DETERMINANTS OF SERVICE QUALITY AMONG FINANCIAL SERVICE PROVIDERS IN GAUTENG PROVINCE

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Abstract – A review of the relevant literature shows that the quality of municipal services that are routinely provided to residents of the City of Tshwane depends on the capacity of the City of Tshwane to utilize modern financial management and accounting procedures for performance monitoring and evaluation exercises. Fiscal discipline, good governance and service delivery depend on the degree to which prudent financial, auditing and accounting procedures are implemented by finance employees working for the City of Tshwane. The aim of study was to explain the relationship between the degree of adherence to the South African Municipal Finance Management Act (Act number 56 of 2003) and the degree of customer satisfaction with the quality of municipal services that are provided to customers in the City of Tshwane. Data was collected from a stratified random sample of 146 employees of the City of Tshwane who were responsible for providing financial services to cutomers. Data was collected by using a structured, pre-tested and validated questionnaire of study. Statistical methods such as frequency tables, cross-tab analyses and logit analysis were used for performing data analyses. Efficiency in financial management was assessed by assessing the degree of adherence of employees to the Muncipal Finance Management Act (MFMA) based on a composite index defined by Kaiser, Crother, Kelly, Luiselli, O'Shea, Ota, Passos, Schleip & Wuster (2013). The study showed that 89% of the 146 employees who were selected for the study demonstrated adequate adherence to the Act, whereas 11% of employees failed to do so by the same standards. The study found that the degree of adherence of employees to the MFMA was significantly influenced by 3 factors. These 3 factors were degree of skills in financial accounting and auditing, duration of service, and degree of job satisfaction, in a decreasing order of strength. The results also showed that there was a statistically significant association between the quality of financial and auditing services that were provided to customers and the degree of adherence to the Muncipal Finance Management Act.

Keywords: City of Tshwane, South African Municipal Finance Management Act (MFMA), Auditing and accounting skills, Ordered probit regression analysis

Introduction and background of study

The main purpose of study was to assess the degree of adherence of municipal employees to the South African Muncipal Finance Management Act (Act number 56 of 2003). The secondary aim of study was to assess the degree of customer satisfaction in the quality of municipal services provided to customers living and conducting business in the City of Tshwane. The purpose of the Muncipal Finances Management Act (MFMA) is to ensure optimal service delivery at municipal level. The Act is suiable for promoting social and economic developments at all South African municipalities and local governments. The Act stipulates sound financial, accounting and auditing procedures to be followed by all muncipalties in South Africa. The Act is based on norms and standards to be followed by all South African municipalities in the course of service delivery. The Act is designed to ensure optimal utilisation of municipal finances and resouces. The norms and standards stipulated in the Act enable assessors to evaluate compliance by employees.

The City of Tshwane is responsable for providing a wide variety of financial services to residents, ratepayers, business enterprises, Government Departments and the general public.
Di Mascio (2007: 418-442) and Donaldson & Preston (2001: 65-91) have identified a matrix of indicators that could be used for monitoring the degree of satisfaction of stakeholders in large municipalities such as the City of Tshwane. Dawson (2010) has developed a model that could be used for monitoring and evaluating important determinants in ensuring service quality to the general public. Dick, Gallimore and Brown (2009) have provided a

list of bylaws that could be used for assessing the degree of compliance of residents, businesses and stakeholders to municipal guidelines, legislations and Acts. Elliot and Boshoff (2013: 44-58) have pointed out that internal efficiency and organizational factors affect the quality of municipal services that are provided to residents, ratepayers and stakeholders. Evans (2011) has proposed various models that could be used for monitoring and evaluating service quality. Bharadwaj (2013: 169-196) and Bhatt & Grover (2013: 253-277) have shown that it is impossible to monitor the quality of municipal services without establishing a comprehensive database of key indicators of performance. This finding is in agreement with recommendations made to local municipalities by the United Nations Development Programme (UNDP, 2017). The South African Parliament (2017) has stated that all municipalities must be audited with a view to improve the quality of municipal service delivery and to minimize the abuse of public resources and infrastructure. The recommendation made by the South African Parliament is consistent with recommendations made by Dzansi and Dzansi (2010).

Adams and Mehran (2003: 123-142) have emphasized the benefits of using a comprehensive monitoring and evaluation of public finance in developing muncipalities such as the City of Tshwane. Andres and Vallelado (2008: 2570-2580) have proposed a model for financial control in municipalities. Adherence to guidelines and regulations is essential in all public finance expenditures. Adhering to guidelines minimizes the unnecessary wastage of pulbic resources. Surprise inspections are often used for establishing adherence and compliance to recommended guidelines and regulations. According to Bhatt and Grover (2013), it is vital to use modern information technology systems for ensuring adequate compliance with financial regulations. The authors have pointed out the numerous benefits of monitoring and evaluating service delivery standards and key performance indicators. The City of Tshwane is required to meet a large number of service level agreements with the general public and stakeholders. All these agreements need to be verified for compliance. Accounting, auditing and financial skills are essential to ensure compliance with service level agreements. To do so, the City of Tshwane collects infomation on on a large number of socioeconomic variables on a monthly basis. Examples of such variables are the cost of service delivery, the frequency of waste collection, the availability of electricity and water services at all times, the quality of interactions with customers, the attitudes and behaviours of employees, and the level of skills possessed by service providers and employees. According to Barney (2012: 99-120), the degree of satisfaction of residents depends on the perceived commitment of employees of local municipalities to render services with quality. Constitutional ideals and duties that are bestowed on local governments and municipalities require municipalities such as the City of Tshwane to provide quality services to all residents, ratepayers and stakeholders at all times. According to the African National Congress (2017), all 283 municipalities in South Africa are required to use a performance monitoring and evaluation system for ensuring the successful accomplishment of routine activities that must be rendered in order to fulfill obligations to residents, ratepayers, and stakeholders.

