



UNIVERSITY  
OF  
JOHANNESBURG

## COPYRIGHT AND CITATION CONSIDERATIONS FOR THIS THESIS/ DISSERTATION

 creative  
commons



- Attribution — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.
- NonCommercial — You may not use the material for commercial purposes.
- ShareAlike — If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original.

### How to cite this thesis

Surname, Initial(s). (2012). Title of the thesis or dissertation (Doctoral Thesis / Master's Dissertation). Johannesburg: University of Johannesburg. Available from:  
<http://hdl.handle.net/102000/0002> (Accessed: 22 August 2017).



**FACTORS INFLUENCING THE IMPLEMENTATION OF THE AUDITOR-GENERAL'S  
RECOMMENDATIONS IN SOUTH AFRICAN MUNICIPALITIES**

**BY**

**LESEDI SENAMELE MATLALA**

A mini-dissertation submitted in fulfilment for the Degree

of

Master's in Arts in Public Management and Governance

at the

College of Business and Economics

**UNIVERSITY OF JOHANNESBURG**

Supervisor: Prof. D.E Uwizeyimana

**November 2018**

TABLE OF CONTENTS	PAGE NUMBERS
DECLARATION.....	vi
ACKNOWLEDGEMENTS .....	vii
DEDICATIONS .....	viii
LIST OF ABBREVIATIONS .....	ix
ABSTRACT.....	x
CHAPTER ONE.....	1
GENERAL INTRODUCTION AND RESEARCH RATIONALE .....	1
1.1 Introduction.....	1
1.2 Background, rationale and problem statement .....	1
1.3 Guiding question.....	13
1.3.1 Secondary research question.....	13
1.4 Objectives of the study .....	13
1.5 Significance of the study .....	14
1.6 The scope of the study .....	14
1.6.1 Time scope .....	15
1.7 Clarification of concepts.....	16
1.8 Research design and methodology.....	18
1.9 Research Paradigm.....	19
1.10 Research methodology.....	21
1.10.1 Research approach .....	22
1.10.1.1 Content analysis.....	25
1.10.1.2 Context analysis .....	25
1.10.1.3 Conceptual analysis.....	25
1.10.1.4 Literature Review .....	26
1.10.2 Data collection methods.....	27
1.10.3 Data analysis methods .....	29
1.11 Organisation and frame of reference of the chapters of the study .....	30
1.12 Ethical considerations .....	32
1.13 Limitations of the study.....	33

1.12 Conclusion .....	33
CHAPTER TWO .....	34
THE LITERATURE STUDY (REVIEW) .....	34
2.1 Introduction .....	34
2.2 Purpose of the literature review.....	34
2.3 The concept of auditing.....	35
2.3.1 Conceptualising the auditing process .....	36
2.3.2 Auditing in the public sector.....	38
2.3.3 Auditing in local government .....	40
2.4 Auditing and evaluation for good public management .....	41
2.4.1 Relevance of evaluations for the auditing process .....	45
2.4.2 Monitoring and evaluation financial perspective .....	48
2.5 Conceptual framework for auditing.....	49
2.6 Contextual framework for auditing .....	49
2.7 Theoretical framework for auditing.....	50
2.7.1 Principal-agency theory.....	51
2.7.2 Stewardship theory.....	52
2.7.3 Behavioural theory.....	53
2.7.4 The policeman theory .....	53
2.8 Legislative framework for auditing at local government level.....	54
2.8.1 Constitution of the Republic of South Africa 1996 .....	54
2.8.2 Auditor General Act 1995 (Act 12 of 1995).....	55
2.8.3 Local Government Municipal Structure Act, 1998 .....	55
2.8.4 Public Audit Act 2004 (Act 25 of 2004) .....	56
2.8.5 Local Government Municipal Finance Management Act, 2003 .....	57
2.8.6 Municipal Systems Act .....	57
2.9 Conclusion .....	58
SIGNIFICANCE OF IMPLEMENTING AUDIT RECOMMENDATIONS IN THE PUBLIC SECTOR INSTITUTIONS .....	60
3.1 Introduction.....	60
3.2 Local government in South Africa .....	60
3.3 Fundamental principles of local government.....	62

<b>3.4 Challenges faced by municipalities .....</b>	<b>64</b>
<b>3.5 Audit system in the South African municipal level .....</b>	<b>66</b>
<b>3.6 Performance of South African’s municipal audit system .....</b>	<b>69</b>
<b>3.6.1 Irregular expenditure .....</b>	<b>70</b>
<b>3.6.2 Unauthorised expenditure .....</b>	<b>71</b>
<b>3.6.3 Fruitless and wasteful .....</b>	<b>71</b>
<b>3.7 Significance of implementing audit recommendations .....</b>	<b>71</b>
<b>3.8 The state of implementing audit recommendations in the South African municipalities .....</b>	<b>73</b>
<b>3.9 Conclusion .....</b>	<b>76</b>
<b>CHAPTER FOUR.....</b>	<b>78</b>
<b>FACTORS INFLUENCING THE EFFECTIVE IMPLEMENTATION OF AUDIT RECOMMENDATIONS .....</b>	<b>78</b>
<b>4.1 Introduction.....</b>	<b>78</b>
<b>4.2 Auditor-General’s reports .....</b>	<b>78</b>
<b>4.3 Attitude towards audit recommendations.....</b>	<b>80</b>
<b>4.3.1 Credibility and quality of auditor .....</b>	<b>82</b>
<b>4.3.2 Follow-up audit.....</b>	<b>83</b>
<b>4.3.3 Ministry’s Audit Committee (AC) .....</b>	<b>85</b>
<b>4.3.4 Media .....</b>	<b>86</b>
<b>4.3.5 Role-players involved in the implementation of audit recommendations within Municipalities .....</b>	<b>88</b>
<b>4.4 Factors influencing the implementation of audit recommendations .....</b>	<b>90</b>
<b>4.4.1 Availability of resources and time .....</b>	<b>91</b>
<b>4.4.2 Lack of follow ups .....</b>	<b>92</b>
<b>4.4.3 Lack of audit action monitoring processes .....</b>	<b>93</b>
<b>4.4.4 Corruption .....</b>	<b>95</b>
<b>4.4.5 Lack of consequences for not implementing the Auditor-General’s recommendations.....</b>	<b>97</b>
<b>4.5 Challenges faced in implementing audit recommendations .....</b>	<b>99</b>
<b>4.5.1 Financial constraints .....</b>	<b>100</b>
<b>4.5.2 Complex issues.....</b>	<b>102</b>

4.5.3 Quality of audit recommendations .....	104
4.5.4 Staffing issues .....	105
4.6 Challenges facing the office of the Auditor-General South Africa.....	108
4.6.1 Lack of authority to ensure audit recommendations are implemented .....	108
4.6.2 Institutional challenges .....	110
4.6.3 Retaining of staff.....	110
4.6.4 The cost of auditing.....	111
4.7 Conclusion .....	112
CHAPTER FIVE.....	113
STRATEGIES TO ENHANCE THE EFFECTIVE IMPLEMENTATION OF AUDIT RECOMMENDATIONS .....	113
5.1 Introduction.....	113
5.2 Establishment of ideal methods to implement the recommendations .....	113
5.2.1 Establishment of register of internal and external audit findings .....	114
5.2.2 Regular progress checks follow up and monitoring to find out whether the recommendations are being implemented.....	114
5.2.3 Establishing and ensuring a vibrant Audit Committee.....	116
5.2.4 Improving the quality the AGSA's recommendations/reporting.....	118
5.3 Mechanism for effective follow-up audit.....	118
5.3.1 Increasing the influence of Parliament and political oversight .....	119
5.3.2 Increasing the influence of Public Account Committee (PAC) .....	120
5.3.3 Influence of media .....	121
5.3.4 Influence of general public (Citizens) .....	123
5.3.5 Influence of the Key-role players within municipalities.....	126
5.4 Amendments of the Public Audit Act to empower Auditor General role .....	127
5.5 Establishment of Monitoring and Evaluation (M&E) unit to track progress for implementation of audit recommendations.....	129
5.6 Conclusion .....	130
CHAPTER SIX.....	132
SYNTHESIS, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	132
6.1 Introduction.....	132
6.2 Synthesis of the Chapters.....	133

6.3 Summary of major findings .....	135
6.4 Conclusions.....	136
6.5 Recommendations .....	137
6.6 Recommendation for future Study .....	140
BIBLIOGRAPHY.....	141
APPENDIX I: Recurring audit recommendations over a period of 7-years .....	163
APPENDIX II: Certificate of proof that minor-dissertation has been edited .....	166

#### LIST OF TABLES

Table 1: Sample of audit recommendations recurring over a 7-year period .....	11
Table 2: Total number and percentage of audit recommendations recurring over a 7-year period .....	12
Table 3: Categories of municipalities in South Africa .....	61
Table 4: Reasons for the continued use of consultants .....	102
Table 5: Key findings on the use of consultants .....	103
Table 6: Vacant positions for senior managers .....	106
Table 7: Senior managers appointed without proper qualification .....	107
Table 8: Audit committee establishment in municipalities .....	117

#### LIST OF FIGURES

Figure 1: Location of South African municipalities .....	15
Figure 2: Factors influencing the choice of a paradigm .....	20
Figure 3: Methodology as the convergence of three parts .....	22
Figure 4: Structure of the research .....	32
Figure 5: Five-year trend in irregular expenditure .....	70
Figure 6: Overview of local government leadership.....	89
Figure 7: Schematic model of participatory local governance .....	125

## DECLARATION

I, **Lesedi Senamele Matlala** (Student number: 201315738), do hereby declare that this minor-dissertation is my own original work and that all the sources contained in this minor-dissertation has been accurately reported and acknowledged, and that this document has not previously, either in its entirety or in part, been submitted at any University in order to obtain academic qualification.



.....

**L.S. Matlala**

.....

**Date**



## ACKNOWLEDGEMENTS

Over the last two years there have been inspiring friends and colleagues who have shared their wisdom, experiences and insights with me. These generous individuals have discussed and debated paramount issues with me and generally stimulated my thought process and for that reason I would like to express my genuine appreciation to them in the following order;

- Firstly, I would like to give praise and thank the Heavenly Father for blessing me with the strength, patience and endurance to complete this part of my academic and life journey.
- My supervisor Professor Dominique Emmanuel Uwizeyimana who provided me with technical direction and was always available by his accessibility, guidance, motivation and parental heart and for having instilled in me the sense of critical and systematic analysis throughout this study, to him I hereby address my sincere gratitude and acknowledgement.
- My parents, Thandi Matlala and Jan Matlala for supporting me through this very challenging journey – for all their kind words of encouragement and motivation.
- My future wife, Lebogang Magolego for her unwavering support, love and proofreading this mini-dissertation.
- To all those who have assisted me in any way, encouraged me when I needed it and offered me kind words – I thank you for being part of my journey.

UNIVERSITY  
OF  
JOHANNESBURG

## DEDICATIONS

This minor- dissertation is dedicated to God Almighty who has brought me this far and has made it possible for me to complete this research successfully. Second to my parents, as they stood by me throughout this process and made it possible to work effectively and complete this minor-dissertation. It is through their inspiration that I managed to acquire achievements in life.



## LIST OF ABBREVIATIONS

AC: Audit Committee

AFS: Annual Financial Statements

AG: Auditor-General (a person)

AGSA: Auditor-General of South Africa (an institution)

ANC: African National Congress

APAC: Association of Public Accounts Committees

GRAO: General Reports on Audit Outcomes

GWM&E: Government-Wide Monitoring and Evaluation

IAs: Institute of Internal Auditors

IIASA: Institute of Internal Auditors in South Africa

LM: Local Municipality

MFMA: Municipal Finance Management Act

M&E: Monitoring and Evaluation

MPAC: Municipal Public Accounts Committee

OAGSA: Office of the Auditor General of South Africa

PAA: Public Audit Act

PAC: Public Accounts Committee

PSAM: Public Service Accountability Monitor

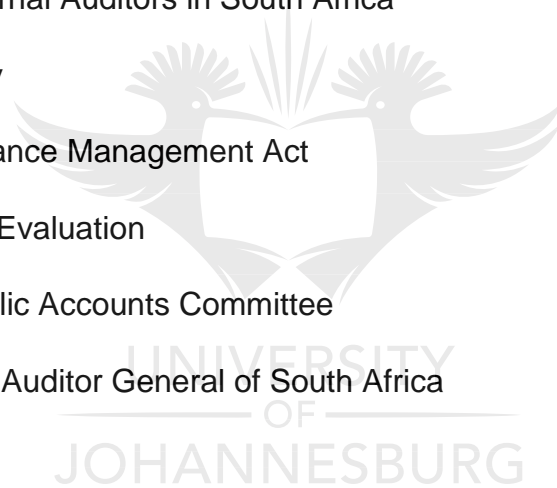
SALGA: South African Local Government Association

SAIs: Supreme audit institutions

SCOPA: Standing Committee on Public Accounts

StatsSA: Statistics South Africa

RSA: Republic of South Africa



## ABSTRACT

This study focuses on factors that influence the effective implementation of audit recommendations given by the Auditor General (AG), with specific reference to South African municipalities. The establishment of democratic local government in South Africa in the year 2000 decentralised the decision-making powers from the centre to the periphery. Municipalities are accountable for their own financial preparation and the planning of their budgetary processes. The national government, though, remains accountable for providing resources in terms of funding and programs or policy implementation. Notwithstanding the enormous investment in terms of resources (funding and capacity building programs), empirical studies and municipal audit reports revealed that most of the South African municipalities were not taking corrective action on the issues of irregularities raised in prior year audits; hence some of the weaknesses and problems remained unresolved or were recurring yearly. Thus, this study aims to discuss factors that influence municipalities failure to efficiently and effectively implement audit recommendations given by Auditor General of South Africa (AGSA).

