further described the meaning of internal control systems, their relevance in the municipal sphere, causes of poor implementation of internal control systems, practical effects of poor implementation of internal control systems, and measures to enhance internal control systems in the local municipalities of South Africa. The study adopted a qualitative study and a descriptive qualitative design to provide solutions to the problems of the study. Secondary data collection, specifically document analysis, was employed to examine the Consolidated General Report on Local Government Audit Outcomes (MFMA 2020–2021). This analysis aimed to explore how municipal role-players implemented internal control measures during the 2020–2021 fiscal year in pursuit of achieving the objectives outlined for municipalities in the South African Constitution. Furthermore, peer-reviewed articles focusing on public financial management and internal control were analysed to support the findings from the municipal report in objectives 1, 2 and 4. A content analysis was applied

⁵⁹ Nick Cowen, "Markets for Rules: The Promise and Peril of Blockchain Distributed Governance," *Journal of Entrepreneurship and Public Policy* 9, no. 2 (2020): 213–26.

⁶⁰ Sean Gailmard and John W Patty, *Learning While Governing: Expertise and Accountability in the Executive Branch* (University of Chicago Press, 2012).

⁶¹ Joel B Babalola, "Governance and Internal Control in Public Institutions," in *A Lecture Delivered at a Two-Day National Workshop on Anti-Corruption Organized by American Anti-Corruption Institute (AACI) and Department of Adult Education, University of Ibadan, Nigeria on Thursday, 27th February, 2020*.

⁶² Chinedu A Onah and M V C Ozioko, "The Rule of Law as a Determinant of Good Governance in Nigeria's Democracy," *ACARELAR* 3 (2022): 81.

⁶³ J.T. Sabanal, "The Differences of Perceptions of Good Governance Between the Personnel of a Government Corporation and a Private Company," *Ascendens Asia Journal of Multidisciplinary Research Conference Proceedings* 3, no. 4 (2019).

⁶⁴ Coetzee and Van Niekerk, "Tracking the Evolution of the Disaster Management Cycle: A General System Theory Approach."

⁶⁵ Omoniyi Bukola Akinola, "Essentials of Good Governance in a Multilingual, Multiethnic and Multi-Religious Society: Developing an Effective Model for Nigeria," 2021.

⁶⁶ Muiyiwa Samuel Adedayo, "Good Governance, Bad Governance: The Politics of Coronavirus Pandemic in Nigeria," in *Proceedings of the 21st International RAIS Conference on Social Sciences and Humanities* (Scientia Moralitas Research Institute, 2021), 114–22.

⁶⁷ J S Khan, L Sheeraz, and M A Bajwa, "Good Governance in Pakistan: Prospects and Challenges," *Journal of Intellectual Property and Human Rights* 1, no. 6 (2022): 34–50.

through the artificial intelligence of the Atlas-ti software (version 23) to analyse the consolidated general report by focusing on the keywords such as control, internal control, poor control, effects of control, and effective internal control. These words were combined or added in the software to ensure that each research objective was attained. To maintain credibility in this study, the page numbers of the extracts were included to substantiate any claim made in the study. The software was used to sort out the outcomes of the research objectives. Each objective was presented in a separate table and interpreted afterwards. Furthermore, the study engaged in an internet search to identify the authors who support the contextual findings of the consolidated report. These authors were documented to substantiate the findings of the study. Discussion of the results, recommendations and conclusions was made subsequently to proffer solutions to municipalities in their bid to achieve sound financial outcomes and effective internal control systems in an endeavour to achieve effective service delivery even to the grassroots level.

PRESENTATION OF FINDINGS

This section presents the results obtained from the content analysis conducted with the help of Atlas-ti software (version 23). The results of all the objectives were presented, interpreted and discussed subsequently. The following section presents the relevance of effective internal control systems.

Relevance of Effective Internal Control Systems

This section explores the relevance of effective internal control systems. It should be noted that the outcomes as presented in Table 1 are extracts from the consolidated general report on local government audit outcomes (MFMA 2020-2021).