The Municipal Management Act of 2003 (MFMA, Act 56 of 2003) requires municipalities to build adequate capacity for resolving queries from customers. The MFMA calls for active participation and input from the public in the budgeting process of municipalities. The following Acts and pieces of legislation show that the general public has the right to demand quality municipal services: the South African Constitution, the Batho-Pele Principle, the Municipal Structures Act, the White paper on local Government of 1998, the Municipal Systems Act of 2000, the Municipal Finance Management Act of 2003, the Municipal Property Rates Act of 2004, Guidelines issued in 2005 on the operation of wards and their committees, and the 2007 National Policy Framework on Public Participation in municipalities. In addition to this, the South African Government has passed three key pieces of legislation. These are: the promotion of access to information Act, the Protection of Disclosure Act, and the Promotion of Administrative Justice Act.

Standardized and validated indicators must be used in the measurement and evaluation of service quality. In this regard, assurance refers to achieving 100% quality and maintaining that level of quality on an ongoing basis until the key objectives of the project being conducted are fulfilled. According to Fahy (2013), is a measure of the likelihood of all relevant tasks being done right the first time to the satisfaction of customers and stakeholders. In this study, community refers to inhabitants of the City of Tshwane. Councilors are members of the City of Tshwane who are responsible for liaising with inhabitants of the City of Tshwane on matters of municipal service delivery. Leadership is a measure of the overall capacity and suitability of a service provider to accept full responsibility on specific and general tasks that must be accomplished to stakeholders by a service provider. A good leader demonstrates the ability to listen to the demands made by customers and clients and take appropriate action by utilizing feasible and affordable measures. According to Zoogah, Vora, Richard and Peng (2011), examples of leadership qualities are objectivity, transparency, accountability, good governance and the ability to utilize scarce resources optimally. Good leaders are characterized by honesty, punctuality, fairness, accountability, objectivity, transparency and integrity. In this regard, the key attributes of good governance must be adhered to by all financial practitioners employed by the City of Tshwane.

Many researches define quality in different ways and there is no agreed definition of service quality, but from the viewpoint of business administration, service quality is an achievement in customer service. It reflects at each service encounter. Customers form service expectations from past experience, word of mouth and advertisement. A number of writers have examined government service delivery and its relation to service delivery and it was identified that South African constitution guarantees all people the right to access adequate and affordable potable water to meet basic domestic needs, A major part of populations in Africa (especially in the rural areas) live without access to basic public services. The reasons for dysfunctional service delivery are many and complex, but most often, they relate to lack of accountability, transparency and commitment in making services work for poor and marginalized citizens (United Nations Development Programme, 2019). In many cases, the lack of implementation and absorptive capacity of government agencies and citizens, respectively, are problems that hamper efficient service delivery.

Inadequate targeting of the poor, supply-driven planning, elite capturing of programmers, lack of voice of the poor and their inability to reach the government and service providers, are among the most common reasons. Often, government services fail to reach the poor in rural and remote areas, and when services are provided, they rarely reduce poverty (United Nations Development Programme, 2019). According to Akinboade, Mokwena and Kinfack (2013:461-462) the market is not an effective mechanism for indicating needs for or allocating public products or service. Thus, in the absence of effective market mechanisms, various levels of government carry out supply and market intervention activities designed to ensure the availability of community services when and where a need has been expressed.
Stephen and Janneke (2008:8-10) state that despite well-articulated service delivery principles, South Africa is faced with a number of challenges in terms of service delivery, including problems with poverty, inequality, democracy, respect for human rights and corruption. The theoretical allocated efficiency argument is that productivity of public services can be maximized by enabling local governments to take decisions on the allocation of scarce resources, since they have a better sense of local preferences (Robinson, 2007:17-18).

Schroeder (2003:1-2) argues that decentralization of, say road maintenance; responsibilities can improve both the speed and quality of service provision. However, the provision of public services is quite challenging and complex, especially in urban municipalities with large populations, and often requires a high level of technical and managerial capacity (Robinson, 2007:7-8). Hence, as local governments in South Africa deliver basic services to communities, one of their challenges today is to provide effective and efficient service delivery (Nyakumachi, 2005:687-705). Local governments have been the principal providers, but have been hampered by limited ability to bear the associated costs, especially where population density is low and service delivery is costly or difficult (South Africa Parliament, 2015).

According to Evans (2011:51) and Atkinson (2012: 47-56), overall productivity in municipal service delivery depends on sound financial management. In this regard, the sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government must be followed. The MFMA Act requires adherence to norms and standards that are set out by the South African Department of Finance as a means of ensuring optimal service delivery. According to Beck and Demirguc-Kunt (2012: 2931-2943), the MFMA is designed for minimsing the unnecessary wastage of financial resouces at muncipal level. The Act is also designed for ensuring efficient muncipal service delivery in all local governments and muncipalities in South Africa.

The study is vital for the City of Tshwane Metropolitan Municipality in view of the fact that finance will enhance light on the degree to which proper financial management and accounting procedures are followed in the municipality. There are few studies conducted in this area to date. As such, the study stands to contribute significantly to the body of knowledge in this area. The stakeholder theory (Atkinson, 2012: 47-56) suggests that failure to satisfy the expectations and demand of customers in municipalities has the potential for leading to dissatisfaction and disruption of service delivery. A stakeholder is defined as an individual, multiple or diverse groups who may exert influence over an organization whose behaviours may be influenced by the organization as well. Amit and Schoemaker (2013: 33-46) define the stakeholder as any group or individual who can affect or is affected by the achievement of the organization's objectives.