The research methodology used in this research is mainly qualitative and relied heavily on robust literature study (academic overview) and a review of key documents (specific reports on local government performance) in to achieve this research objective.

The main findings of this study are that factors influencing implementation of audit recommendation include: availability of resources and time, lack of accountability, lack of follow up actions, complex issues, staffing issues, and lack of reasonable time frame for implementing the recommendations. To deal with these challenges, the study recommends the following strategies: establishing and ensuring a vibrant Audit committee, planning and determining the time frame in which to implement external audit recommendations, developing implementation progress report system, undertaking follow up actions, and the government to commensurate responsibility of leaders with accountability for proper implementation of audit recommendations in the South African Municipalities.

# CHAPTER ONE

## GENERAL INTRODUCTION AND RESEARCH RATIONALE

### 1.1 Introduction

This study focuses on factors that influence the effective implementation of audit recommendations given by the Auditor General (AG), with specific reference to South African municipalities. In response to the identified factors, this study proposes recommendations that may be used to promote operative implementation of audit recommendations in the South African local sphere of government. Firstly, this chapter serves as a general introduction to the study, as well as a frame of reference to the study. This chapter contains the background, rationale and problem statement of the study to provide context for the research. The guiding research question, motivation for research, the objectives of the study and a collection of secondary research questions are also presented in this chapter.

Furthermore, the qualitative approach to the methodology is also discussed. To clarify the approach, it was also significant to discuss the chosen research method. On that note, conceptual analysis, contextual analysis, content analysis, the qualitative approach, data collection methods and data analysis methods are briefly discussed. This chapter also covers the relevant terminology used throughout the entire study. Ultimately, an outline of the content of further chapters and information contained in this study will also be provided in this chapter.

### 1.2 Background, rationale and problem statement

Tanko (2011:16) writes that "auditing has its history to a large extent determined by the history of accounting, as the latter transformed and culminated with the development of the world economy prior 1840s". Salehi (2008: 8379) observed that "although ancient cultures of Mesopotamia, Egypt, Greece and Italy show evidence of highly developed economic systems, yet the economic fact during these periods were limited to the recording of single transactions". Salisu (2011:4) further emphasised that "archaeological artefacts and findings revealed that writing was in fact developed by accountants".

Iuliana (2012:265) outlined the history of auditing to the pre-historical period. He maintained that the auditing processes could be linked to the fundamental behaviour of human beings in life situations. Rooted in the way we listen and communicate in order to analyse, observe and make the best decision. Iuliana (2012:266) observed

that in "ancient past about 5000 years B.C., there was evidence of first writings, developing new forms of organisation, new socio-economic formations, cultural, and philosophical ones. Once to these has appeared the necessity of improving the economic situation of the tribes or kingdoms". Therefore, this task has been given to a member of the community, who knew how to write and dominated the numbers to realise activities of organising the data and figures, which would allow an evaluation of the economic situation to make appropriate decisions. Thus, "the auditing process was said to have begun by about the 400 BC where the ancient Egyptians and Babylonians had auditing systems for checking movement in and out of storehouses" (Iuliana, 2012:266).

Iuliana (2012:268) further emphasised that after 235 A.D. the accounting was highly important in the Roman Empire. He observed that the running of a Register for house operations and a register for all the other operations, by whose help the Romans have precise control over the estate. The bankers from this period have been the ones who have developed mostly the techniques of the accounting. During the middle ages, a new economic system of organisation, spiritual and social one in which great importance for the development of the accounting has had the Catholic Church which in 800 A.D. was leading documents of the annual inventory of the estate. In Italy and France, the accounting activity became a prestige profession, made by the intellectuals, developing essential values for the professional ethics.

Lee (1994:122) observed that generally, "the early historical development of auditing is not well documented". "Auditing in the form of ancient checking activities was found in the ancient civilisations of China, Egypt and Greece" (Lee, 1986:134). The ancient checking activities found in Greece (around 350 B.C.) "Appear to be closest to the present-day auditing" (Lee, 1994:122). "Similar kinds of checking activities were also found in the ancient Exchequer of England" (Lee, 1994:122). Thus, "when the Exchequer was established in England during the reign of Henry 1 (1100-1135), special audit officers were appointed to make sure that the state revenue and expenditure transactions were properly accounted for" (Gul, Teoh, Andrew and Schelluch, 1994:707). The "person who was responsible for the examinations of accounts was known as the auditor. The aim of such an examination was to prevent fraudulent actions" (Abdel-Qader, 2002:12).

Likewise, "the existence of checking activities was found in the Italian City States. The merchants of Florence, Genoa and Venice used auditors to help them to verify the riches brought by captains of sailing-ships returning from the Old World and bound for

the European Continent” (Brown, 1962:697; Ajao, Olamide and Temitope, 2016:1). Brown (1962:697) examined that “the audit found in the City of Pisa in 1394 was somehow similar to those found in the Italian City State which was meant to test the accounts of government officials to determine whether or not defalcation had taken place” (Kumar and Mohan 2015:44).

In a nutshell, as Kumar and Mohan (2015:44) puts it “in the period pre-1840, the auditing at the time was restricted to performing detailed verification of every transaction”. The concept of testing or sampling was not part of the auditing procedure. The existence of internal control is also unknown (Ajao, et al., 2016:1). Fitzpatrick (1939:34) observed that “the audit objective in the early period was primarily designed to verify the honesty of persons charged with fiscal responsibilities”.

The 1840’s to 1920’s was marked as the period of the Industrial Revolution in the United Kingdom (UK), and it contributed enormously to the growth of industries and afterwards development of the role of auditors. Thus, an important aspect of the history of auditing theory is the role and functions of auditors. Salem (2012:218) argues that “their roles have not been well defined from the beginning”. Iuliana (2012:270) observed that auditing is permanently evolving, answering to the changes in the environment and modifying its objectives starting the middle age, passing through the industrial revolution in the 18<sup>th</sup> century up to the 21<sup>st</sup> century. The widening gap between management and action has made it necessary to develop a series of controls by means of which the business may be administered efficiently. The internal auditor perfects and completes each of these activities by providing an on-the-scene appraisal of each form of control. There is no known substitute for this activity (Walsh, 1963:345).

Porter, Simon, and Hatherly (2005:13) further cited that “before the twentieth century, one of the objectives of auditors was fraud detection, he clarified that it was the auditor’s responsibility to report to shareholders all dishonest acts which had occurred, and which affected the propriety of the contents of the financial statements”. However, the ever-evolving commercial world makes it difficult for auditors to verify the accounts one after the other due to the volume of transactions involved, sampling techniques are used, and this offers only reasonable assurance of the contents of financial statements, as such the previous duty of fraud detection was expunged from their duties (Porter et al. 2005:16).

AbdulGaniyy (2013:10) argues that in the 1930s, "it became generally recognised that the principal audit objective was the verification of accounts and the profession took the position that fraud detection was management's responsibility since management had a responsibility to implement appropriate internal control systems to prevent fraud in their organisations". AbdulGaniyy (2013:11) further clarified that "auditors were unable to uncover fraud that involved unrecorded transactions, theft and other irregularities".

Additionally, AbdulGaniyy (2013:12) drawn the evolution of the auditing process from its leisurely Victorian beginnings where armies of clerks checked and ticked everything in their client's books, to the transformation in the 1960s when, with the growing scale of clients auditing became more a matter of checking a client's systems rather than the records themselves. The changes in the 1980s are also documented because of the growing pressure on audit fees from clients meeting the threat of global competition; auditors began to put their faith in such nebulous techniques as risk assessment.

Derek (2006:143) further emphasised that auditors also have had to cope with the advent of computerisation which robbed them of the audit trail. In the early 20th century, the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardised as the "Independent Auditor's Report." The increase in demand for auditors led to the development of the testing process. Auditors developed a way to strategically select key cases as representative of the company's overall performance. This was an affordable alternative to examining every case in detail, and it required less time than the standard audit (Hasyudeen, 2009:353).

Thus, the practice of auditing has been at the centre of every cycle of business activity for times. Today, auditing is a prominent component of the accounting profession and is conducted in terms of internationally recognised standards. It is a well-recognised career discipline that owes its high profile and respect to its status as a profession. Philosophers such as Mautz and Sharaf (1961:135), postulate that "financial data are verifiable; thus, in order for an audit to have value, no conflict of interest should exist between the auditors and the management of the enterprise under audit". Furthermore, Mautz and Sharaf (1961:135) argue that "other information submitted for verification should be free from collusive and other irregularities; systems of internal control should be in place to eliminate the probability of irregularities, and there should be a consistent application of generally accepted accounting principles in order for there to be a fair presentation of the financial position of the entity and the results of its operations". In the absence of clear evidence to the contrary, it should then be safe to assume that



what has held true in the past for the organisation, will hold true in the future. When examining financial data for the purpose of expressing an independent opinion thereon, the auditors act exclusively in the capacity of auditor – the agents of the principals (shareholders/citizens), the professional status of the independent auditor imposes reciprocal professional obligations (Motubatse, 2014:40).

The value of the work of the auditor has been recognised by many scholars in the field of accounting and auditing, including Cadotte (2015:187) who commends their work as a “legacy for contemporary contemplation in research, education, and professional practice”. Today, “the philosophy of auditing continues to attract academic attention” (Mautz and Sharaf, 1961:136), “ensuring that audit practice remains pertinent to the businesses it serves” (Lee and Azham 2008:5).

The Office of the Auditor General (OAGSA) is the Supreme Audit Institution in any country, South Africa inclusive. The Auditor-General of South Africa (AGSA) was established on 31 May 1910, as a result of the South Africa Act of 1909. However, the organisation became operational on 12 May 1911, with the commencement of the Exchequer and Audit Act, 1911 (Act No. 21 of 1911). This Act established the principle of public accounting and accountability in South Africa regarding the collection, custody and expenditure of public money. From 1911 to 1956, the powers of the Controller and Auditor-General (AG) remained virtually unchanged (Fakie, 1999:1).

Through the mandate protected in the Constitution of South Africa (1996) and through the process of auditing, AGSA plays a critical role in facilitating the accountability cycle and so promote democratic governance. The AG audits the accounts and financial statements of national and provincial departments as well as municipalities and any other government institution or accounting entity (AGSA, 2011:11-89).

In South Africa, the Office of Auditor-General South Africa (OAGSA) is one of the important institutions responsible for Monitoring and Evaluation (M&E). The AGSA:

- Performs the financial audits –to certify that the institution’s financial statements fairly represent the financial position of the institution –and regularity audits –to certify that the institution has complied with all relevant regulations and prescripts.
- Important from an M&E point of view is that the AG also does performance audits – to test whether money has been spent economically, efficiently and effectively by the audited entity.

- Does audits and express an opinion on the quality of performance indicators that departments publish in their strategic plans and in the Estimates of National Expenditure (AGSA, 2011:11-89).

McGee (2002:35) argues that “the public sector traditionally reported in its financial statements and the revenues collected under authority granted by Parliament and the expenditure of resources appropriated to it by Parliament”.

According to (McGee, 2002:36) the AG’s audit was “to ensure, on a test basis, that these statements fairly represented the financial transactions of the government, that public money was properly accounted for, and that appropriated funds had been expended only for the purposes of the parliamentary appropriation”. However, post-apartheid and 1994, there have been demands to know more about performance and results, rather than merely accounting for legality and propriety in public expenditure or for only reporting on output and activities (McGee, 2002:36). Therefore, paralleling developments in the public sector financial management generally, “the role of the public audit has expanded from a concentration on the inputs used by the public sector to a concern with what governments are producing – their outputs” (McGee, 2002:36). Thus, as McGee (2002:36) puts it, “a whole range of management tools like M&E come into presence to ensure good public-sector performance, through the shift of emphasis from a focus on inputs and process-based accountability, to a focus on outputs and results-based accountability” (McGee, 2002:36).

McGee (2002:37) furthermore highlights the shift in the AG's role in stating that “his role has expanded from being an auditor of the public accounts and financial transactions of the state to that of a promoter of organisational performance”. The Public Finance Management Act No. 1 of 1999 (PFMA) wants to establish if the government is getting value for money as part of its legislative mandate. In South Africa, the national, provincial and local government has struggled to conform to this shift of reporting strategy (McGee, 2002:36). Central to this study is also an attempt to discuss the extent which evaluation and auditing can work together to improve municipal performance, as this will be discussed into detail in chapter three.

The departmental M&E systems require the various mandated stakeholders to inform, consult and co-operate to achieve a uniform understanding of the M&E system. Thus, the success of the M & E initiatives depends on significant inputs by the stakeholders to drive it, these stakeholders include; The Presidency, Statistics South Africa, Public Administration and Leadership Academy (PALAMA), Office of the Public Service Commission (OPSC), AGSA, Provincial Offices of the Premier, and Impact of

legislation on performance management. Each stakeholder has a specific task to assist the overall development of the M&E systems (Govender, 2011:13).

Van der Waldt (2006:136) states that the Municipal Systems Act No. 32 of 2000 provides municipalities with guidelines for establishing a system that monitors and evaluates the performance of municipalities. On the other hand, Venter (2008:117-118) contends that within the local government sphere, M&E takes place through various performance driven measures (the quantifiable terms in the form of performance measures) and targets, of how well the municipality is doing by looking at the inputs; outputs achieved; and then the outcomes achieved.

Rabie (2011:29-30) notes that within the South African public sector, especially the local government context, M&E policies must capture the extensive objectives and principles that must be provided for government to be viewed as effective against its mandate so that these policies and their supported programmes and projects become the foundation for the development of M&E strategies.