Table 2: Relevance of internal control systems

Relevance of Internal Control Pages	References supporting the MFMA report
Improves payment control p7, contributes to financial health p7, advances revenue management p24, improves payment controls p45, detect fraudulent activities p45, expenditure management p54, payment recovery p54, reveals financial and management errors p61, closes skills and capacity gaps p61, detects material errors p71, prevents material errors p10,65,71, monitors consultants p64, instills accountability p64, prevents losses p77, ensures effective operations p78.	Chiu ⁶⁸ , Aziz, Said & Alam ⁶⁹ , Levine ⁷⁰ , Turedi & Celayir ⁷¹ , Oussii & Boulila Taktak ⁷² , Li, Shu, Tang & Zheng ⁷³ , Henk ⁷⁴ , Kupec, Al-Waeli, Hanoon, Ageeb & Idan ⁷⁵ , and PISAŘ, Lukáč & Pajtinková Bartáková. ⁷⁶

Source: Consolidated general report on local government audit outcomes (MFMA 2020-2021)

The results obtained in this section highlight the relevance of internal control systems in enhancing the effectiveness of the municipalities. Notably, these systems contribute significantly to financial health through improved payment controls and advanced revenue management. They are instrumental in

⁶⁸ I.H. Chiu, *Regulating (from) the inside: The Legal Framework for Internal Control in Banks and Financial Institutions* (London: Bloomsbury Publishing, 2015).

⁶⁹ Mohamad Aziz, Jamaliah Said, and Md Mahmudul Alam, "Assessment of the Practices of Internal Control System in the Public Sectors of Malaysia," *Aziz, MAA, Said, J., and Alam, MM*, 2015, 43–62.

⁷⁰ W.S. Levine, *The Control Handbook (Three Volume Set)*, 2nd ed. (CRC Press, 2018).

⁷¹ Hasan Turedi and Duygu Celayir, "Role of Effective Internal Control Structure in Achievement of Targeted Success in Businesses," *European Scientific Journal, ESJ* 14, no. 1 (2018): 1.

⁷² Ahmed Atef Oussii and Neila Boulila Taktak, "The Impact of Internal Audit Function Characteristics on Internal Control Quality," *Managerial Auditing Journal* 33, no. 5 (2018): 450–69.

⁷³ Ping Li et al., "Internal Control and Corporate Innovation: Evidence from China," *Asia-Pacific Journal of Accounting & Economics* 26, no. 5 (2019): 622–42.

⁷⁴ Oliver Henk, "Internal Control through the Lens of Institutional Work: A Systematic Literature Review," *Journal of Management Control* 31, no. 3 (2020): 239–73.

⁷⁵ Václav Kupec et al., "Conceptual Comparison of Internal Audit and Internal Control in the Marketing Environment," *Sustainability* 13, no. 12 (2021): 6691.

⁷⁶ Kupec et al., "Conceptual Comparison of Internal Audit and Internal Control in the Marketing Environment."

detecting and preventing fraudulent activities, managing expenditure effectively, and facilitating payment recovery.

The Causes of Poor Implementation of Internal Control Systems

This section explores the causes of poor internal control systems in South African local municipalities. The extracts were gathered from the reports of the different local municipalities across South African provinces. Table 3 presents the extracts.

Table 3: Causes of Poor Implementation of Internal Control Systems

Causes of poor implementation of internal control	References supporting MFMA report
Poor procurement and payment process p16,47, lack of risk management p58, poor state of accounting records p52,75, ineffective financial management system p74, poor project management p74, poor audit process p76, neglect of procedures p77, ineffective governance p3,6,57,77, weakened governance p77, lack of accountability p77, leadership issues p77, ineffective provincial interventions p77, lack of preventative controls p77, compromised accounting standards p77.	Aramide & Bashir ⁷⁷ , Tazilah & Hussain ⁷⁸ , Frazer ⁷⁹ , Hamdani & Albar ⁸⁰ , Abdullahi, Abdullahi & Muturi ⁸¹ , Maina, Muturi, Atambo & Nyamasege ⁸² , Zakaria, Nawawi & Salin ⁸³ , Masanja ⁸⁴ , Omonyemen, Josiah & Godwin ⁸⁵ , Eton, Murezi, Fabian & Benard ⁸⁶ , Mzimba, Smidt, & Motubatse. ⁸⁷