Annual reports issued by the South African Auditor General (South African Auditor General, 2018) and the City of Tshwane (2018) for the financial year 2016/2017 indicate that finances and resources are not utilized and managed according to plans of actions that have been approved by the City of Tshwane. The root cause of this problem is lack of skills in sound financial management and lack of adherence to the MFMA Act. Both reports show that the municipality is losing finances due to lack of skills and competencies in accounting and financial management. In comparison to the City of Tshwane, the City of Cape Town has managed to receive an unqualified financial report by the Auditor General for the financial year 2016/2017. This seems to suggest that the City of Tshwane stands to benefit from taking vital lessons from the City of Cape Town (City of Cape Town, 2018).

The study aims to assess the extent to which financial practitioners working in the City of Tshwane adhere to guidelines stipulated in the Muncipal Finances Management Act (MFMA), and identify and quantify predicors of non-adherence to the MFMA. The paper will also assess and evaluate the skills possessed by financial practioners working in the City of Tshwane.

Objective of study

The overall objective of study was to identify and quantify key predictors of adherence to the South African Municipal Finance Management Act (Act number 56 of 2003) in the City of Tshwane. The study aims to explain the relationship between the quality of service delivery and the proper utilization of financial management and accounting procedures at municipal level in the City of Tshwane. The specific objective of study is to identify and quantify key factors that affect the degree to which proper accounting and financial management procedures are followed by employees working in the City of Tshwane Metropolitan Municipality.

Literature review

According to Edoho (2015: 127-147), inability to manage municipal finances and resouces efficiently is a key obstacle to sustained growth and development in all Sub-Saharan African coutries including South Africa. Gereffi and Sturgeon (2013) have pointed out that financial mismanagement and lack of respect for human rights are significantly associated in developing economies of the world. The study by Henrekson (2014: 511-528) has shown that financial mismanagement and the abuse of power are chronic causes of protests at municipal levels. Bhatt and Grover (2013: 253-277) efficient service delivery at municipal level is significantly dependent upon the ability to utilise municipal resources and finances optimally. Grant (2013: 114-135) has reported that the abuse of municipal finances is often caused by lack of effective mechanisms of financial control. The study conducted by Gumede (2012: 21-28) has shown that sustained economic development and growth requires efficient utilisation of municipal resources and finances. The principles of good corporate governance are closely associated with sound financial management (Novy-Marx & Rauh, 2011: 1211-1249). Wade and Hulland (2013: 107-142) and Watson and Head (2010) have pointed out that results-based monitoring, evaluation and control mechanisms are essential for sound financial management at municipal level. Annual reports issued by the South African Chamber of Commerce and Industry (2018) and the South African National Department of Trade and Industry (2018) have shown that the capacity of the South African Government to alleviate abject poverty and unemployment depends upon the degree to which municipalities can utilise financial resources according to approved plans of action. In this regard, the Municipal Finances Management Act (MFMA) is referred to as a benchmark in the assessment of the proper utilisation of municipal resources and finances. Sound financial management is a measure of accountability and good governance according to Sarkar & Batabyal (2011: 20-29), and refers to the efficient and effective management of money in a manner that enables the successful implementation of approved plans of action at the municipal level. According to Kovacevic (2012: 12-15) and Kirsten and Rogerson (2012: 29-59), the capacity of municipalities such as the City of Tshwane to manage finances optimally is an objective measure of good corporate governance. Customers of the City of Tshwane require a wide variety of finances services from the City of Tshwane. The general public, business enterprises and Government Departments based in the City of Tshwane depend upon the ability of the City of Tshwane to provide reliable, affordable and efficient financial services at all times. The significance of this function includes the capacity of employees of the City of Tshwane who are responsible for routine accounting, auditing and financial services to deliver efficient services at all times.

Efficient financial management requires the ability to constantly make decisions based on empirical evidence and according to approved plans of action (Ferreira & Campher, 2010). Financial management reforms typically incorporate the following components, namely use of structured planning and programming as a means of evaluating and selecting ways of achieving desired objective; taking resource allocation decisions within the framework of a unified budget; integration of budgeting and accounting; encouragement of financial accountability; preparation of consolidated reports and measurement of outputs and inputs. The South African Municipal Finance Management Act (MFMA) is designed to ensure the proper expenditure of all revenues, assets and liabilities. International best practice shows that sound financial management by local governments and municipalities requires the availability of technical skills in financial management, accounting, auditing, as well as the enforcement of relevant rules and regulations on finance (Ja Skela, & Lo'nnqvist, 2011: 289-302). A review of the literature shows that the City of Tshwane lags behind the City of Cape Town with regards to sound financial management and utilization of resources that are allocated for the implementation of approved plans of action by municipalities (City of Tshwane, 2018).

According to Van der Waldt (2006:129), the degree to which sound financial management, proper accounting and auditing are utilized by local governments and municipalities depends on the commitment made for good governance, transparency and the availability of technical skills in financial management. Based on a research conducted to assess the degree of productivity, Radnor and Barnes (2007:385) pointed out that each approved project by local governments and municipalities must be accompanied by performance management agreements and the enforcement of rules and regulations on expenditures and auditing. Financial Management gives the directions of where the company is coming from and where finance is heading to, and channel the respondents to be accountable to the resources allocated to them (Novy-Marx & Rauh, 2011). Hoque (2011:59) highlights that accountability is an essential element in achieving good governance. He adds that, governments that do not have a long tradition of functioning under an operational system of accountability face the challenge of establishing a system of governance that ensures a responsive, equitable and effective government to its community. He stated that, lack of accountability has resulted in failure, poor political decisions and high incidence of corruption (Hoque, 2011:59).

According to Joshi (2010:01), accountability is widely accepted as a key to service delivery improvements. What is interesting is that the importance of accountability comes from quite different ideological streams. According to Rieseneder (2008), transparency is generally defined as the principle of enabling the public to gain information about the operations and structures of a given entity. Finance reduces uncertainty and may help in reducing incidents of corruption among public officials. The principle of transparency underpins the needs for regulations to be clear, straightforward and accessible as possible in their drafting, promulgation, codification and dissemination (Rieseneder, 2008). Furthermore, Engelbrecht (2009:20), outlines that, the board should disclose information in a manner that enables stakeholders to make an informed analysis of the company's performance. Mouzas (2006:1125), highlight that effectiveness and efficiency in financial management are focal terms applied in assessing the performance of an organization. According to Rieseneder (2008), effectiveness refers to doing the right things and efficiency doing things right. A measure of effectiveness assesses the ability of an organization to attain its goals and objectives.