M&E systems can be carried out internally by ministries, departments and agencies, or externally by central ministries (Mertens and Ginsberg, 2009:160). The study focuses on the AGSA as the institution responsible for executing M&E activities, this also involves conducting financial and compliance audits to provide assurance to the legislatures that various spheres of government spent their finances wisely. AGSA as one of the most important stakeholders of the M&E systems facilitates accountability and enhances good governance over the use of public resources through the presentation of the General Reports on Audit Outcomes (GRAOs). The audit reports of AGSA form the basis of the GRAOs that are prepared in each audit cycle. These GRAOs provide a concise summary of the audit outcomes in individual municipalities, provinces and even nationally across entities. The GRAOs identify certain broad themes and highlight specific trends that were detected during an audit cycle (AGSA, 2011:23-73). These reports are used to stimulate dialogue on the audit findings, ideally to a point where both the executive and senior management are able to commit to specific actions and interventions to address the findings (AGSA, 2011:23-73).

In local governments, as in any other public-sector organisation in South Africa, the role of the AGSA is to audit their financial and other statutory reports and outputs, and thus to increase public confidence in their management of the municipality (AGSA, 2012/13b:19-196). The AGSA's authority to audit local government entities is derived from its competencies and abilities, and in its Constitutionally defined mandate to serve

the public within the prescribed legal frameworks, and by applying ethical principles and professional standards at all times. Section 188(1) of Chapter 9 of the Constitution provides the basis upon which the OAGSA audits and reports on the accounts, financial statements and financial management of the public institutions (RSA, 1996:9). Thus, the AGSA is one of the key role-players that support the constitutional democracy in South Africa by providing independent assurance on the use of tax and other monies by all levels of government.

According to Chaka (2013:1) “Local government is mainly responsible for the delivery of basic services to local communities” (see also Apollo, 2008:15). “The White Paper accentuates that a developmental type of local government system must promote developmental objectives, with an emphasis on serving and creating a better life for all South African citizens” (White Paper, 1998:26, cited in Chaka 2013:1). By implication, this refers to effective service delivery (Chaka 2013:1). Thus, “the quality of the governance of a municipality has a direct impact on service delivery” (Dlalisa, 2009:7, cited in Chaka 2013:1).

However, in recent years, municipalities have been confronted with civil protests as a result of service delivery backlogs (Jones and Beattie, 2015:59). For instance, “the consolidated report of the AGSA on the outcomes of the audit of local government for 2008/09 and 2009/10 indicates that 59 municipalities for the respective years were identified as not being financially sustainable” (Chaka 2013:6). This raised concerns in terms of the financial sustainability of the operations of the municipalities in question, as the provision of essential services and maintenance of infrastructure may be severely disrupted. Other factors that were found to have affected the abilities of these municipalities included the following (AGSA, 2011:11-89); unusually high reliance on grants because own revenue is insufficient to fund operating costs; failure in terms of consumer debt recovery; and current liabilities exceeding current assets.

The situation is of great concern for the AGSA and the institution made one specific recommendation, namely that the affected municipalities must put financial recovery plans in place to turn this situation around (Motubatse, 2014:3). Furthermore, a variety of researchers have also highlighted the audit challenges experienced by local governments globally are related to some of these factors; the quality of leadership, financial management and governance (Dalton, Daily, Ellstrand and Johnson, 1998:270). These issues are also relevant to the challenges of implementing audit recommendations in the local government; in South Africa, this has been the target for all local governments across the country, that by the end of the 2013/14 financial

period all the municipalities must have achieved clean audit opinions (COGTA, 2009:9). However, the target has been a challenge for all and unachievable in too many municipalities across the country. The AGSA and others have repeatedly reported weak leadership, poor financial management and the lack of effective governance as key obstacles to the achievement of clean audit opinions since the target was set in 2011 (AGSA, 2013a:196).

According to Chaka (2013:60) “a feasible local governance system, as envisaged by the White Paper, is the system which is capable of effectively serving and developing people, and which is also able to create an enabling environment for effective governance” (see also Gregory and Simms, 1999:2). The AGSA, “in the report on the 2010/11 audit outcomes for municipalities, referred to deficiencies in the governance and financial management of municipalities and recommended an improvement in the accountability and governance framework of the municipalities which, among others, include the internal audit and audit committee function” (AGSA, 2011:11; Chaka 2013:2).

Gendron, Cooper and Townley (2007:110) underlined the essential nature of auditor's expertise in issuing recommendations and constructing performance guidance measurements to improve the management of local government. Wilkins (1995:429) also pointed out that the improvement in public sector accountability can be achieved through audit results and recommendations. This means that public sector audits can be effective if auditors put audit recommendations into action for better government performance and resource management, which will improve the economy, efficiency and effectiveness in the local sphere of government (Gendron et al., 2007:110).

Therefore, the implementation of the AG's recommendation is very essential as it is a measure of the AGSA's effectiveness. If AGSA's recommendations are taken into consideration and put into practice yearly, then there will be a reduction of adverse audit findings - which reflects positively on the AGSA.

Audit recommendations identify risks to the successful delivery of outcomes consistent with policy and legislative requirements, and highlight actions aimed at addressing those risks, and opportunities for improving entity administration. Entities are responsible for the implementation of audit recommendations to which they have agreed, and the timely implementation of recommendations allows entities to realise the full benefit of audit activity (AGSA, 2011, 2012, 2013b, 2014:45).

However, the implementation of the AGSA's recommendations seems to be a major problem in the local South African municipalities. For example, in the report of the local government outcomes 2013-2014, the chairman of Parliament's Standing Committee on the Auditor-General (SCAG), Mr Vincent Smith stated that many of the recommendations of the AG were not being implemented (AGSA, 2017:9). Smith further highlighted that "the AG makes recommendations and, year after year the same issues are repeated. Maybe we should look at it in the light of other chapter 9 institutions whose recommendations are strong so that it does not just become a recommendation that is dependent on [whether] an accounting officer or executive authority wants to implement it" (AGSA, 2017:9).

Another concerning issue remains the repetition of negative findings previously reported by the AGSA, often on an annual basis. For instance, according to the minutes of an address to, and discussions with the Parliamentary Portfolio Committee for Public Services and Administration (AGSA, 2010:25), the AG, Mr T.K Makwetu commented that it was not desirable for a "Chapter 9 Institution to hark back to the same issues year after year".

Ijeoma (2013:174) further emphasized to this concern that, not only is the AGSA not empowered to demand accountability directly from executive authorities of public institutions and their subordinates, but also that there is recurring: irregular, fruitless and wasteful expenditure, and a conspicuous absence of consequences for poor performance or malfeasance particularly in the local sphere of government. This is evident in Limpopo local government as it topped the list of provinces with the highest percentage of "unsatisfactory audit outcomes" at 82 per cent in the 2010/11 financial year, and this increased to 93 per cent of poor audit outcomes in the 2011/12 financial year. In other words, the financial performance of the municipalities increasingly regressed rather than improving (Ijeoma, 2013:201).

The issues of repeating findings previously reported, presents one instance which supports the view that, recommendations, guidelines, and red flagged risk areas identified by the AGSA in all spheres of government, including the local government, are often either not effectively implemented, or not sufficiently taken note of, for whatever reasons, as expressed in the AGSA's audit reports (AGSA, 2014:9). The OAGSA also reports that there was adequate evidence that consequences did not often follow up on poor performance, gross negligence and fraudulent behaviour in all spheres of government, including the local government in South Africa (AGSA, 2012:5).

Furthermore, the AGSA's report on national government, also revealed that most of the public entities were not taking corrective action on the issues of irregularities raised in prior year audits; hence some of the weaknesses remained unresolved or were recurring yearly (AGSA, 2014:10).

A trend analysis of the consolidated general reports on local government issued from 2010/11 to 2016/17 shows that audit findings and recommendations are recurring from year to year. The analyses were conducted by identifying recurring themes grouped according to the drivers of internal control starting from the 2010-17 financial year because the reports for the 2018 financial year were not available during the time this research was conducted. This is a sign that those charged with governance are not taking satisfactory measures to amend identified spillages and risks at the municipal level. Table 1 (see appendix 1 for more details) below shows the statistics of the rate in which audit recommendations given by the AGSA are repeating in the South African municipalities.

**Table 1: Sample of audit recommendations recurring over a 7-year period**

Period	Audit Recommendation Type	Number of Audit Recommendations Repeating from The Previous period
2010-2011	Leadership	5
	Financial and performance management	5
	Governance	3
2011-2012	Leadership	4
	Financial and performance management	8
	Governance	1
2012-2013	Leadership	4
	Financial and performance management	5
	Governance	2
2013-2014	Leadership	1
	Financial and performance management	3
	Governance	2
2014-2015	Leadership	3
	Financial and performance management	4
	Governance	1
2015-2016	Leadership	5
	Financial and performance management	4
	Governance	3
2016-2017	Leadership	3
	Financial and performance management	5
	Governance	1

Source: Compiled by the author (2018)

Table 2 below demonstrates the total figures of the rates in which audit recommendations given by the AGSA are repeated over the past 7-year period. These recommendations are grouped under the drivers of control, and each shows a total percentage.

**Table 2: Total number and percentage of audit recommendations recurring over a 7-year period**

Recommendation category	Total number of recommendations over the 7-year period	Overall percentage for the 7-year period
Leadership	25	35 %
Financial and performance management	34	47 %
Governance	13	18 %

Source: Compiled by the author (2018)

As demonstrated in the above tables, the results indicate that the 'Financial and performance management' (including financial mismanagement, embezzlement, flouting the PFMA and other Treasury directives etc.) category has the most recurring recommendations with a percentage of 47% within the 7-year period, suggesting that public funds are possibly not being managed in an effective and efficient manner in the respective municipalities. The next recommendation category that has the second-most recurring recommendations is 'Leadership' (including lack of leadership) with a percentage of 35%, suggesting that the leadership in the municipal level do not take audit recommendations given by the AGSA seriously. The last recommendation theme is 'Governance' compare to other groups it has the least amount of recurring recommendations with a percentage of 18%. The consistent recurrence of themes and related findings implies that there are factors influencing the successful implementation of audit recommendations in South African municipalities.

Thus, the rationale for this study is to try to understand municipal audit inefficiencies, particularly why problems which recur in the AG'S recommendations are not adequately resolved. The fact that over time, problems come up again and again suggests that the root causes of these problems have probably not been addressed. This objective is achieved by reviewing various reports issued by the AGSA to determine whether (and why) fairly simple problems continue to surface in spite of clear recommendations provided by the AG's recommendations to these municipalities.



### 1.3 Guiding question

Considering the above background discussion, the main guiding question to be addressed and therefore answered by this study will be:

**What are the factors influencing the implementation of the Auditor-General's recommendations in South African municipalities?**

#### 1.3.1 Secondary research question

When examining the main research question, it is clear that various secondary questions can be deduced from it. A solution to the main question or problem stated will also be provided, through the synthesis of findings. The research questions or problems which will be addressed by this study therefore are:

- What is the contextual and legislative framework governing the AGSA functions in South Africa?
- To what extent does evaluation and auditing work together to improve municipal performance?
- What is the purpose of auditor general recommendations in public institutions?
- What is the state of the implementation of the AG's recommendations in South African Municipalities?
- What are the factors influencing the implementation of audit recommendations in South African municipalities?
- What strategies that can be employed to enhance the effective implementation of audit recommendations in the municipalities?

#### 1.4 Objectives of the study

The objectives of this study are needed so that the research questions of this study can be answered and also, that the aims and objectives can be achieved. The objectives of this study are to:

- Discuss the contextual and legislative framework governing the AGSA functions in South Africa.
- Discuss how evaluation and auditing can work together to improve municipal performance.
- Discuss the purpose of auditor general recommendations in public institutions?

- Explain the state of the implementation of audit recommendations in South African municipalities.
- Identify and discuss factors influencing the effective implementation of audit recommendations in South African municipalities.
- Identify and discuss strategies that can be employed to enhance the effective implementation of audit recommendations in the municipalities.