Source: Consolidated general report on local government audit outcomes (MFMA 2020-2021)

The findings, highlighted in this section, emphasise the need for a holistic approach in addressing internal control shortcomings. A strategic focus on these factors is essential for municipalities to fortify their internal control mechanisms, ensuring they are resilient, responsive, and aligned with best practices in governance and financial management.

Practical Effects of Poor Application of Internal Control Systems

This section provides the practical implications of the poor application of internal control systems in local municipalities. Table 4 provides a summary of the practical effects of poor application of internal control systems in South African municipalities (2020-2021).

⁷⁷ Sanusi Fasilat Aramide and Mustapha Muhammed Bashir, "The Effectiveness of Internal Control System and Financial Accountability at Local Government Level in Nigeria," *International Journal of Research in Business Management* 3, no. 8 (2015): 1–6.

⁷⁸ MDABK Tazilah and Norhusnaida Binti Che Hussain, "The Importance of Internal Control in SMEs: Fraud Prevention & Detection," in *International Conference on Business, Accounting, Finance, and Economics (BAFE 2015) Universiti Tunku Abdul Rahman, Kampar, Perak, Malaysia, 9th October, 2015*.

⁷⁹ Linval Frazer, "Internal Control: Is It a Benefit or Fad to Small Companies? A Literature Dependency Perspective," *Journal of Accounting and Finance* 16, no. 4 (2016): 149–61.

⁸⁰ Rizki Hamdani and Ahmad Riski Albar, "Internal Controls in Fraud Prevention Effort: A Case Study," *Jurnal Akuntansi Dan Auditing Indonesia* 20, no. 2 (2016): 127.

⁸¹ Mohamed Hassan Abdullahi, M H Abdullahi, and W Muturi, "Effect of Internal Control Systems on Financial Performance of Higher Education Institutions in Puntland," *International Journal of Economics, Commerce and Management* 4, no. 12 (2016): 762–80.

⁸² AnnroseGakenia Maina et al., "Effect of Internal Control Systems on Implementation of Projects at County Government in Kenya," *Research Journal of Finance and Accounting* 7, no. 12 (2016): 146–53.

⁸³ Khairul Mizan Zakaria, Anuar Nawawi, and Ahmad Saiful Azlin Puteh Salin, "Internal Controls and Fraud—Empirical Evidence from Oil and Gas Company," *Journal of Financial Crime* 23, no. 4 (2016): 1154–68.

⁸⁴ Ndalaha Musa Masanja, "The Impact of Internal Control Challenges on Organizational Financial Performance for Selected Local Government Authorities in Arumeru District, Arusha Tanzania," *International Journal of Research and Innovation in Social Science* 2, no. 1 (2018): 7–9.

⁸⁵ Idogei S Omonyemen, M Josiah, and Onomuhara O Godwin, "Internal Control as the Basis for Prevention, Detection and Eradication of Frauds in Banks in Nigeria," *International Journal of Economics, Commerce and Management* 5, no. 9 (2017): 61–88.

⁸⁶ Marus Eton et al., "Internal Control and Budget Implementation in Kabale District Uganda," 2019.

⁸⁷ Provia P Mzimba, Louis A Smidt, and Kgobalale N Motubatse, "Factors Contributing to Detrimental Internal Control Systems at a South African University of Technology," *Southern African Journal of Accountability and Auditing Research* 24, no. 1 (2022): 129–42.