The optimisation of finances resources is a measure of the ability of municipalities to achieve targeted outputs by utilsing the mínimum amount of input. According to Pillay, et al (2012), sound financial management in the public sector is an important contributor in achieving greater transparency, accountability, efficiency and effectiveness, fiscal responsibility and, hence, improved governance. According to Robbins and Decenzo (2004:20), skill is the ability to demonstrate a system and sequence of behavior that is functionally related to attaining a performance goal. The availability of skilled personnel within an organization has a significant impact on the effectiveness and efficiency of that organization to carry out its mandate in the manner in which services are delivered. The annual report issued by the City of Tshwane (2018) for the financial year 2016/2017 shows that the municipality received a qualified audit report from the Auditor-General. The City of Tshwane is committed into receiving unqualified audit reports in the years ahead. Attempts have been made to learn from past mistakes and make significant improvements in financial management and proper auditing and accounting. Evans (2011:288) defines performance management as the extent to which an individual contributes to achieving the goals and objectives of an organization. High-performance work is characterized by flexibility, innovation, knowledge and skill sharing, alignment with organizational directions, customer focus, and rapid response to business needs and marketplace requirements. The Municipal Systems Act 32 of 2000 defines performance management as an iterative process of setting targets, monitoring performance against those targets, and taking steps to improve performance. Financial management can help municipalities to work more effectively towards meeting development challenges, because finance allows them to assess the impact of the various strategies they are pursuing. Finance also enhances accountability, because finance allows municipal councilors and staff, and local communities, to monitor whether they are receiving value for money spent on various services. Performance management is not only about monitoring and measuring. Finance is also about organizational culture- the attitudes and practices which inform how municipal staff work on a daily basis. Municipalities must promote a culture of performance management in their structures, political offices, and administration. In other words, municipalities must encourage working practices which are economical, effective, efficient and accountable. According to Atkinson (2012:48), there are three domains in performance management: planning, progress review and evaluation. The framework presents an integrated model for the management of organizational performance.

The City of Tshwane utilises an integrated development planning as a means of assessing and evaluating the degree of compliance with the MFMA. The Stakeholder Theory states that stakeholders remain loyal as long as service delivery agreements and expectations of service quality are satisfied (Donaldson & Preston, 1995: 65-91). Stakeholders need to interact effectively as a means of optimising service delivery. The South African Local Government Authority (SALGA) is mandated with the task of ensuring adequate service delivery by all muncipalities. As such, it interacts with stakeholders and muncipalities on a regular basis. Its stakeholders are expected to make a collective effort towards advancing the interest of all South Africans. SALGA's main objective is to ensure quality service delivery and sound financial discipline in local municipalities and governments in South Africa by using innovative and cost-effective methods on a sustainable basis. The stakeholder theory indicates that it is not posible for large muncipalities such as the City of Tshwane to win the loyalty of customers on a sustainable basis without optimising and ensuring the quality of muncipal service delivery to customers at all times.

Methods and materials of study

The study was based on a stratified random simple of size 146 employees of the City of Tshwane who are responsable for the provision of financial, accounting and auditing services to customers who live and conduct business in the various parts of the City of Tshwane. The design of the study was cross-sectional and descriptive as data was collected from the enterprises that took part in the study only once during the period of study. For each one of the 146 employees who were selected for the study, the degree of adherence to the Muncipal Finance Management Act (Act 56 of 2003) was assessed by using a composite index defined by Kaiser, Crother, Kelly, Luiselli, O'Shea, Ota, Passos, Schleip & Wüster (2013: 8-23). Data was collected by using a structured, pre-tested and validated questionnaire of study. Data analyses were performed by using methods such as frequency tables, cross-tab analyses and ordered probit regression analysis (Lemeshow, Sturdivant & Hosmer, 2013). Ordered probit analysis was used because the model allows the estimation of parameters for a dependent variable of study with 5 possible levels of adherence to financial guidelines and regulations. Ordered probit is an ordinal regression analysis procedure. The reliability of estimated models was assessed based on standard diagnostic procedures.

Results of study

Table 1 shows frequency proportions that indicate the degree to which finance staff working in the CITY OF TSHWANE in various capacities adhere to sound financial management principles, procedures and guidelines. It can be seen from the table that 130 of the 146 employees who were selected for the study (89%) were efficient in financial management, whereas the remaining 16 of the 146 employees (11%) were not efficient in financial management. Efficiency in financial management was assessed by assessing the degree of adhere of employees to the Muncipal Finance Management Act (Act 56 of 2003) based on a composite index defined by Kaiser, Crother, Kelly, Luiselli, O'Shea, Ota, Passos, Schleip & Wüster (2013: 8-23).