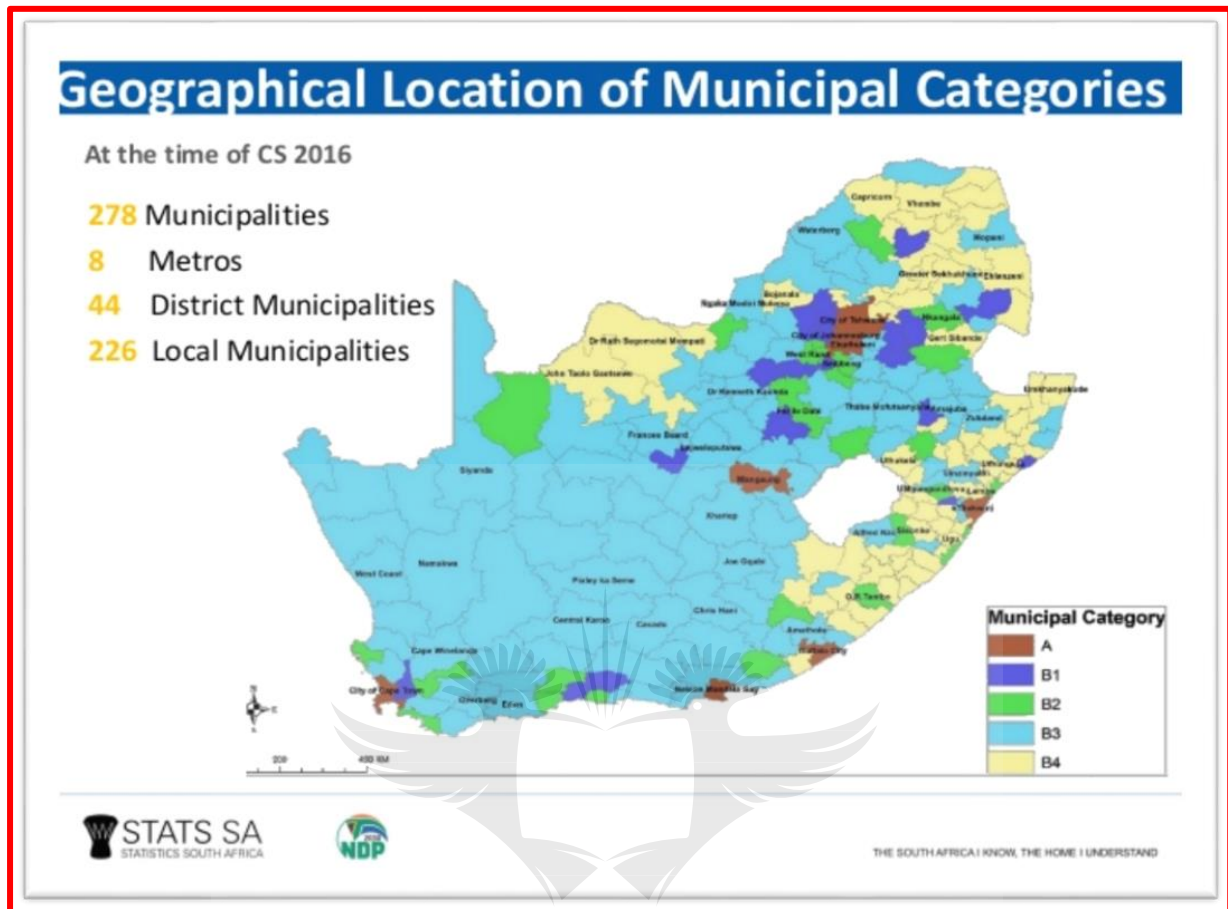
### **1.5 Significance of the study**

Firstly, this study is of paramount importance due to the fact that it was conducted having expected to bear practical and strategic recommendations on how to improve the challenges of implementing audit recommendations in South African municipalities. Secondly, although the focus of this study is on local government, some of the lessons learned from this research may be applicable to other spheres of government, as well as to private sector organisations, therefore assisting them all to improve their tactics to attaining their objectives. Lastly, the study would be of value and assistance to future researchers as a guide and also optimistically address some breaches that the previous researchers left as far as factors affecting the implementation of the AG's recommendations in the local sphere of government.

### **1.6 The scope of the study**

The geographic research area for this study includes all the municipalities in the Republic of South Africa. Figure 1 below shows the research area, being the municipalities in all nine provinces in South Africa.

**Figure 1: Location of South African municipalities**



Source: Statistics South Africa (2011)

### 1.6.1 Time scope

The documents chosen for critical review were the AGSA's consolidated general reports on the audit outcomes of local government organisations for the financial years 2010-2011, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-2017 as well as other relevant audit documents, in order to identify factors influencing the successful implementation of audit recommendations. These reports were selected for review because they are the official documents reporting on the results of external and internal audits done on local government's highlighting factors affecting the implementation of AG recommendations. Thus, the period from 2010/11 to 2016/17 is considered by the study as the one when the AG's recommendations on the municipal level were not effectively implemented as they keep on recurring from the reviewed reports.

## 1.7 Clarification of concepts

Yusuf and Chell (2005:28) contend that "defining terminology in research is critical to disperse misperception and for better understanding, both for those who are new to the subject and those who are familiar with the subject". Thus, the section below will define the main terms that will be used consistently throughout the study so as to ensure that there is no uncertainty about the interpretation of concepts. The main terms that will be utilised throughout this study include terms such as, auditing, internal audit, external audit, auditor general, local government, audit recommendation, implementation, monitoring, evaluation, accountability and transparency.

**Auditing** - Auditing is defined as "a systematic investigation and appraisal of transactions procedures, operations and results in financial statements"(Anichebe, 2010:275). It is further stated that the main purpose of auditing is to determine the degree of adherence to the prescribed criteria and to express an opinion thereon (Anichebe, 2010:275).

**Internal Audit** - Internal audit is labelled as "an independent, objective assurance and consulting activity intended to improve an organisation's operations and reduce the risk of failing to meet strategic and operational goals and objectives. It fills this function by examining an organisation's risk management, control, and governance processes and reporting on the results of these audits and reviews to management and governing boards or stakeholders" (The Institute of Internal Auditors 2006:1).

**External audit** - External audit is defined as "audits generally performed by audit firms (operated by certified public accountants) that are engaged (or contracted) by the entity. These audits are intended for use by external stakeholders whereas internal audits are intended for use by management and staff of the entity" (The Institute of Internal Auditors 2006:2).

**Local government** - Gomme (1897:1) defines local government as "that part of the whole government of a nation or state which is administered by authority's subordinate to the state authority, but elected independently of control by the state authority, by qualified residents, or having property in certain localities, which localities have been formed by communities having a common interest and common history".

**Audit recommendations** - "Facts and figures collected by an auditor to satisfy the objectives of the audit (the findings), inferences drawn by the auditors from the findings (the conclusions), and courses of action suggested by the auditor in line with the

objectives of the audit (the recommendations)” (The Institute of Internal Auditors Standards and Guidance, 2016:4).

In the setting of this mini-dissertation, audit recommendation referred to an opinion provided by an auditor to his/her auditees about the audit findings of the financial year under audit.

**Implementation** - Implementation is the carrying out, execution, or practice of a plan, a method, or any design, idea, model, specification, standard or policy for doing something. As such, implementation is the action that must follow any preliminary thinking in order for something to happen (Merriam-Webster's Collegiate Dictionary, 2017:796).

In the context of this mini-dissertation, the term implementation referred to the process of putting recommendations made by the Auditor General's office into action by responsible officers or auditors.

**Monitoring** – “Monitoring is a continuous activity that systematically collects the data of a process/programme/project within specified indicators to provide management and stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of funds allocated” (Public Service Commission, 2008:13).

**Evaluation** - Vedung (1997:3) defines evaluation as “a careful retrospective assessment of the merit, worth, and value of administration, output, and outcome of government [and other sector] interventions, which is intended to play a role in future, practical action situations”.

According to Mertens and Ginsberg (2009:170) “evaluation is a systematic application of social research methods to assess the strengths and weaknesses of social interventions, including programmes, policies, personnel, products and organisation”.

**Accountability** - Accountability is the process whereby public-sector entities, and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for responsibility conferred (International Federation of Accountants (IFAC, 2014:3).

**Transparency** – "Transparency is about shedding light on rules, plans, processes and actions. It is knowing why, how, what, and how much. Transparency ensures that public officials, civil servants, managers, board members, and businessmen act visibly and understandably, and report on their activities. Moreover, it means that the general public can hold them to account. It is the surest way of guarding against corruption and helps increase trust in the people and institutions on which our futures depend" (The Institute of Internal Auditors, 2006:6).

## 1.8 Research design and methodology

Leedy and Ormond (2005:1) define research as "a systematic process of collecting, analysing, and interpreting data in order to increase our understanding of the phenomenon about which we are interested or concerned".

Bless and Higson-Smith (1995:71) define research design as "operations to be performed, in order to test a specific hypothesis under a given condition". A research design focuses on the end-product and all the steps in the process to achieve that outcome. In this sense, research design is viewed as the functional plan in which certain research methods and procedures are linked together to acquire a reliable and valid body of data for empirically grounded analyses, conclusions and theory formulation. The research design thus provides the researcher with a clear research framework; it guides the methods, decisions and sets the basis for interpretation.

Gray (2009:131) further describes research design as "the overarching plan for the collection, measurement and analysis for data", while Babbie and Mouton (2001:74) describe research design as a plan or blueprint for conducting the research. The research design also entails a detailed plan, according to which research is undertaken. According to Mouton (1996:107), the main function of a research design is to enable the researcher to anticipate what the appropriate research decisions are likely to be and to maximise the validity of the eventual results.

The research design should be seen as a mixed-bag approach that implies choosing from different alternatives and options to ensure that the research purpose and perspective are clarified and achieved. The research problem will determine the methods and procedures: the types of measurement, the sampling, the data collection and the data analysis to be employed in the proposed research (Babbie 2001 in Webb and Auriacombe, 2006:589).

A research design consists of "a clear statement of the research problem as well as plans for collecting, processing and interpreting the observations intended to provide

answers to the research question or to test the hypothesis” (Singleton and Straits 2004 in Webb and Auriacombe, 2006:589). Some research designs are specific, detailed and have specifically formulated decision steps; others tend to be more flexible, semi-structured and open-ended, while the details would vary based on what a researcher wishes to study, he/she would face two major tasks in a research design: firstly, specifying as clearly as possible what it is he/she wants to find out, and secondly, determining the best way to do it (Babbie 2001 in Webb and Auriacombe, 2006:589).

What is important in research design is "to select those research strategies, methods and techniques that are appropriate to the research goal. In other words, different studies use different methodologies, and the methods appropriate for the task at hand should be used" (Auriacombe, 2012:135). The researcher not only "selects the methods and techniques, but also the methodological paradigm: quantitative, qualitative or even a combination of both" (Mouton, 2012:111).

There is a direct relationship between “the research question(s) and the theoretical and methodological frameworks of a study” (Auriacombe, 2012:135). Therefore, the “research question is informed by the theoretical and methodological dimensions to be applied to gain an understanding of the phenomena under study while decisions about what theory and knowledge are relevant depend on the research question” (Auriacombe, 2012:135). Hence, it forms a conceptual framework that provides the structure for a coherent study (Babbie and Mouton, 2001:56).

Although all the elements of the research design are interrelated placing the design within a conceptual framework, two parts can be identified. The first part of the design forms a close-knit unit focusing on the theoretical framework (Maxwell 2005 in Auriacombe, 2012:136). The second part focuses on the methodological framework of the study. These two parts are interrelated through the research question which forms the core of the study. The research question thus connects the “what” with the “how”. Differently stated the first part of the research design is generally seen as dealing with the “what” of the study and the second part with the “how”. Although seen as two different units, these units form an integrated whole.

## **1.9 Research Paradigm**

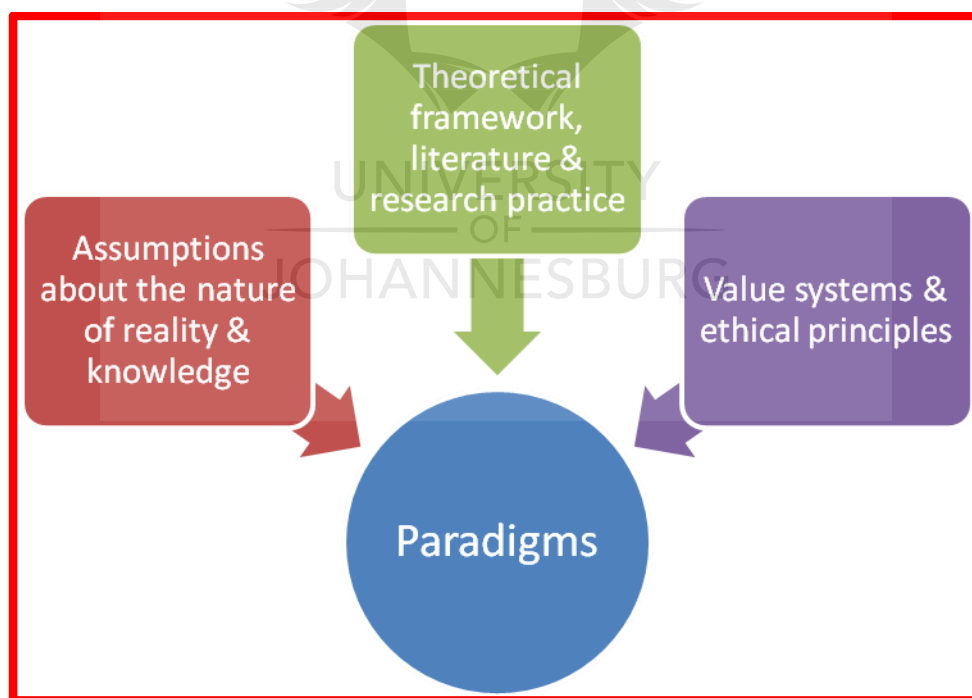
Patton (2002:111) describes a paradigm as a way of describing a worldview that is informed by philosophical assumptions about the nature of social reality (known as ontology – that is, what do we believe about the nature of reality?), ways of knowing

(known as epistemology – that is, how do we know what we know?), and ethics and value systems (known as axiology – that is, what do we believe is true?).

Guba and Lincoln (1994:76) stated that a research paradigm is intrinsically associated with the concepts of ontology, epistemology and methodology. They suggested that a research inquiry should be based on the concepts of ontology, epistemology and methodology. According to Guba and Lincoln (1994:76), the answer to questions regarding these three elements provides an interpretative framework that guides the entire research process including strategies, methods and analysis.

How one views what is real, what they know and how they know it, along with the theoretical perspective(s) one has about the topic under study, the literature that exists on the subject, and one's own value system work together to help select the paradigm most appropriate for to use, this is illustrated below in Figure 2. Guba and Lincoln (1994:79) highlight four research paradigms mainly positivism, post-positivism, constructivism (or another variant is interpretivism) and pragmatism. The justification for highlighting these paradigms is an attempt to frame the data and to give the reader an appropriate context for the study.

**Figure 2: Factors influencing the choice of a paradigm**



Source: Guba and Lincoln (1994).