Table 4: Practical effects of poor application of internal control systems

Provinces	Practical effects of poor application of internal control systems
Eastern Cape	27 material irregularities reported, leading to estimated financial losses of R254 million (p61). Audit disclaimers were issued to Chris Hani, Makana, Sundays River Valley, and Walter Sisulu due to financial mismanagement (p61). Municipalities recorded R3.1 billion and metros R17.7 billion in irregular expenditure (p62). Performance reports of 56% of municipalities had significant findings (p62).
Free State	No municipality achieved a clean audit (p63). Average water losses were 49% and electricity losses 20%, caused by theft, poor maintenance, and lack of metering (p64). Irregular expenditure rose from R7.63 billion to R9.18 billion due to delayed investigations by municipal public accounts committees (p64).
Gauteng	City of Tshwane was defrauded of R53 million in a cyberattack (p29). Municipalities spent R971 million unnecessarily on consultants (p71). Combined irregular expenditure of R3.82 billion reported by Johannesburg and Tshwane (p64). Non-compliance resulted in estimated losses of R390.14 million (p67).
Kwazulu Natal	About 89% of municipalities lacked effective preventative controls in supply chain management, resulting in irregular expenditure of R14.45 billion for 2020–21 (p68).
Limpopo	Irregular expenditure of R1.8 billion and unauthorised expenditure of R3.6 billion were reported (p69–70). Ten material irregularities resulted in losses estimated at R1.2 billion (p70).
Mpumalanga	Irregular expenditure of R1.26 billion resulted from poor project management, delays, and overpricing (p72). Financial losses of R15.9 million were reported by four municipalities (p72).
Northern Cape	Debt collection remained poor with 69% of municipal debt written off as irrecoverable (p74). 70% of municipalities overspent by using more than half of the next year's budget in advance (p74). Unfair procurement practices were present in 87% of municipalities (p74). Irregular expenditure rose to R1.1 billion (p74).
North West	Compliance violations were found in all municipalities (p76). Irregular expenditure reached R3.99 billion (p76). 42% of procurement was irregular, and eight municipalities had over 50% of spending classified as such (p76). 38 material irregularities reported, with total financial loss of R627.2 million (p77).
Western Cape	Irregular expenditure of R1.23 billion was incurred by 27 municipalities (p79). Two material irregularities in Cape Town: one for unreceived services and another for unjustified standby hours due to inadequate needs analysis (p80)..

Source: Consolidated general report on local government audit outcomes (MFMA 2020-2021)

The findings obtained in Table 4 reveal a troubling state of municipal governance, financial management, and compliance of the local municipalities. The prevalent issues of non-compliance, irregular expenditure, and inefficient debt collection practices compound the financial challenges faced by municipalities.

Measures to Enhance Municipal Internal Control Systems

This section explored possible measures to enhance municipal internal control mechanisms in the South African municipal context. Table 4 presents the findings obtained in this section and the sources supporting the findings.

Table 5: Measures to enhance municipal internal control systems

Measures to enhance municipal internal control systems	Sources supporting MFMA report
<p>Political appointments should be based on relevant qualifications rather than political affiliation (p. 62). There must be a stronger commitment to accountability, with particular emphasis on tackling underperformance, poor financial reporting, and irregular expenditure (p. 62). Disclaimed audit opinions should be prioritised for corrective action (p. 62), and municipalities must identify existing skills gaps and provide targeted support where needed (p. 62), maintaining high levels of transparency, integrity and accountability p65, revisiting consequence management and holding management accountable p66, 67, provision of oversight p67, training of supply chain officials p67, conducting of proactive risk assessments p69, key vacant positions must be filled p71, strengthening the basic control environment and accountability p75, strengthen the processes aimed at monitoring municipalities’ compliance with the Municipal Finance Management Act p77, Establishment of preventative controls in the departments p77, establishing oversight structures p77, intervention of coordinating ministries and leadership stability p79</p>	<p>Aduam⁸⁸, Ross⁸⁹, Nogueira & Jorge⁹⁰, Banura⁹¹, Peterson⁹², Eton, Murezi, Fabian & Benard⁹³, Sibanda, Zindi & Maramura⁹⁴, Osei⁹⁵, Bernard Kabweine⁹⁶, Eton, Mwosi & Ogwel.⁹⁷</p>

Source: Consolidated general report on local government audit outcomes (MFMA 2020-2021)

The findings in Table 5 established critical areas to consider by the municipal stakeholders to achieve sound financial management. The next section presents the discussion of findings.