Table 1: General assessment of employees (n=146)

Variable of study	**Percentage**
Overall efficiency in financial management	Efficient: 89% Inefficient: 11%
Visibility in implementing financial controls	Good: 13% Above average: 48% Average: 29% Below average: 10% Poor: 0%
Good example set by senior officers	Good: 14% Above average: 35% Average: 31% Below average: 19% Poor: 1%
Supervision of all bank accounts	Good: 15% Above average: 30% Average: 38% Below average: 16% Poor: 1%
Training of financial officers	Good: 5% Above average: 30% Average: 33% Below average: 31% Poor: 1%
Rotation or transfer of financial employees	Good: 0% Above average: 16% Average: 32% Below average: 41% Poor: 11%
Rules are observed dutifully	Good: 22% Above average: 38% Average: 26% Below average: 12% Poor: 2%
Documenting of financial records	Good: 19% Above average: 42% Average: 23% Below average: 13% Poor: 3%
Commitment to sound accounting procedures and guidelines	Good: 13% Above average: 43% Average: 29% Below average: 14% Poor: 1%

Tax laws are obeyed dutifully	Good: 11% Above average: 56% Average: 27% Below average: 6% Poor: 0%
Procedures are followed rigorously	Good: 8% Above average: 46% Average: 38% Below average: 6% Poor: 2%
Separation of key functions is respected	Good: 9% Above average: 36% Average: 40% Below average: 10% Poor: 5%
Authorization of expenditures	Good: 13% Above average: 49% Average: 33% Below average: 3% Poor: 2%
Computations and costing are verified	Good: 12% Above average: 44% Average: 39% Below average: 5% Poor: 0%
Prevention of over-spending	Good: 19% Above average: 37% Average: 34% Below average: 10% Poor: 0%
Detection of fraudulent activities	Good: 5% Above average: 35% Average: 47% Below average: 12% Poor: 1%
Penalization of wrong activities	Good: 2% Above average: 10% Average: 55% Below average: 24% Poor: 8%

The Pearson chi-square test of association (Hair, Black, Babin and Anderson, 2010) was used for performing a preliminary screening of influential factors that were significantly associated with the degree to which employees adhered to the MFMA Act by way of following the basic principles, regulations and guidelines of the Act. A total of 44 tests of associations were performed between the dependent variable of study (degree of adherence to the MFMA Act), and each one of the 44 independent variables of study that are well known to affect the degree to which finance officers adhere to sound financial management principles and guidelines.

Values of the dependent variable of study, Y (Efficiency), were defined as follows:

$$\text{Efficiency} = \begin{cases} 1 & \text{if adequate} \\ 2 & \text{if inadequate} \end{cases}$$

Pearson's chi-square tests of association were performed between values of variable Y and each of the values of 44 factors that are known to affect efficiency in financial management at the City of Tshwane. The results showed that efficiency in sound financial management in the City of Tshwane was significantly associated with 9 of the 44 variables of study at the 5% level of significance. At the 5% level of significance, significant two-way associations are characterized by large observed chi-square values and P-values that are smaller than 0.05. It can be seen from Table 2 that all 9 variables listed in the table are significantly associated with sound financial management at the 5% level of significance.

Table 2: Results obtained from cross-tab analyses (n=146)

Factors significantly associated with sound financial management	Observed chi-square value	P-value
Degree of skills in financial accounting and auditing	11.0206	0.000
Duration of service in City of Tshwane	9.2318	0.000
Degree of job satisfaction	8.2578	0.000
Adherence to terms of contracts	6.1705	0.000
Adherence to bidding procedures	5.7010	0.000
Adherence to rules	4.7010	0.001
Training opportunities	4.8867	0.007
Verification of eligibility requirements	3.7464	0.012
Making decisions based on merit	3.5812	0.029

It can be seen from Table 2 that the efficiency of finance staff working in the City of Tshwane on financial management was significantly influenced by degree of skills in financial accounting and auditing, duration of service in City of Tshwane, degree of job satisfaction, adherence to terms of contracts, adherence to bidding procedures, adherence to rules, training opportunites, verification of eligibility requirements, and making decisions based on merit, in a decreasing order of strength. The 9 predictor variables shown in Table 2 were subsequently used for performing ordered probit regression analysis.

Table 3 shows a comparison between 2 categories of finance employees with regards to the 11 significant factors identified above. Category 1 consists of 130 employees (89%) who have adequate efficiency in financial management. Category 2 consists of 16 employees (11%) who lack efficiency in sound financial management.

Table 3: Comparison with regards to efficiency in financial management (n=146)

Factors significantly associated with efficiency in financial management	**Efficient (n1=130)**	**Inefficient (n2=16)**
Degree of skills in financial accounting and auditing	Yes: 72% No: 5%	Yes: 8% No: 15%
Duration of service in City of Tshwane	Yes: 72% No: 5%	Yes: 8% No: 15%
Degree of job satisfaction	Yes: 73% No: 4%	Yes: 15% No: 8%
Adherence to terms of contracts	Yes: 70% No: 7%	Yes: 16% No: 7%
Adherence to bidding procedures	Yes: 70% No: 7%	Yes: 16% No: 7%
Adherence to rules	Yes: 57% No: 20%	Yes: 11% No: 12%
Training opportunities	Yes: 42% No: 35%	Yes: 6% No: 17%
Verification of eligibility requirements	Yes: 42% No: 35%	Yes: 6% No: 17%
Making decisions based on merit	Yes: 57% No: 20%	Yes: 11% No: 12%

It can be seen from Table 3 that respondents in categories 1 and 2 differ from each other with regards to degree of skills in financial accounting and auditing, duration of service in City of Tshwane, degree of job satisfaction, adherence to terms of contracts, adherence to bidding procedures, adherence to rules, training opportunities, verification of eligibility requirements, and making decisions based on merit. Efficient employees were found to be relatively more prudent and rule-bound on fiscal issues.

Regression coefficients obtained from ordered probit regression analysis were used for estimating odds ratios (Lemeshow, Sturdivant & Hosmer, 2013). In order to simplify the task of interpreting results of data analyses, regression coefficiens were transformed into odds ratios. At the 5% level of significance, influential predictors of efficiency in financial management have odds ratios that are significantly different from 1, P-values that are smaller than 0.05, and 95% confidence intervals of odds ratios that do not contain 1.

Table 4: Estimates from ordered probit analysis (n=146)

Variable	P-value	Odds Ratio	95% Confidence Intervals of Odds Ratio
Skills in financial management	0.000	3.68	(1.74, 7.09)
Duration of service	0.000	3.26	(1.58, 6.69)
Degree of job satisfaction	0.000	2.87	(1.44, 5.37)

Accordingly, 3 of the variables used for regression analysis were found to be influential predictors of efficiency in financial management. These 3 predictor variables of study were degree of skills in financial management, duration of service in the City of Tshwane, and degree of job satisfaction, in a decreasing order of strength.