For this study, the information was framed within the acceptance of the constructivism/interpretivism paradigm. The author selected this paradigm for the two following reasons. First, this study is qualitative in nature and it is based on a



conceptual and theoretical analysis by way of a literature study. Its main objective is to describe the contextual factors influencing audit recommendation implementation, thus, is well suited within the constructivism/interpretivism paradigm. Second, in order to contribute solutions to the factors influencing the implementation of AG's recommendations in local municipalities within South Africa, the researcher needs to understand the problems at hand. Thus, this study examines the users of performance audit reports.

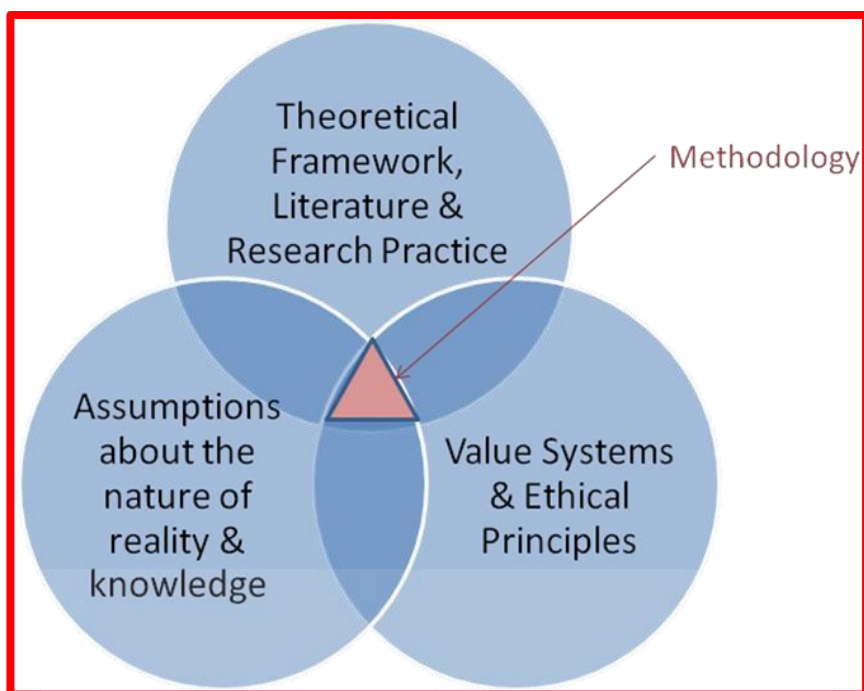
### **1.10 Research methodology**

Methodology refers to “the operational framework within which facts are given meaning” (Leedy, 1997:91). There are two main types of research paradigms: quantitative and qualitative methods. The former is also referred to as the positivist, traditional and experimental way of doing research, while the latter is the naturalistic, interpretive and constructivist way (Leedy, 1997:92). Quantitative methods produce findings through statistical processes while qualitative methods seek to qualify human behaviour through words, pictures and/or observations (Neuman, 2003:7). Grounded in the positivist social sciences paradigm, quantitative methods are concerned with testing assumptions while qualitative methods are exploratory in nature, as they aim to discover, understand and describe phenomena that have been identified but are not fully interpreted (Neuman, 2003:7).

Contrary to a research design that prescribes a form of a general approach and methods which are used in the accomplishment of research, Strauss and Corbin (1998:172) posit that "a research method refers to the process of outlining the specific techniques and tools which are used in the primary data collection process. These authors interpret that a research method concerns the actual techniques that the research uses in the process of obtaining raw data from the participants or respondents in a study".

Research methodology refers to “the methods, techniques, and procedures that are employed in the process of implementing the research design or research plan...It is the theory of how an inquiry should proceed” (Schwandt 2007 in Auriacombe, 2017:219). The "assumptions made, and the suggested research procedures should, therefore, be presented within the framework of the particular theoretical approach taken" (Auriacombe, 2017:219).

**Figure 3: Methodology as the convergence of three parts**



Source: Crotty (1998)

As illustrated above in figure 3, the methodology summarises the research process, that is, how the research will proceed. Deciding on a methodology starts with a choice of the research paradigm that informs the study. According to Crotty (1998:71) methodological process, therefore, is guided by philosophical beliefs about the nature of reality, knowledge, and values and by the theoretical framework that informs comprehension, interpretation, choice of literature and research practice on a given topic of study. Methodology is where assumptions about the nature of reality and knowledge, values, and theory and practice on a given topic come together (Crotty, 1998:71). Methods are the means used for gathering data and are an important part of the methodology (Crotty, 1998:71).

For the purpose of this study, a qualitative methodology was chosen due to its relationship with the research paradigm and suitability in addressing the objectives of the study.

### **1.10.1 Research approach**

As stated, in this study, the research approach is qualitative, and it is based on a conceptual and theoretical analysis by way of a literature study. Qualitative research concerns itself with an assessment of a situation expressed in the participant's own words. In the case of this study, the participant is the researcher of this study. It has to

do with the observations of the researcher and qualities rather than quantities or figures. It describes types, styles and similar factors in an effort to understand the phenomenon as a totality.

According to Lichtman (2013:6), qualitative research can be defined as "a general term because it is a way of knowing how a researcher collects, organises and interprets information obtained from humans using their eyes and ears as filters. This sometimes includes in-depth interviews and/or observations of humans in social, online, or natural settings". In contrast, quantitative research "relies strongly on cause and effect, hypothesis testing and statistical analyses" (Lichtman, 2013:7).

The qualitative research process is where the researcher plays an essential role. The collection of data must take place, as well as the gathering of information. Thereafter, settings must be viewed, and then the construction of realities can take place through the researcher's eyes and ears. Furthermore, analysing the data through an iterative process, that moves back and forth between the data that is collected and the data that is analysed, is the accountability of a qualitative researcher. Finally, the qualitative researcher makes sense of the data. It must be considered that the researcher is the primary instrument of data collection and analysis. The researcher decides what information must be gathered when qualitative research is being done (Lichtman, 2013:21).

Conventionally, qualitative research revolves around the following four key characteristics that will be guiding this research:

Firstly, "drawing from the doctrines of constructivism, phenomenology and symbolic interactions, qualitative scholars are interested in how human beings interpret their experiences, how they construct their worlds and what meaning they equate to such experiences. The general purposes of qualitative inquiry are to gain an understanding of how people make sense of their own lives, describe the processes (rather than the outcomes or products) of meaning-making, and to delineate how humans interpret what they experience" (Merriam, 2009:14). Patton (2002:113) viewed qualitative research as "an effort to understand circumstances in their distinctiveness as part of a certain context and interactions. The main concern is to understand the phenomenon studied from the perspectives of different participants, rather than perspectives of the researcher". This is what many academics refer to as the view of the insider versus the outsider's view (Merriam, 2009:14).

Secondly, qualitative research is conducted in a natural setting, where the researcher plays important roles in the collection of data as well as its analysis. Since understanding is the crux of the study; the human instrument allows immediate responsiveness and adaptability which seem to be a suitable means of gathering and analysing data. This allows the researcher to expand understanding through verbal and non-verbal communication, process data, clarify and summarise the data. It also allows the researcher to check respondents' interpretation accuracy and explore unconventional and unanticipated responses. In this regard, the researcher has consulted various programme evaluators in order to learn about the challenges that they deal with when doing their evaluations. This helps the researcher understand the data gained from the actual experiences of the participants (De Vos, 2001:240).

Thirdly, qualitative scholars could take a qualitative approach due to a lack of theory or because an existing theory is inadequate to explain a certain phenomenon. Another important element of qualitative research is that the process is normally inductive. This means that the researcher collects data to establish hypotheses, conceptions or theories in lieu of deductively testing hypotheses as in positivist research. Thus, qualitative research is generally geared towards theory development or testing from observations and intuitive understanding. Information from observations, documents or interviews will be synergised and arranged into large themes as the researcher works from the specific to the general. Findings that are inductively derived from the data in qualitative research are in the form of themes, groups, typologies, ideas and theory about a particular component of practice (Merriam, 2009:16).

Lastly, this minor-dissertation is largely descriptive. Words rather than quantities (quantitative research approach) are employed in order to convey what the researcher has studied about a phenomenon. The idea is to have a description of the setting, participants' input and activities of interest. Additionally, data in formats such as quotes, notes and respondent interviews and electronic communication, are included to support the findings (Merriam, 2009:16).

As mentioned earlier under research design, this study is qualitative in nature. It is based on content, context, and conceptual analysis of sources which are going to be used in the study. This research is an obstructive study, which focuses on analysing books, case studies, government reports, and so forth.

### **1.10.1.1 Content analysis**

Content analysis is a “qualitative technique which is based on the systematic description of written, spoken, and visual communication. Primarily, it can be defined as a heterogeneous and wide set of manual analysis. It is a method of summarising any form of content by counting various aspects of the content. Moreover, content has become an umbrella term for a boundless set of quite diverse research approaches. Content analysis can be seen as a study trace, which outlines old documents and artefacts “(Bowen, 2009:47).

### **1.10.1.2 Context analysis**

Context analysis is "a method or an approach in which researchers analyse a business environment. Context analysis in most cases scans the macro environment of a business. This approach in most cases is based on Strengths, Weaknesses Opportunities, Threats (SWOT) analysis methods, which is a study mostly undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats. It refers to methods of sociological analysis associated with the belief of art. In terms of context analysis, the research is based on different studies based on one study. In context analysis, the researcher will examine different pieces of literature and analyse their standpoint on the research problem” (Maxwell 2005 in Auriacombe, 2011:94).

### **1.10.1.3 Conceptual analysis**

Conceptual analysis is mainly "based on the breaking down of a concept into more understandable parts. It is the analysis of constituent parts in order to gain knowledge or a better understanding of a particular issue in which a particular term or concept is involved. This method is the basis of propositional analysis” (Maxwell 2005 in Auriacombe, 2011:95).

A conceptual analysis refers to the process of developing the empirical study’s conceptual framework. It encompasses the “system of concepts, assumptions, expectations, beliefs and theories informing the research and is generally regarded as an explanation proposed to reach a better understanding of the social reality/phenomena that is being investigated” (Maxwell 2005 in Auriacombe, 2011:96). The conceptual framework’s “assumption is to assess and refine the goals; develop realistic and relevant research questions; substantiate arguments; clarify the theoretical framework and logic or reasoning used; define concepts; justify decisions; and direct data collection and analysis. The conceptual framework is the

operationalisation of the theoretical framework of a study and therefore forms an intricate part of the research design. Qualitative researchers utilise a conceptual framework to develop typologies, models and theories from the bottom up” (Eriksson and Kovalainen in Auriacombe, 2011:97).

According to Badenhorst (2007) in Auriacombe (2017:60) “conceptualising includes the following: A researchable problem that is relevant, an appropriate research design and appropriate conceptual framework”. Furthermore, the conceptual analysis needs “to indicate which interpretations of concepts, theories, phenomena and variables the researcher believes to be most valid and it must be supported by evidence” (Badenhorst 2007 in Auriacombe, 2017:65).

The following aspects are important in the application of the conceptual analysis in order to develop a conceptual framework:

- “A conceptual framework unpacks the key concepts, theories and phenomena used in the preparation of the research study in order to determine the relationships between the concepts and variables to develop themes and categories” (Badenhorst 2007 in Auriacombe, 2011:65).
- “The conceptual framework also provides the basic outline for analysing the data in order to draw conclusions. This means that it is the golden thread that runs through the entire study from the beginning to the end where the final conclusions are made” (Badenhorst 2007 in Auriacombe, 2011:65).
- “The conceptual framework is usually unpacked in the content chapters based on the literature review” (Badenhorst 2007 in Auriacombe, 2011:65).

#### **1.10.1.4 Literature Review**

To provide a contextual analysis of the topic under study in terms of specified research objectives, the researcher conducted an extensive literature review after the data collection process. "The literature review offers a synthesis of what has already been written on the topic. It helps to identify certain gaps and provides guidelines to fill these omissions" (Creswell, 2003:25). The literature review shares the "results of related studies and contextualises the study's reasoning, as well as to what extent the conceptual framework contributes to the, larger, ongoing dialogue in the literature" (Creswell, 2003:25).

The literature review should also endeavour to clarify concepts and highlight “how the researcher's proposal addresses the 'gap', silence or weakness in the existing

knowledge base” (Auriacombe, 2012:148). It is a critical component in assessing a topic's current status quo. The researcher not only tracks down what scholars have written about the topic, but also provides "a personal and professional assessment of both the content and quality of the text" (Creswell, 2003:25).

According to Auriacombe (2012:28) “a simple chronological account of previous research will not substantiate the argument on why the research problem is significant and how to continue the research effort, a good literature review engages one in a dialogue with scholarly writings and arguments in the field and helps to set a pattern for critical thinking”. Furthermore, it contributes to developing a theoretical framework and a reflective approach for the intended research. According to Auriacombe (2012:28) "a researcher's philosophical stance should contribute to understanding the approaches behind the reviewed literature and to contextualise the literature review within a theoretical framework” (Auriacombe, 2012:28).

As a precursor to the research, the researcher's theoretical background should prompt him/her to examine the detailed literature on specific ideas and research. Theory assisted the researcher to understand the approaches behind the reviewed literature, as well as the researcher's philosophical stance. As such, an interdisciplinary approach was followed, rather than compartmentalising each aspect (Auriacombe, 2017:41). The researcher ensured that he “included some account of how previous research was done” in order to develop a model for his “own approach to the methodology” (Auriacombe, 2017:41). The important issues of the researcher’s research problem (in section 1.2) are introduced through the literature analysis.

According to Auriacombe (2017:41), “the conceptual framework and the literature review are developed in parallel; one informing the other the literature selections chosen for the study should contribute to the conceptual framework in that they already structured, to some extent, the domain they cover and provide definitions or further elaborations of categories already within the framework to expand and further develop” these selections and alternative theories.