DISCUSSION

The findings of this study noted that internal control systems involve the processes, laws and regulations an organisation uses to guarantee that its activities are carried out in a way that is effective, efficient and compliant. The study discovered that the effective implementation of internal control helps municipalities to achieve their objectives. It further facilitates achieving transparency, accountability, effective planning, the integrity of information, preventing losses and fraudulent acts, and closing skills and capacity gaps. This aligns with the findings of Ncgobo and Malefane, who define internal control systems as processes intended to offer reasonable assurance in achieving organizational objectives by ensuring accurate financial reporting, operational efficiency and effectiveness, and adherence to applicable laws and regulations.⁹⁸ This depicts that internal control is not only a fundamental element for enhancing the likelihood of achieving objectives, but it also serves as a multifaceted framework that underpins the pillars of good governance and sound financial management within municipalities. Furthermore, Matebese-

⁸⁸ J. Aduam, “ Assessing the Effectiveness of Internal Controls Mechanism of the Techiman Municipal Assembly ” (Kwame Nkrumah University of Science and Technology, 2016).

⁸⁹ David Ross, *A Case Study of Municipal Government Financial Management and Effective Internal Controls* (Northcentral University, 2016).

⁹⁰ Sónia Paula da Silva Nogueira and Susana Margarida Faustino Jorge, “The Perceived Usefulness of Financial Information for Decision Making in Portuguese Municipalities: The Importance of Internal Control,” *Journal of Applied Accounting Research* 18, no. 1 (2017): 116–36.

⁹¹ W. Banura, “ Internal Control System and Education Service Delivery in Busia Municipal Council ” (Kyambogo University, 2018).

⁹² Amanda N Peterson, “Differences in Internal Control Weaknesses among Varying Municipal Election Policies,” *Journal of Accounting and Public Policy* 37, no. 3 (2018): 191–206.

⁹³ Eton et al., “Internal Control and Budget Implementation in Kabale District Uganda.”

⁹⁴ Sibanda, Zindi, and Maramura, “Control and Accountability in Supply Chain Management: Evidence from a South African Metropolitan Municipality.”

⁹⁵ Helena Osei, “Internal Financial Control System and Performance of The Komenda Edina Eguafu Abrem Municipal Assembly” (Universtiy of Cape Coast, 2021).

⁹⁶ M. Bernard Kabweine, “Internal Control Systems and Financial Performance. A Case Study of Kabale Municipal Council, Kabale District ” (Kabale University, 2022).

⁹⁷ Marus Eton, Fabian Mwosi, and Bernard Patrick Ogwel, “Are Internal Controls Important in Financial Accountability? (Evidence from Lira District Local Government, Uganda),” *International Journal of Financial, Accounting, and Management* 3, no. 4 (March 25, 2022): 359–72, <https://doi.org/10.35912/ijfam.v3i4.810>.

⁹⁸ Ncgobo and Malefane, “Internal Controls, Governance and Audit Outcomes-Case of a South African Municipality.”