Interpretation of odds ratios

The odds ratio of the variable "skills in financial management" is equal to 3.68. This indicates that a finance employee who lacks skills in financial management is 3.68 times more likely to be inefficient in financial management in comparison with another finance employee who possesses adequate skills in financial management.

The odds ratio of the variable "duration of service" is equal to 3.26. This indicates that a finance employee who has not served the City of Tshwane for 5 years or more is 3.26 times more likely to be inefficient in financial management in comparison with another finance employee who has served the City of Tshwane for 5 years or more.

The odds ratio of the variable "degree of job satisfaction" is equal to 2.87. This indicates that a finance employee who lacks job satisfaction while working for the City of Tshwane is 2.87 times more likely to be inefficient in financial management in comparison with another finance employee who enjoys job satisfaction while working for the City of Tshwane. The P-value obtained from the likelihood ratio test was equal to $0.0000 < 0.05$. This indicates that there was no reason to doubt the reliability of the fitted regression model.

Discussion of results

The key finding of study was that 89% of the 146 employees who took part in the study adhered adequately to the Munciapl Finance Management Act based on the criterion set out by Kaiser, Crother, Kelly, Luiselli, O'Shea, Ota, Passos, Schleip & Wüster (2013: 8-23), whereas the remaining 11% of employees did not adhere to the Act adequately by the same criterion. This figure sounds good considering the fact that Tshwane is a developing municipality.

Results obtained from cross-tab analyses showed that the efficiency of finance staff working in the City of Tshwane on financial management was significantly influenced by the degree of skills in financial accounting and auditing, duration of service in City of Tshwane, degree of job satisfaction, adherence to terms of contracts, adherence to bidding procedures, adherence to rules, training opportunities, verification of eligibility requirements, and making decisions based on merit. Efficient employees were found to be relatively more prudent and rule-bound on fiscal issues.

Results obtained from ordered probit regression analysis showed that the degree of adherence of employees to the Muncipal Finance Management Act was significantly influenced by 3 factors. These 3 factors were degree of skills in financial accounting and auditing, duration of service, and degree of job satisfaction, in a decreasing order of strength. The results also showed that there was a statistically significant association between the quality of financial and auditing services that were provided to customers and the degree of adherence to the Muncipal Finance Management Act.

According to Achrya, Philippon, Richardson and Roubini (2009: 42-51), the City of Tshwane should develop a model for good governance as a means of supporting stakeholders who expect quality service delivery from the municipality. The view of the City of Tshwane is that good governance models in financial management must be used for encouraging financial management employees to improve their performance. There are suitable models that could be used for identifying potential risks that are associated with financial management in municipalities such as the City of Tshwane. Such models are useful for implementing policies from the South African Local Government Authority (SALGA), and for minimizing the risk involved in wasting financial resources that are meant for providing essential municipal services to residents of Tshwane. Good governance entails transparency, accountability and fairness in the administration of public finance. Finance employees working for the City of Tshwane must reflect such essential attributes in their daily activities (Adams & Mehran, 2003: 123-142).

Sound financial management practices are essential to the long-term sustainability of municipalities. They underpin the process of democratic accountability. Weak or opaque financial management results in the misdirection of resources and increases the risk of corruption and abuse of resources. The key objective of the Municipal Finance Management Act (2003) (MFMA) is to modernize municipal financial management in South Africa so as to lay a sound financial base for the sustainable delivery of services. Municipal financial management involves managing a range of interrelated components: planning and budgeting, revenue, cash and expenditure management, procurement, asset management, reporting and oversight. Each component contributes to ensuring that expenditure is developmental, effective and efficient and that local municipalities can be held accountable (Amit & Schoemaker, 2013: 33-46).

According to Andres and Vallelado (2008: 2570-2580), good governance on financial issues could take several years to bear tangible results in local municipalities. The research work done by the authors shows that adherence to MFMA regulations and guidelines by local municipalities is a key requirement for ensuring optimal utilization of public finance and resources. According to Bebchuk, Cohen and Ferrell (2009: 783-827), the reforms introduced by the MFMA are quite helpful for ensuring overall economic growth in South Africa, and for preserving the credit rating South Africa has at the moment. The MFMA is the cornerstone of the broader reform package for local government outlined in the 1998 White Paper on Local Government. The MFMA, together with the Municipal Structures Act (1998), the Municipal Systems Act (2000), the Municipal Property Rates Act (2004) and the Municipal Fiscal Powers and Functions Act (2007), sets out frameworks and key requirements for municipal operations, planning, budgeting, governance and accountability. The MFMA was introduced in 2003. At that time, the system of local government finance was characterized by practices such as one-year line-item budgeting, which did not support strategic planning and the alignment of budgets with priorities over the medium term. This generally resulted in councils allocating resources based on historical commitments rather than looking at current priorities and the future needs of communities. Municipal finance practices were also not rooted in a culture of performance and regular reporting. Reports were often irregular or inaccurate, or contained too much data and too little useful information. Often municipalities did not publish annual reports and did not submit their financial statements for audit on time or at all. Compared to where local government was in 2003, significant strides have been made with implementing the new financial management arrangements spelt out in the MFMA and its regulations. However, progress is uneven and many municipalities are yet to implement both the letter and the spirit of the MFMA. This is to enable managers to manage' within a framework of regular and consistent reporting so that they can be held accountable for their decisions and actions on financial matters by the City of Tshwane (Brunnermeier, 2009: 77-100).