### **1.10.2 Data collection methods**

Braun and Clarke (2008:78) defines data collection as "the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses and evaluate outcomes". The objective of all data collection is to capture quality information that

translates into rich data analysis. This allows for compiling a persuasive and dependable response to the research question (Braun and Clarke, 2008:78).

Research data need to be scientifically gathered in order to ensure that the aforementioned tasks are dealt with in a manner that does not leave unresolved matters. Leedy and Ormrod (2013:34) explain that data collection "begins after the research problem has been identified and the research design finalised". In almost every research project, "the quality, quantity, adequacy and appropriateness of the data determine the quality of the research and its usefulness" (Snape and Spencer, 2003:47).

The data collection phase of the envisaged study includes perusing reports (annual or periodic reports) from the AGSA, documents from SCOPA/PAC, the enabling legislative and regulatory, and selected relevant literature. The study therefore primarily proposes to do an extensive, as well as an intensive critical review of relevant literature and documentation, to explore avenues in which the AGSA could be assisted to play a more effective role in containing the recurring findings, and thus in rooting out the factors affecting the effective implementation of audit recommendations.

Documents play a key role in supporting evidence from various sources. "Documentation is used to construct interviews, clarify facts or make conclusions from specific arguments or facts" (Yin, 2014:81). The literature study is utilised to establish a theoretical framework for this study and refers to the study and analysis of all the available literature in the form of:

- pertinent published books;
- relevant unpublished minor-dissertations and theses;
- articles from relevant academic journals and reference works;
- Auditor General's Reports;
- evaluations institutions' conference papers;
- documented documents;
- applicable Internet sources;
- political speeches and documented interviews.

According to Yin (2014:80), "some of the weaknesses of data-collection methods include access, irretrievability, incomplete collection or reporting bias". The above-mentioned sources tend to be stable and relatively exact. Moreover, they cover an extensive corpus information.

These sources have been employed throughout this study as they are consistently related to its issues, problems and objectives.



### 1.10.3 Data analysis methods

“The data analysis and interpretation phase, which seeks to draw conclusions based on the information collected during the study” follow the data collection phase (Mouton, 2012:108; Chaka 2013:13). According to Sternberg (2011:23), data analysis is a method of transforming, inspecting, cleaning and modelling data with the objective of discerning useful information, proposing conclusions and supporting decision-making. In this study, data was systematically filtered to provide focused information. Tesch (1990:56) suggests “that data analysis is significant in that it discovers patterns and relationships in the data collected during the research process”.

Data analysis involves reducing the volume of raw information, sifting significance from trivia, identifying significant patterns and constructing a framework for communicating the essence of what the data revealed (Patton, 2002:75). The researcher processed, analysed, synthesised and synchronised the data collected from documents, in-depth interviews and questionnaires. The data from these diverse sources were grouped according to their similarities. Hereafter, it was analysed to highlight generalisations in responses and their correlation to the research variables. Over and above all this, data analysis serves as a platform for the researcher to make conclusions.

According to Li, Chen and Gao (2011:387), “the use of panel data analysis has received attention over the last few decades due to its effectiveness in addressing research issues in many disciplines, including economics and finance”. It has also become an important analytical tool in the field of public administration and other fields of socio-economic research (Sarafidis and Wansbeek, 2012: 483). Panel data analysis “is also called longitudinal data analysis” (Hsiao, 2007:2). It contains time series data and observations conducted over a number of activities (Hsiao 2007:22) that is periodically surveyed over a given time span (Yaffee, 2003:1). Thus, within a “social sciences context, a panel data analysis enables the researchers to undertake longitudinal analysis” (Yaffee, 2003:2).

In this study, the panel data used has been extracted from the Auditor-General's reports from the financial periods 2009/10 to 2016/17. The panel data set consists of local governments across the country and comprises information on the challenges of implementing audit recommendations. Adams, Khan and Raeside (2014:105) “warn that often the secondary data has been gathered to a regional or even a national level, rendering it of lesser use to researchers in need of data for smaller units of analysis”.

The data set provided by the AGSA's reports retained sufficient detail, despite some aggregation, to fit the purpose of this research project.

### **1.11 Organisation and frame of reference of the chapters of the study**

As may be expected, the research methods to be adopted for the collection and interpretation of the data required for the study will be determined by the nature of the study. In the absence of a documented system of norms to guide the investigation, the principal means employed in this study were derived from primary and secondary resources including a comprehensive literature study of literature material and theoretical models. After completion of the research, the collected material was integrated and coordinated so that the facts and observations could speak for themselves. The results were divided into the following chapters forming a continuous logical unit:

**Chapter One** of the study provides the general introduction and background of the entire study. This chapter assess the literature about the factors influencing the successful implementation of the auditor-general's recommendations in the local sphere of government in South Africa. Secondly, this chapter includes the contextual framework and rationale of the study so that context could be provided. The motivation for research, the objectives of the study and a collection of secondary research questions are also provided within this chapter. This chapter also covers the relevant terminology used throughout the entire text, along with the investigation of the methodology, which includes the research approach, design and data collection methods. An outline of the content of further chapters and information contained in this study will also be provided in this chapter

**Chapter Two** provides a more extensive background for the following chapters. This presents the theoretic, contextual and legislative framework for audit matters, with a focus on auditing in the local sphere of government.

Furthermore, the chapter provides a review of the literature on the auditing process. Under this chapter, comprehensive reviews of available known existing literature pertinent to the topic under consideration are made. This review includes published texts, research works, scholarly articles, research journals, policy documents, audit reports and other publications, among others. Comparative analysis is then done, and conclusions drawn thereafter. This chapter further examines the auditing process at a

global level, African level as well in the South African context. The conceptual framework and contextual framework are specified in this section.

Moreover, the theoretical and legislative framework of the auditing process is also provided in this chapter. Additionally, the importance of auditing in a public sector and local government sector is described and explained in this chapter. Ultimately, this section discovers how auditing and evaluation can work together to enhance municipal performance.

**Chapter Three** presents an overview of the South African municipal system, how it came to be in its present form along with the principles of local government. Moreover, under this chapter, the challenges that are facing the South African municipalities are explored. This chapter also takes a closer look at the municipal financial system and the audit system in local government. Next, is the discussion of the significance of implementing audit recommendations in the public sector. Lastly, this chapter examines the state of implementation of audit recommendations in the South African municipal level. This is done by reviewing the AGSA reports on local government from the 2010/11 to 2016/17.

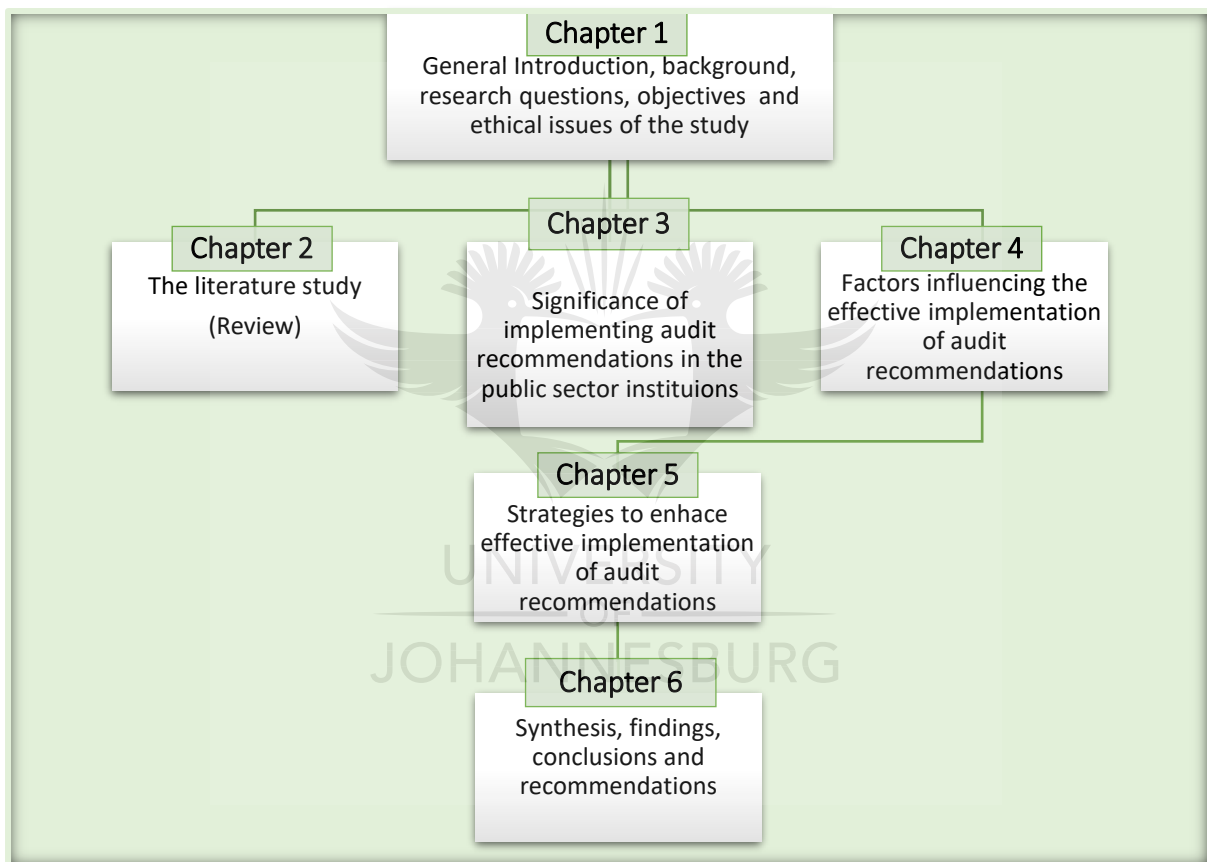
**Chapter Four** examines factors influencing the effective implementation of audit recommendations given by the AG. However, theories formerly established concerning the area under study are analysed and discussed to create a foundation for this chapter. In doing so, the focus would be placed on the objectives and research questions set out to guide the conduct of the research. The chapter will also explain and discuss the significance of audit reports, outlining the structure of the audit report in terms of engagement's objectives and scope as well as applicable conclusions, recommendations, action plan and internal auditor's overall opinion. This chapter also explores the challenges faced by management in implementing audit recommendations and along with the challenges faced by the AGSA in the South African municipalities. This chapter will also attempt to examine whether the discussed factors are also applicable to the South African municipalities.

**Chapter Five** provides the ideal measures that should be taken by the AGSA to enforce the implementation of AG's recommendations in the public institutions. The following strategies that this chapter is going to discuss have been other countries other South Africa countries. However, this chapter will respectively address them within the South Africa context. This chapter will also highlight the strength and weaknesses of the proposed methods. More importantly, this chapter will also attempt

to highlight and identify possible measures the AGSA put forward to deal with the challenges faced in implementing audit recommendations in the South African context. Lastly, this chapter will provide mechanisms for effective follow-up audit and explain how these mechanisms can positively influence the implementation of audit recommendations.

**Chapter Six** presents a synthesis of all the preceding chapters and summarises the study objectives in terms of the conclusions and deductions of the minor-dissertation. This is done to provide recommendations that are in line with all the crucial aspects of this study.

**Figure 4: Structure of the research**



Source: Compiled by the author (2018)

### 1.12 Ethical considerations

According to Gratton and Jones (2010:120) “ethics is a philosophical term derived from the Greek word ethos, meaning character or custom and connotes a social code that conveys moral integrity and consistent values”. More in relation to the ethics of science, Mouton (2001:238) argues that the ethics of science concerns what is wrong and what is right when conducting research. To this end all researchers, regardless of

research designs, sampling, techniques and choice of methods, are subject to ethical considerations (Gratton and Jones, 2010:121).

The University of Johannesburg, like any other academic institution of higher learning enrolling students for postgraduate research, is very particular about ethics in that research. Ethics in research helps to ensure that no research processes infringe on human rights, nor do they cause any kind of harm by revealing information of a confidential nature about the individuals involved (Wisker, 2008:45). Because this study involved no contact with human participants, the performance of the conventional ethical procedures was not possible.

### **1.13 Limitations of the study**

The result of this study is geared towards municipalities in South Africa, and generalisation is subjective. The scope of this study is limited to the areas outlined in Chapter 1, and it is acknowledged that many other aspects could have an influence on the stated research problem.

### **1.12 Conclusion**

To summarise, chapter one has provided the context of this research. It has explained the background of the problem; it has given the problem statement, research questions, research objectives and the significance of this research. More importantly, this chapter outlined the research design for this study. Furthermore, the chapter has defined key concepts which are important to this study and stated research assumptions guiding this study. Finally, it has situated auditing process within the framework of public management and governance, and monitoring and evaluation. The next chapter outlines and discusses the literature review and the legislative framework that underpins this research.

## CHAPTER TWO

### THE LITERATURE STUDY (REVIEW)

#### 2.1 Introduction

The previous chapter set the scene by providing the background to the study, rationale, problem statement, research objectives and questions, research methodology, as well as the definition of key terms. This study is situated in the realm of social research, particularly the qualitative research paradigm. At the onset, it is imperative to examine the academic contribution made by prominent authors, practitioners and academics in the field of auditing since its inception. Neuman (2003:122) suggests "that the first step in narrowing a topic into a researchable question is to examine what the literature says about it". On the other hand, Babbie and Mouton (2001:565) posit that every scientific study should be placed in the context of the general body of scientific knowledge. Thus, this chapter reviews literature arranged according to theories, concepts, legislative frameworks and actual literature as put forward by different scholars around the globe. The audit process is examined at a global level, African level as well in the South African context. This section also discovers how auditing and evaluation can work together to enhance municipal performance. Lastly, the chapter summarises the literature that has been reviewed.