Notshulwana concurs that the internal control unit was established to improve service delivery in South African government departments and to prevent legal infractions in the local municipal area.⁹⁹ Organisations can function more effectively, transparently, and accountably by designing and implementing internal controls that are effective.¹⁰⁰ Regarding the causes of poor implementation of internal control systems, the study highlighted poor project management, lack of corrective actions, poor financial control and governance, and poor management, among others. In the view of Manyaka, a strong internal financial control system is the foundation of sound financial governance in both the corporate and governmental sectors.¹⁰¹ The community wants fair treatment, and an efficient internal financial management system would give the necessary information for transparent public sector governance. In this regard, this context specifies that the inability to be transparent and exhibit sound financial management precepts is the fundamental cause of poor internal control. According to Enwereji and Uwizeyimana, the inability to achieve an effective internal control system is because of the municipalities' role-players' failures to facilitate effective financial control and consequence management, which is deemed critical to maintaining solid financial outcomes.¹⁰²

This study further elicited the practical effects of poor application of internal control in the various local municipalities. These effects include, among others, loss of financial resources, fraudulent acts, material irregularities, overpayment of suppliers, inability to submit quality reports, inability to confirm receivables, inability to bill consumers adequately, errors in financial statements, irregular expenditure, poor debt collection, and overspending of financial resources. These findings conform to those of Maulidi and Ansell, who affirm that internal control is intended to ensure the efficacy and efficiency of processes and procedures, with financial controls, which assure the correctness and dependability of financial reporting and protect assets.¹⁰³ Yakubu et al. support the fact that a poor internal control system leads to poor recording and incessant fraud.¹⁰⁴ Also, Lai et al. state that the practical effect of poor application of internal control results in weakness in general firm performance and has direct implications on audit results.¹⁰⁵ Concerning the measures to improve internal control systems, the study confirms that role-players should apply oversight functions as well as consequence management, facilitate detective and preventive controls, and implement initiatives to uphold effective internal control, and role-players should be dedicated and apply sound financial discipline in all walks of life. The findings in this section were supported by Oussii et. al., who affirm that internal control systems can be improved by facilitating adequate consequences for transgressions.¹⁰⁶ Nedyalkova asserts that organisations should establish directives in case of deviations so that immediate judgments can be passed to correct such deviations to keep the organisation running.¹⁰⁷ Mothupi et al. emphasize that management should strengthen budgetary control mechanisms to support the setting of performance targets, compare actual outcomes with these goals, and ensure that employees adhere to relevant laws to achieve the objectives of the organisation.¹⁰⁸

Internal control refers to the processes, policies and procedures an organisation uses to ensure its operations are conducted in an effective, efficient and compliant manner.¹⁰⁹ This can include financial controls, risk management, and compliance with laws and regulations. Good governance refers to the principles, policies and processes by which an organisation is directed and controlled to achieve its objectives.¹¹⁰ Asmara and Sumarwono assert that good governance is often characterised by transparency,

⁹⁹ Matebese-Notshulwana, "Weak Procurement Practices and the Challenges of Service Delivery in South Africa."

¹⁰⁰ Enwereji and Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa."

¹⁰¹ Manyaka, "Collection of Municipal Own Revenue in South Africa: Challenges and Prospects."

¹⁰² Enwereji and Uwizeyimana, "Exploring the Key Factors That Can Enhance Municipal Financial Accountability in Africa: Experience from South Africa."

¹⁰³ Ach Maulidi and Jake Ansell, "Corruption as Distinct Crime: The Need to Reconceptualise Internal Control on Controlling Bureaucratic Occupational Fraud," *Journal of Financial Crime* 29, no. 2 (2022): 680–700.

¹⁰⁴ Ibrahim Nandom Yakubu et al., "The Effectiveness of Internal Control System in Safeguarding Assets in the Ghanaian Banking Industry," 2017.

¹⁰⁵ Syou-Ching Lai et al., "The Influence of Internal Control Weaknesses on Firm Performance," *Journal of Accounting and Finance* 17, no. 6 (2017): 82–95.

¹⁰⁶ Oussii and Boulila Taktak, "The Impact of Internal Audit Function Characteristics on Internal Control Quality."

¹⁰⁷ Plamena Nedyalkova, *Quality of Internal Auditing in the Public Sector*, vol. 9 (Springer, 2020).

¹⁰⁸ Mothupi, Musvoto, and Lekunze, "Financial Accountability Framework for Local Municipalities in the North West Province."