The research work conducted by Beetsma, Giuliodori, De Jong and Widijanto (2013: 83-101) shows that the key mechanisms for strengthening accountability include routine accounting, auditing and reporting on a month-by-month basis. The set of legislation governing local government provides for a number of mechanisms for strengthening accountability. The first mechanism involves separating and clarifying roles and responsibilities of mayors, executive councillors, non-executive councillors and officials. This separation of political and management roles is critical for good governance. The executive mayor and executive committee are expected to provide political leadership, by proposing policies, guiding the development of budgets and performance targets, and overseeing their implementation by monitoring performance through in-year reports. In executing their duties, they may not use their position, privileges or confidential information for private gain or to improperly benefit another person. The municipal manager holds the primary legal accountability for financial management in terms of the MFMA and, together with other senior managers, is responsible for implementation and outputs.

They have a duty to act with fidelity, honesty and integrity and in the best interests of the municipality at all times. Non-executive councillors, as elected representatives of the community, debate and approve the proposed policies and budgets and also oversee the performance of the municipality. They hold both the executive mayor or committee and the officials accountable for performance on the basis of quarterly and annual reports. Ensuring fiscal discipline and the culture of accurate and prompt financial reporting is essential for sustained economic growth in developing nations such as South Africa (Buckley & Ghauri, 2012: 81-98).

According to Calvin (2012: 49-52), public finance and resources must not be spent on plans of actions that have not been duly approved by a competent, transparent and accountable planning committee. All expenditures must be attached to performance management contracts in which public money is accounted for thoroughly and methodically. This explains why the City of Tshwane must rely on a performance monitoring and evaluation mechanism as a means of minimizing unwarranted expenditure. The second mechanism involves developing a performance orientation. The legal framework introduces requirements and processes for establishing service delivery priorities and plans. The aim is to ensure alignment between the plans, budgets, implementation actions and reporting to ensure proper management accountability for the achievement of service delivery targets. The third mechanism involves strengthening reporting and disclosure requirements. High quality and timely management information allows management to be proactive in identifying and solving problems as they arise. It also strengthens the separation of roles and supports a performance orientation in local government. According to Chao, Szerek, Pereira and Pauly (2010: 231-242), plans of actions approved by municipalities and local governments must be aligned with reporting. The South African Constitution guarantees all South Africans the right to live in municipalities in which public resources and finance are not abused or misappropriated by corrupt or inefficient officials. Section 153 of the South African Constitution requires that a municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community.

According to Elder and Serletis (2010: 1137-1159), it is a constitutional duty of all democratically elected governments to publish financial statements that are openly accessible to all stakeholders. The MFMA, together with the Municipal Systems Act (2000), aims to facilitate compliance with this constitutional duty by ensuring that priority plans, budgets, implementation actions and reports are properly aligned. The key components of sound financial management are routine accountability, auditing and reporting (Elliot & Boshoff, 2013: 44-58). Monitoring and evaluation mechanisms are often used for ensuring sound financial management in local government and municipalities such as the City of Tshwane. This is done by using an integrated development plan (IDP) that sets out the municipality's goals and development plans, which need to be aligned with the municipality's available resources. Council adopts the IDP and undertakes an annual review and assessment of performance based on the annual report. Budgets must be approved by following recommended procedures by all relevant stakeholders in order to be implemented. Budgets must be audited, assessed and evaluated on a regular basis. Budgets must be used for performance management and assessment. Local municipalities often use 3-year budgets that are meant for setting out the revenue raising and expenditure plan of the municipality for approval by council. The allocation of funds needs to be aligned with the priorities in the IDP. Service delivery and budget implementation plan (SDBIP) are viewed as the cornerstone for monitoring and evaluation of programmes that are run by local governments and municipalities. The SDBIP sets out monthly or quarterly service delivery and financial targets aligned with the annual targets set in the IDP and budget. As the municipality's implementation plan, it lays the basis for the performance agreements of the municipal manager and senior management. The approach implemented in the Service delivery and budget implementation plan is consistent with what has been recommended by Fahlenbrach & Stulz (2011: 11-26).

Routine monthly and quarterly reports are used in local governments and municipalities for ensuring the implementation of approved plans of actions at regular interval, and for minimizing the expenditure of public finance on plans of action that have not been approved. The administration reports to council on the implementation of the budget and SDBIP through monthly, quarterly and mid-year reports. Council uses these reports to monitor both the financial and service delivery performance of the municipality's implementation actions. Annual financial statements are vital for assessing efficiency in service delivery. Such reports are essential or assessing overall progress and the cost of service delivery. The reports are essential for monitoring and evaluation in the public service sector. Such reports provide an overall picture of the budget approved, and how much work has been done by using the approved budget. Local municipalities can also use such reports for auditing purposes, and reflect the financial position of the municipality at regular intervals. The reports are also essential for making a submission to the Auditor-General based on a comprehensive assessment on all known expenditures and key performance indicators on which satisfactory progress has been made in the financial year. The City of Tshwane is committed to obtaining unqualified audit reports from the Auditor-General. To do so, the City of Tshwane must bolster the culture of fiscal discipline and sound financial management in the municipality. Fiscal discipline is highly recommended to municipalities and local governments in developing nations (Fauconnier & Mathur-Helm, 2013: 1-14).