#### 2.2 Purpose of the literature review

A literature review is "a critical summary and assessment of the range of existing materials dealing with knowledge and understanding in a given field". The purpose of the literature review is to locate the research project, that is: to form its context or background; and to provide insights into previous work" (Blaxter, Hughes and Tight, 2001:22 Literature review helps to integrate the study into a comprehensive context of applicable philosophy and research. Babbie and Mouton (2001:103) postulate that literature review answers the following questions:

- What have other scholars written about the topic under study?
- What theories address it and what do they say?
- What research has been done previously?
- Are there consistent findings, or do past studies disagree?

The literature establishes the conceptual framework within which the research is located. In this regard, a number of studies are referred to, in order to establish the importance and viability of the research questions. Literature review introduces the researcher to the debates and arguments surrounding the topic. This enables the researcher to gain insight into the topic and to identify the key issues that need to be explored. A literature review is a useful source of questions since it identifies gaps in knowledge, shows potential pitfalls, and helps researchers avoid unnecessary duplication by showing what has been covered already. In the initial stages of research, literature review helps the researcher to establish the theoretical roots of the study, clarify ideas and develop a methodology, while later the literature review serves to enhance and consolidate the knowledge base and helps to integrate the findings with the existing body of knowledge. Since an important responsibility in research is to compare research findings with those of others, it is here that the literature review plays an extremely important role (Kumar, 2005:30). Literature review, therefore, plays a role in determining both the feasibility and credibility of research.

### **2.3 The concept of auditing**

Various scholars have offered many definitions and explanations as to what auditing means. Korje (2016:23) defines auditing as “the independent examination and investigation of the evidence from which a financial statement has been prepared with a view of enabling the independent examiner to report on whether his own opinion according to the information and explanation obtained by him, the statement is properly drawn up and give a true and fair view of that which is supposed to show and if not to report in what respect he is not satisfied”.

From the above meaning, it can be deduced that auditing is the process of accessing the financial statement of an organisation to which the person undertaking the task is not a member with the aim of ensuring that these financial statements were truly prepared from actual records of financial transaction (Korje, 2016:23).

Korje (2016:23) further defines auditing as “the independent examination of an expression of opinion on the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and compliance with any relevant statutory obligation”. “Audit is an independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities” (Korje, 2016:23). According to Korje (2016:23) auditing “is

concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports". Furthermore, Rossi and Howard, (1993:23) also defined auditing as "an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they relate". In some instances, it may be necessary to determine whether the transactions themselves are supported by authority (Rossi and Howard 1993:23).

### **2.3.1 Conceptualising the auditing process**

Audits are performed to manage and confirm the correctness of an organisation's accounting procedures. "Auditing evolved as a business necessity once it became evident that a standardised form of accountancy must exist to avoid fraud (De Jager, 2009:3). It has developed into a standardised yet complex field that is regarded as an important procedure in the management of business finance" (Manal 2011:1). According to Isa (2009:82) and McNamee and McNamee (1995:35) auditing "was not developed to track or detect the culprits of mismanagement. Instead, it was meant for business improvement by discovering evidence through audit trails". Therefore, auditing, according to Ferreira (2007:82) was developed for business improvement by discovering evidence through audit trails, not to track or detect the culprits of mismanagement.

Audits are passed out in relations of an organised method containing of a forecasting, implementation and reporting segment. In conducting an audit, the auditor confirms that the audit efforts are focused on the extents where the risk is perceived to be higher, rather than the areas where the risk appears to be lower or insignificant. Communication between management of the entity and the audit team is of the utmost importance. For this purpose, a steering committee is established, whose main purpose is to secure co-operation between management and the audit team. The steering committee seeks input on matters such as the audit plan and audit findings. This ensures that the eventual report will not contain any surprises for the entity and affords the entity an opportunity to make timely input and effect corrective action (McNamee and McNamee, 1995:35).

In conducting an audit, auditors follow various investigative procedures and measures in order to express an informed opinion on the accuracy of an entity's financial and other data (De Jager, 2009:3). These measures and activities are performed in identifiable stages, namely: planning, execution and reporting and are collectively



known as the auditing process. Towards the goal of expressing an opinion, a series of procedures and activities are performed to obtain evidence to substantiate the auditor's opinion (De Jager, 2009:4). The auditor obtains audit evidence by means of a test of controls and substantive procedures that are:

- sufficient: quantity of audit evidence and
- appropriate: quality of audit evidence.

Globally, financial audits usually include recommendations that direct audited entities to positive changes they can make for the most serious deficiencies reported. Recommendations address areas where there are significant risks to the entity if deficiencies remain uncorrected. Recommendations should be fully supported by and flow from the associated findings and conclusions, aimed at correcting the underlying causes of deficiencies, and directed specifically at the entities responsible for acting on them (OAGA Canada, 2015:21).

According to the OAGA Canada (2015:21) during the examination phase of a regulatory audit, the audit team periodically offers to brief entity officials on emerging findings. The team also encourages discussion of proposed recommendations as they are developed and seeks views on actions needed to correct problems. At the end of the examination phase, the audit team seeks the views of entity officials to enable the development of clearly stated and action-oriented recommendations. This gives the audited entity time to prepare responses and develop an action plan. The team asks the senior management to provide input to ensure that recommendations are practical and feasible to implement.

In the African setting, chiefly in South Africa, regulatory audits are conducted in accordance with the audit manual of 2008, which contains the policies, standards and guidelines for the planning, execution, reporting and follow-up of audits conducted in the public sector. Given the complexity of the atmosphere to be audited, a piece of financial audit emphasizes on a section of the activities of a specific organisation contingent on resources assigned to that object and the possible risks of resource misuse. Preference is thus prearranged to the riskier organizations; whose funds are more disposed to misuse (AGSA, 2010:22).

In Ugandan state, the AG delivers his order from the Constitution of 1995 as well as the National Audit Act of 2008. The AG makes recommendations in his report to Parliament with the intention of minimising the fruitless outflow of civic money, maximising the gathering of public revenues and preventing damage by negligence, carelessness, theft, dishonesty or otherwise of public money. Recommendations

made to Parliament by the Auditor General are considered necessary for the better management of public finances, and the Public Accounts Committee of Parliament follows them up to check whether they have been implemented to achieve value for money spent (National Audit Act, 2008:26).

In South Africa, the AGSA, “as the Supreme Audit Institution, reports on their clients’ application of accounting standards, compliance with other mandatory professional reporting requirements, and fulfilment of their statutory and other regulatory obligations” (IRBA, 2012:23). The currently applicable accounting standards are the Generally Recognised Accounting Standards (GRAP) (National Treasury 2005:42), which replaced the International Financial Reporting Standards (IFRS) (IFAC, 2014:45) as the prescribed standard for South African municipalities in 2009. South African public-sector audits thus now assess municipal financial statements’ compliance against the Standards for GRAP. The Standards for GRAP, when used in accounting for public sector transactions, enables South African public-sector entities to compete on the global investment, loan and grant market because the information is now available to users in a globally preferred and recognised format for accountability and decision-making (National Treasury, 2005:43).

### **2.3.2 Auditing in the public sector**

Auditing is an important element of the public organisation's management because of the public control that grows bigger and bigger as municipalities are getting more and more responsibility (Korje, 2016:23) Government auditing is a cornerstone of good public-sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organisations achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders. The government auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of government programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, and investigation and advisory services to fulfil each of these roles (Korje, 2016:24).

As an essential element of a robust public sector governance structure, auditing supports the governance roles of oversight, insight, and foresight. Because the public

sector's success is measured primarily by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, public sector audit activities should have the authority and the competency to evaluate financial and program compliance, effectiveness, economy, and efficiency. Moreover, auditors also must protect the core values of the public sector, as it serves all citizens (Economic Governance and Management, 2006:111).

Fakie (1999:1) pointed out, "that the AGSA's role as auditor of the public sector in South Africa can only be effective if its independence is maintained". In many respects, "the AGSA provides a good demonstration of effective governance processes in the public sector, as it ensures that its own efforts are conducted transparently and with full accountability for the financial and performance information presented to Parliament and the public at large each year" (IRBA, 2012:30).

According to AGSA (2011) "audit in the South African public sector is used to "assess the stewards of public funds, the implementation of government policies and compliance with key legislation in an objective manner". The scope of the AGSA's mandate is prescribed in the Public Audit Act 25 of 2004 (RSA 2004:1). The Act requires the AGSA to "audit and report on the accounts, financial statements and financial management of all national and provincial state departments and administrations; all constitutional institutions; the administration of Parliament and of each provincial legislature; all municipalities; all municipal entities and any other institution or accounting entity required by other national or by provincial legislation to be audited by the AGSA" (RSA 2004:1).

As with the performance of an audit of any institution, the AGSA's audits upsurge the assurance of the overall municipal in the audited institutions that the officials are being held responsible for their usage of public resources. The auditing of government and public-sector entities has a positive impact on the levels of trust a society has in its public sector; it also "focuses the minds of the custodians of public resources on how well they use those resources" (AGSA, 2011:11-89). "The public-sector auditors assess the quality of stewardship of public funds, the implementation of government policies and compliance with key legislation in an objective manner. The scope of the annual audit performed for each auditee is prescribed in the Public Audit Act" (RSA, 2004:2).

### 2.3.3 Auditing in local government

In the local governments, there is no clear relationship between the input and output of resources because they do not work on a profit or loss basis. However, the local governments should be committed to fiscal auditing; this auditing show where the resource come from and also in what way they are invested or used in the municipality (Dittenhofer, 2001:6). Today a substantial number of resources are invested in the local governments. Thus, there is great pressure on local governments to monitor the institution when it comes to auditing and accountability (Korje, 2016: 23-24).

The most common way to get money for the different departments in local governments today is on a cash basis. This means that local governments get money in accordance with their spending and purpose when the funds are appropriated. This is the cause of the basic financial control; to see what the money has been spent on. The public officials are the ones that take care of the public resources and also the ones that are accountable to the public and other levels in the government (Dittenhofer, 2001:8).

Dittenhofer (2001:11) argues that "local government auditing is not only about the auditor's opinion on fairness and financial statement, but also whether the internal control is good enough and if the local governments have followed the laws and regulations as they are supposed to". The traditional way to do governmental auditing is to use a financial statement with a statement regarding laws, regulation and internal control. This is important because of the public funds. "Keywords such as efficiency and effectiveness are tools to be able to measure the goals and other factors in the local government" (Dittenhofer, 2001:11).

In the South African setting, "municipalities are expected to develop effective monetary management systems to ensure efficient and effective use of financial resources in such a way as to achieve institutional aims and financial sustainability" (Mamogale, 2014:80). The main determination is "to avoid monetary waste (e.g. overspending, a persistence of negative cash balances) and other avoidable expenses (fruitless and wasteful as well as irregular expenditures) when providing public goods and services to the citizens" (Mamogale, 2014:80).

Mamogale (2014:82) states that since there is high demand for financial accountability in the local civil service through the local government, according to the MFMA, local government administration is expected to keep all payments and receivables transparent". Therefore, financial performance is the process of measuring the results

of the institution's policies and operations in monetary terms. In local government, the audit process is used as a tool to measure the municipality's overall financial health over a given period of time. The audit process is further used to compare similar municipalities across the local government system or to compare the sector in aggregation with regard to financial management and public goods provision (Mamogale, 2014:82).

There are various and interested actors involved in analysing the financial performance of local government in South Africa, and these actors include the national and provincial legislatures, municipal councillors, the general public, creditors, auditors, tax authorities, and other spheres of government. To measure or analyse the financial performance of a municipality, one has to use financial statements. Although financial statements do not reveal all the information related to the financial position of a municipality, they do however provide some useful information. Such information highlights two important factors of financial soundness and sustainability. Development of sound financial management systems and effective internal controls within the system of local government not only in South Africa, but elsewhere requires the appointment of competent candidates with appropriate skills and expertise to plan and control the finances of the municipalities (Mamogale, 2014:83).

Once the AG concludes the auditing procedure grounded on facts and performance evidence presented to the auditors, he/she then gives an opinion in accordance with international auditing standards. These audit outcome reports are highly trusted and used by oversight bodies such as the legislatures through their parliamentary oversight committees in national government, provincial government and local government as practical tools to measure the financial performance of all local government institutions (Bratton and Mxolisi, 2006:19).

However, audit findings and recommendations would not serve much purpose unless the municipal officials in the local government are devoted to implementing them. On that line, this study is conducted to focus on evaluating the implementation of audit recommendations and factors impeding the implementation of audit recommendations in South African municipalities.

#### **2.4 Auditing and evaluation for good public management**

According to OECD (2002:4) “evaluation is the systematic and objective assessment of an ongoing or completed project, programme, or policy, including its design, implementation, and results”. The aim is to determine the relevance and fulfilment of

objectives, development efficiency, effectiveness, impact, and sustainability (OECD, 2002:5). Thus, a municipal council can benefit from conducting performance evaluations. Evaluation “provides a platform to strengthen administration and management through its information supply capability to assist in policy implementation and planning, resource allocation, performance improvement and other aspects that are critical for effective and efficient administration of a municipality” (Gray, Jenkins and Segsworth, 1993:56).

Rist (1989:3556) writes that "auditing has a longer history than evaluation and has come to include a wide variety of related but different activities". Auditing of financial statements, for example, goes almost as far back as financial statements. Auditing of performance reports, on the other hand, is relatively new. In general, “auditing is *checking*; determining whether or not some result, activity, or statement meets predetermined criteria” (Ottawa, 2006:1).

Auditing and evaluation can be viewed as a kind of continuum, “providing related but different kinds of information about compliance, accountability, impact, and results” (Roberts and Pollitt, 1994:527). However, there is some overlap in areas such as efficiency of operations and cost effectiveness, with evaluation concerned with the analysis of policy and outputs, and auditing with internal financial controls and management systems. However, evaluations can provide robust and persuasive audit evidence to support the achievement of audit objectives. Furthermore, the proper use of evaluations can save audit time and money (Ottawa, 2006:2).