¹⁰⁹ Mothupi, Musvoto, and Lekunze, "Financial Accountability Framework for Local Municipalities in the North West Province."

¹¹⁰ Ian C Shaw, *Food Safety: The Science of Keeping Food Safe* (John Wiley & Sons, 2018).

accountability and participation, and it can enhance an organisation's internal control systems by fostering an ethical and responsible culture.¹¹¹ Both internal control systems and good governance are important for organisations because they help to effectively ensure the use of scarce resources, management of risks, and attainment of goals responsibly and sustainably, which suggests that both could be effectively facilitated to achieve organisational growth.¹¹² Good governance involves creating and maintaining systems of control and accountability to ensure that an organisation is run effectively and efficiently and that resources are used transparently.¹¹³ Furthermore, facilitating effective internal control systems in local municipalities complements or supports good governance by providing the mechanisms for implementing policies and procedures, monitoring compliance and identifying and addressing any issues or risks.¹¹⁴ By establishing and maintaining strong internal control systems, Knowles and Richards confirm that an organisation can promote transparency, accountability and responsibility, and help to build and sustain public trust.¹¹⁵ Ultimately, Christopher concludes that effective internal control is a key component of good governance, as it helps to ensure that an organisation can achieve its objectives and carry out its operations ethically and responsibly.¹¹⁶

Major Contributions of the Study

This study contributes to the understanding of how effective internal control systems impact financial management in local municipalities. Specifically, it highlights the crucial role of internal controls in ensuring transparency, accountability, effective planning, and the integrity of financial information. The study provides empirical evidence that poor application of internal control systems can lead to financial resource losses, fraudulent activities, errors in financial statements, and overspending. It also identifies key measures for improving internal controls, including strengthening oversight functions, implementing detective and preventive controls, and ensuring that role-players are committed to sound financial discipline.

More so, the study stresses the interdependence between good governance and internal control systems. Good governance fosters accountability and efficiency through structured control mechanisms, while robust internal controls reinforce transparency and financial responsibility. Importantly, the study is underpinned by systems theory, which views municipalities as complex and interrelated systems where each function affects the whole. This theoretical lens helps explain how internal control systems do not operate in isolation but are interconnected with governance structures, financial planning, risk management, and service delivery. The relevance of systems theory lies in its emphasis on integration, feedback loops, and interdependence which is critical for diagnosing weaknesses and implementing effective control mechanisms across municipal departments.

Finally, this study contributes to policy discussions and practical strategies for enhancing internal control systems in local municipalities. It emphasises the need for municipalities to operate as integrated systems that uphold governance principles, manage risks effectively, and ensure the sustainable and responsible use of scarce resources.

RECOMMENDATIONS

- Local municipalities should incorporate detective, preventive, and corrective controls to effectively address and manage deviations from expected outcomes. The risk management department must ensure clear and efficient communication when coordinating the implementation of these controls.

¹¹¹ Asmara and Sumarwono, "Understanding the Complex Relationship between Good Governance and Economic Growth in Indonesia during the Reform Era."

¹¹² Nanang Shonhadji and Ach Maulidi, "Is It Suitable for Your Local Governments? A Contingency Theory-Based Analysis on the Use of Internal Control in Thwarting White-Collar Crime," *Journal of Financial Crime* 29, no. 2 (2022): 770–86.

¹¹³ Hennie van Greuning and Sonja Brajovic Bratanovic, "Analyzing Banking Risk : A Framework for Assessing Corporate Governance and Risk Management," *World Bank Publications*, 2009.

¹¹⁴ Andreas G Koutoupis and Evangelia Pappa, "Corporate Governance and Internal Controls: A Case Study from Greece," *Journal of Governance & Regulation*, no. 7, Iss. 2 (2018): 91–99.

¹¹⁵ Bran Knowles and John T Richards, "The Sanction of Authority: Promoting Public Trust in AI," in *Proceedings of the 2021 ACM Conference on Fairness, Accountability, and Transparency*, 2021, 262–71.