According to Grant (2013: 114-135), the task of reforming municipal financial management is a lengthy and challenging process. The introduction of the MFMA in 2003 laid the foundation for this. Since then, regulations dealing with supply chain management, public private partnerships, the minimum competency requirements of municipal finance officials and asset transfers have been put in place. Each reform aims to build on the foundation laid by previous initiatives, taking into account the time needed for municipal systems and practices to change. Since 2008, the South African National Department of Finance has been giving specific attention to strengthening municipal budgeting and reporting practices. Key initiatives have been the introduction of the Municipal Budget and Reporting Regulations in 2009, the enforcement of in-year financial reporting processes and firmer management of conditional grants in accordance with the annual Division of Revenue Act. These reforms have been supported by strengthening National Treasury's local government database and by publishing an increasing range of local government financial information on National Treasury's website. Future reform initiatives National Treasury is currently working on include introducing a standard chart of accounts for municipalities to ensure financial transactions are captured consistently by municipalities, and so improve the quality of financial reporting, strengthening revenue and cash management policies, processes and procedures, with a particular emphasis on tariff setting, ensuring the better alignment of plans, budgets and reporting by paying attention to the structure and content of SDBIPs and annual reports, and aligning the format of annual financial statements to report against budgets, strengthening non-financial reporting, to facilitate evaluations of value for money, finalizing of the regulations for financial misconduct to facilitate the enforcement of the provisions dealing with financial conduct in chapter 15 of the MFMA. Improved processes for municipal planning and budgeting empower a council to make more informed decisions and are fundamental to sustainable and efficient service provision. The generic municipal budget cycle is set out in the MFMA and described in MFMA circular 19. The cycle involves a planning phase, which starts with the mayor tabling in council a budget process schedule by August. This schedule sets key target dates for the budget process. The planning phase involves the strategic review of the IDP, setting service delivery objectives for the next three years, consultation on tariffs, indigent policy, credit control and free basic services, and reviewing the previous year's performance and current economic and demographic trends. The process has a phase for preparation that involves the analysis of revenue and expenditure projections (based on the mid-year budget and performance assessment), revising budget related policies and considering local, provincial and national priorities, a tabling and public consultation phase, which requires the mayor to table a proposed budget, IDP revisions and budget policies in council by the end of March. Thereafter, the municipality is required to conduct public budget consultations during April. Since 2008, National Treasury has been giving specific attention to strengthening municipal budgeting and reporting practices improved processes for municipal planning and budgeting allow for more informed decisions and are fundamental to sustainable and efficient service provision.

The research work conducted by Beck and Demirguc-Kunt (2012: 2931-2943) and Bharadwaj (2013: 169-196) has shown that small and medium-sized businesses that conduct businesses in municipalities have the potential for providing the financial means that is needed for creating jobs as well as the alleviation of urban poverty and unemployment. In this regard, local governments and municipalities can benefit from adhering to guidelines and regulations that are recommended in the MFMA documents. Proper documents that are prepared in accordance with MFMA rules are required to submit an annual report for each financial year. The annual report is the key instrument of transparent governance and accountability and must be used to report on performance for the year. The early completion and submission of annual reports, together with the annual financial statements, will facilitate timely oversight. Oversight of the annual report represents the final stage in the accountability cycle. Once approved by the council, the annual report must be placed on the municipal website, made available to the wider community and copies must be sent to various stakeholders. Audit opinions issued by the Auditor-General are the most important part of the auditor's report provided to the municipality. The audit findings are based on an independent and often extensive verification process of the annual financial statements and the performance information in the annual report. The study conducted by Carr (2013: 41-49) has shown that good governance on financial management entails transparency, accountability and the implementation of municipal bylaws and regulations on fiscal matters with vigour. Wade and Hulland (2013: 107-142) have shown that sound financial management is a key requirement for the efficient utilization of municipal resources in developing nations such as South Africa.

Conclusion of study and recommendation

The study has found that the degree of adherence of employees to the Muncipal Finance Management Act was significantly influenced by 3 factors. These 3 factors were poor level of technical skills in financial accounting and auditing, short duration of service, and poor degree of job satisfaction, in a decreasing order of strength. These findings suggest that the City of Tshwane must provide workplace training opportunities to employees working on auditing and accounting tasks as a means of building capacity and improving the quality of financial services that are provided to customers of the City of Tshwane.

Fahy (2013) has pointed out that large service providing municipalities such as the City of Tshwane must invest on skills development in technical areas such as auditing, accounting and general financial management on a regular basis as a means of ensuring overall efficiency and the provision of satisfactory services to ratepayers and stakeholders. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. The seller or service provider is delivering quality whenever its product or service meets or exceeds the customers' expectations. Understanding the customer requirements is a prerequisite for delivering superior quality because such requirements represent performance standards that customers use in assessing the quality of the product or services. Fahy (2013) points out that competitive financial performance can only be achieved through total quality management (TQM) as the approach to improving quality, productivity and competitiveness in international market place. Many empirical studies proved that firms that have adopted a quality-oriented strategy, achieved improved productivity, customer satisfaction, increase respondent morale, improved management-labor relation and above all, high performance (Hussain, Tsironis & Ajmal, 2011: 282-295). According to the authors, the critical requirements for efficient service delivery are cost, competitive advantage, reputation and sustainability. In order to practice sound financial performance, employees providing financial services to customers must abide by good governance principles (Sarkar & Batabyal, 2011: 20-29).

Basic principles of good corporate governance such as accountability, objectivity and transparency are vital for ensuring adequate municipal service delivery. Governance analysis constitutes mechanisms that are used for the assessment of key deliverables. Analysis of policy includes the setting up of chains, the evaluation of chains, and the need to make amendments based on what is required for efficient service delivery. A good business plan is useful for analysis and evaluation. Business plans take financial issues into account, and are practical. The analysis of performance must account for discrepancies between expected outputs and tangible results. Major discrepancies must be accounted for by those who are responsible. The issue of leadership is crucial for sound financial management. Leading by example is the most important tool for prudent financial management in the City of Tshwane and other local governments and municipalities. Studies conducted by Kirsten & Rogerson (2012: 29-59) and Kovacevic (2012: 12-15) show that ensuring fiscal discipline in local governments and municipalities a key requirement for growing small and medium-sized business enterprises on a sustainable basis.

Limitation of study

The degree of adherence to financial guidelines and regulations was measured by using a composite index defined by Kaiser, Crother, Kelly, Luiselli, O'Shea, Ota, Passos, Schleip & Wüster (2013: 8-23). Tools used for the measurement of adherence are subjective, and some measurement-related bias may have been introduced during data collection. This limitation of study could be addressed by other researchers in future.

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