¹¹⁶ Joe Christopher, "The Failure of Internal Audit: Monitoring Gaps and a Case for a New Focus," *Journal of Management Inquiry* 28, no. 4 (2019): 472–83.

- Municipalities should adopt robust internal control systems to monitor budget performance and minimise the occurrence of irregular, unauthorised, and wasteful expenditures, thereby promoting sound financial governance.
- The municipal role-players should create objectives, set standards, and facilitate performance measurements and performance assessment to ensure effective internal control systems.
- The municipalities should always analyse the cause of deviations while determining appropriate managerial actions to apply.
- Local municipalities should advocate for political appointees to possess not only political standing but also the necessary qualifications for their positions, ensuring competence and expertise.
- They should foster a culture of heightened accountability and place a greater focus on addressing underperformance, improve financial reporting, and curb irregular expenditure within municipalities.
- Municipalities should pay focused attention to disclaimed audit opinions and address the specific issues that cause these negative assessments and implement corrective measures.
- Municipalities should endeavour to identify skills gaps within municipalities and provide targeted assistance and training where necessary to enhance the capabilities of municipal staff.
- Role-players should emphasize the importance of maintaining high levels of transparency, integrity, and accountability in all municipal operations.
- All municipalities should revisit and reinforce consequence management and hold management accountable for their actions and decisions within municipalities.
- Role-players should provide effective oversight mechanisms to monitor and evaluate the performance of various municipal departments to ensure compliance with regulations and best practices.
- Municipalities should conduct training programs for supply chain officials to enhance their understanding of procurement processes and regulations.
- Municipalities should implement proactive risk assessments to identify and mitigate potential challenges before they escalate.
- Municipalities should consider filling key vacant positions within departments and sectors to ensure smooth and effective operations.
- Municipalities should endeavour to strengthen the basic control environment within departments to enhance internal processes and procedures.
- Municipalities should strengthen processes aimed at monitoring compliance with the municipal finance management act, ensuring adherence to financial regulations.

CONCLUSION

The findings from the audit report by the Auditor General of South Africa highlight the critical need to improve financial practices within local municipalities. The challenges faced by municipalities in achieving clean audit reports highlight fundamental issues in financial management and governance that require urgent attention. This study was motivated by the desire to explore the dynamics of internal control systems and enhance them in local municipalities. Internal control and good governance are closely related because internal control is an important element of good governance. Good governance involves the use of fair and transparent processes to make and implement decisions, and to hold decision-makers accountable for their actions. Internal control helps to ensure that an organisation is managed in a fair, transparent, and accountable manner by establishing policies, procedures and controls that are designed to prevent fraud, errors or other challenging risks, and to ensure that resources are used efficiently and effectively. Effective internal control can also help to promote compliance with laws, regulations and policies, and to protect the integrity of financial reporting. It can also support participation and transparency by providing a means for stakeholders to be informed and involved in the decision-making process, and by making information readily available. Internal control is essential for good governance because it helps to ensure that an organisation is managed accountably and that its decisions and actions are in the best interests of its stakeholders. They can also help to promote compliance with laws, regulations and policies, and to protect the integrity of financial reporting. In addition, internal control can

help to promote participation and transparency by providing a means for stakeholders to be informed about and involved in the decision-making process. Municipalities can demonstrate their commitments to good governance and to being responsive to the needs and concerns of the citizenry by establishing clear policies and procedures and making information readily available. In conclusion, internal control is a critical component of good governance because it helps to ensure that an organisation is managed responsibly, works like a system and that its decisions or actions are in the best interests of its stakeholders. The study was limited to generalise the findings to other contexts as it is qualitative in nature. Furthermore, the study was unable to apply some quantitative principles in the findings sections as it analysed only one document, thus there was no opportunity to show the frequencies/occurrences of certain concepts/words or make comparisons with other authors.

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