According to Gunvaldsen and Karlsen (1999:459) while recognising similarities between auditing and evaluation, conclude that "both these activities are needed in public sector management". Chelimsky (1997:213) who has significant experience in both camps, concludes that "keeping evaluation and audit separate is probably the best model in most organisations, stressing the importance of both professional fields for good public management. “Both audit and evaluation are essential for successful public management, and each should play to its strengths” (Gray et al. 1993:56).

However, evaluators and auditors already rely on each other's work in many different areas. "Evaluators have long borrowed accounting methods for measuring efficiency, especially in performing cost-benefit or cost-effectiveness analyses" (Rossi and Howard, 1993:23). Moreover, this type of reliance can be expected to increase as evaluation places more and more emphasis on the front-end work needed for policy formulation and program planning. "Auditors have also been borrowing survey

instruments, increasingly using regression analysis and other techniques for examining data, and they appear to be coming to accept the idea of statistical sampling-albeit with occasional reservations because some auditors and accountants continue to feel that an audit needs to examine every transaction" (Ling, 2003:438). However, "this attitude is less often encountered in public sector auditing than it is in the private sector, and it is almost never encountered in that type of auditing known (that is, those audits that most resemble evaluations of program effectiveness)" (Wisler, 1996:21).

This, therefore, seems like a promising area on which to concentrate for future mutual advantage (Rossi and Howard,1993:23). "Two dimensions of program effectiveness work seem to have immediate potential as areas in which program evaluators and auditors can exchange ideas and methods to their mutual benefit. These are the dimensions of cost and efficiency and project design" (Wisler, 1996:26).

Currently, in the South African local government, one of the primary mandates of Department of Performance Monitoring (DPME) is to monitor the performance of individual national and provincial government departments and municipalities. The DPME executes its mandate by forming partnerships with other departments and institutions that play a monitoring role (such as the National Treasury, the Department of Public Service and Administration, the AGSA, the Office of the Public Service Commission, and the offices of the premier) (AGSA, 2014).

In 2013-14, the DPME started to monitor and evaluate municipalities, the process involved developing the local government management improvement model (LGMIM) specifically for municipalities to generate scorecards and report back through implementation forums (AGSA, 2014).The LGMIM is a model that is used to measure and benchmark the institutional performance of municipalities across the following six Key Performance Areas (KPA's), namely;

- Integrated planning and implementation
- Management of service delivery
- HR management
- Financial management
- Community engagement; and
- Governance

The LGMIM is therefore, considered as critical to improve the service delivery and productivity of municipalities. Moreover, the DPME also developed, refined and tested

the municipal assessment tool (MAT). The MAT assessment is intended to empower municipalities by providing senior managers with a coherent, integrated and holistic picture of the quality of management and operational practices in selected KPAs. This is to enable the management team to become aware of where weaknesses exist and to take appropriate steps to rectify the performance gaps. As the MAT assessment is currently only done voluntarily at a select few municipalities limited to the DPME's budget and capacity, it had no impact on improving the audit outcomes (AGSA, 2014).

It is therefore recommended that, the DPME must select municipalities jointly with the provinces and ensure that municipalities fully understand what is required of them when they agree to participate. Moreover, DPME must play a more hands-on role in providing technical support and guidance to municipalities during the self-assessment phase and involve the province in this process to create a learning environment for municipalities and provincial departments alike. Finally, increase internal capacity to be able to conduct more MAT assessments in the municipalities (AGSA, 2014).

From the above discussion, it is of importance that the municipalities develop mechanisms of communication that will allow them to use both auditing (AGSA) and evaluation (DPME) to improve their financial performance. These mechanisms of communication should also emphasis on covering their purposes, tactics and the tackles they put on, so as to get the most out of potential collaborations.

Moreover, ineffective performance management is identified as a factor that increases the poor financial performance of the municipalities. Deloitte (2012:3) found that the failure to achieve objectives by the local government can be attributed to ineffective or absent performance management and monitoring processes. Therefore, bringing both auditing and evaluation can assist to resolve the ineffectiveness and inefficacy of the municipal financial performance, through a systematic process of assessment.

Both auditing and evaluation will complement each other in the number of ways, for the benefit of effective and efficient municipal financial performance. For instance, the evaluation information will enable auditors to plan the audit proper and specifically to categorise applicable problems and issues that lead to poor financial performance. Below a discussion on how evaluations and audit can complement each other is explained into detail.



## 2.4.1 Relevance of evaluations for the auditing process

According to ECA (2013:6), there are three main circumstances in which evaluations or evaluation-related activities can be relevant to auditing processes, which entails the following.

Divorski (1996) indicates that the first circumstance is when the evaluation provides information relevant to one or more of the phases of the auditing process, for example programme descriptions, baseline data, the conclusion of a particular piece of analysis or even a recommendation "Many elements of individual evaluations or related activities are potentially good sources of information capable of providing ideas at the programming and planning stages or evidence and recommendations during fieldwork and reporting" (ECA, 2013:6).

The evaluation activities and the more extensive evaluation community are potentially a good source of ideas relevant to selecting and planning audits (Divorski, 1996:45). "Evaluation plans and programmes give insight into upcoming decisions on policies, programmes and political priorities as well as details on the timing and purpose of planned evaluations. This information could be useful to auditors in identifying audit subjects or objectives" (Schwartz and Mayne, 2005b:45).

Evaluation reports (including impact assessments) usually include a considerable amount of information that will enable auditors to understand the audit field and plan the audit e.g. to identify relevant issues or problems, the stakeholders, the objectives of interventions, the logic of the intervention, potential audit criteria, the data available and appropriate methods for analysis (Roberts and Pollitt, 1994:528).

There are also a number of ways in which information created by evaluation activities could be used during the fieldwork and reporting stages of the auditing process (ECA, 2013:6). This includes the following:

- Information collected from past evaluations can act as baselines for performance audits, for example, in audits aiming to conclude on whether initiatives taken resulted in improvements.
- Evaluations often involve the creation of information not available from other sources that could either be used directly or reanalysed to address audit questions.

- Evaluation reports and responses to them usually contain recommendations or action plans which may or may not have been acted upon - reviewing recommendations and their follow up can thus provide evidence about the quality of management as well as give examples of pertinent recommendations not implemented which could be taken up by the Court (Ling, 2003:438).

Lonsdale (2001:13) argues that where “the findings, results or conclusions of an evaluation are relevant to the objectives of audit they may only be used as audit evidence after carrying out appropriate testing to assess their reliability or validity”. “Such testing will need to focus on the robustness of methods for data collection and analysis used, the coherence between the data set collected the analysis used and the conclusions drawn, and the impartiality or objectivity of participants with respect to the judgemental aspects of the evaluation process” (ECA, 2013:6).

The second circumstance is when auditing the individual evaluation is relevant to one or more of the objectives of the audit, for example, the evaluation of the effectiveness of a particular project or measure. According to the ECA (2013:7), there are three main instances in which the Court may wish to audit an individual evaluation project:

- the evaluation is highly relevant to the Parliament and Council and likely to be a significant input to decisions about substantial amounts of AGSA funds;
- as part of audit testing designed to gather evidence about the quality of the evaluation system of an AGSA or the management of the activity evaluated;
- as part of testing to gather audit evidence directly about the effects of projects, programmes or other measures/instruments where the objectives of the evaluation overlap considerably with those of the audit (ECA, 2013:8).

The third circumstance is when the "evaluation system is the subject of the audit, i.e. a collection of evaluations and the processes for selecting and managing them and using the results are being assessed" (Ling, 2003:440). According to Leeuw (1996:34) the main qualities that an evaluation should possess include the following:

- usefulness - the evaluation should address issues that are relevant to intended users/decisions that it is intended to support, be delivered on time and in an appropriate manner;
- coherence - the methods for collecting and analysing data should be appropriate for answering the questions, the human and financial resources for

conducting the evaluation should be sufficient, and the management structure should be appropriate;

- robustness - the data collection and analysis should be carried out rigorously so as to accurately reflect the underlying reality;
- impartiality - the reported conclusions should be free from bias and fairly reflect evaluation findings;
- clarity - the documents making up the evaluation should be clear about the context and purpose of the evaluation, the questions addressed, assumptions made (for example the limits of data collected, or analytical techniques used), data collected, methods used, the results obtained, the conclusions drawn, and recommendations offered;
- cost effectiveness - the evaluation should be efficient and produce information of sufficient value so that the resources expended can be justified (Leeuw, 1996:34).

Clearly, trade-offs can exist between these qualities, for example, the pressure to deliver results in time for decisions (usefulness) may lead to a less accurate but less time-consuming methods being employed (robustness) (Leeuw, 1992:67). "The qualities can also be mutually reinforcing either positively or negatively, for example, a lack of coherence in the design of the evaluation is likely to lead to a lack of clarity in the final report" (Leeuw, 1992:67).

Chelimsky (1997:220) argues that "judging the quality of an evaluation is about assessing whether trade-offs made were appropriate in the circumstances and did not unduly compromise other aspects of the evaluation". Having less robust, but more timely results can be justified if it contributes to the usefulness of the evaluation so long as methodological compromises are properly considered in arriving at conclusions (i.e. coherence is not compromised) and the limits of the analysis are clearly stated in the report (i.e. clarity maintained). Thus, the evaluation is likely to be cost effective; the alternative, an evaluation producing reliable results too late would be worthless.

Depending on the specific audit objectives, testing could focus on one or more of these qualities (Gray, Jenkins and Segsworth, 1993:45). According to Gray et al. (1993:46) assessing the extent to which an evaluation possesses the qualities above should be done on the basis of testing related to:

- the management of the evaluation process;
- the evaluation report and;

- underlying data and analysis.

Evaluation needs can vary widely between policy areas depending on the nature of the activities carried out. Evaluation systems should, therefore, be adapted to their context, taking due account of the costs involved. Making effective use of available information is important for ensuring the cost-effectiveness of evaluations in the local governance. Periodic audits can help improve the performance of the system as a whole and also ensure that the audit recommendations are implemented effectively on the municipal level (Gunvaldsen and Karlsen, 1999:459).

#### **2.4.2 Monitoring and evaluation financial perspective**

According to the PSC (2008:23), M&E from a financial perspective happens through monthly and annual financial statements. Financial statements try to answer the following questions:

- was money spent as appropriated?
- has the income that accrued to government been collected?
- were assets protected?
- can the department meet its liabilities and has the department adhered to sound financial controls?

These financial reports currently primarily give managers updates on progress with expenditure as measured against a budget. Such statements are prepared in terms of Generally Recognised Accounting Practice (GRAP) as prescribed in terms of the PFMA. Annual financial statements are also audited by the AG so that a high degree of confidence could be attached to financial figures (PSC, 2008:23).

Since financial accounting answers very basic questions, some departments are trying to introduce management accounting with tasks of analysing and interpreting financial information, costing services, advising managers on the financial implications of strategic decisions, advising on choosing between alternative strategies, and directing attention to and helping managers to solve problems. So, as with other types of M&E, the process begins with monitoring and answering basic, pre-set questions, and as more and more questions are asked, the more penetrating the evaluation becomes (PSC, 2008:23).

## 2.5 Conceptual framework for auditing

Fawcett (1997:4) argues that “conceptual frameworks can be used for four purposes including to guide practice; as a basis for research projects; for pedagogic purposes; and in administrative situations”. The study thus used this conceptual framework as a foundation for research by connecting the relationship between dependent variable and independent variable.

Nye and Berardo (1966:13) discuss the following advantages of conceptual frameworks. First, the development of a conceptual framework should provide adequate definitions of concepts, and thereby provide adequate measurement. Second, conceptual frameworks facilitate the researcher by providing an array of ideas. Third, “it is important that not only are the substantive results of research understood, but also that the essential concepts used are understood by those who are using the results” (Solomon 2013:4). Fourth, “the development of a conceptual framework allows effective communication between academics, who often speak different languages and make implicit assumptions and concepts unconsciously without consideration of other readers” (Nye and Berardo 1966:13). Lastly, conceptual frameworks allow the clarification of assumptions, frames of reference, and implied variables (Solomon, 2013:4).

The conceptual framework describes the factors that affect successful implementation of the AG's recommendations in the South African municipalities. It is the researcher's interpretation that whether municipal officials implement the recommendations of the audit is affected by many issues some will be discussed in the next chapter, such that there is the need for constant follow up by the AGSA on the progress of the recommendations and reasons why other recommendations may not be implemented.

As discussed in the literature review, implementation of the AG's recommendation is essential as it is a measure of the AG's effectiveness. In the conceptual framework of auditing, it is presumed that, if AGSA's recommendations are taken seriously and put into practice yearly, then there will be a reduction of audit findings which reflects positively on the AGSA reports and municipal performance.

## 2.6 Contextual framework for auditing

The contextual factor in this study involves the historical legacy of South Africa, the apartheid system created poverty amongst the South African people, it further created high levels of inequality, poor service, delivery etc. all of these must be confronted by

the African National Congress (ANC) government and in order to do so, the government must improve on how it uses public finances (SAIRR, 2012:31).

Furthermore, “Apartheid policies lead to the formation of racially demarcated homelands and ‘Bantustans,’ which were treated as separate entities from the then whites-only republic of South Africa. Each racial group had its own form of governance, with only the white municipalities having access to adequate funds and truly democratically representing the views of its constituencies” (SAIRR, 2012:32).

The Republic of South Africa Constitution Act 110 of 1983 further complicated matters through its introduction of ‘a system of own and general affairs’. Own affairs were racially specific issues that only applied to or affected certain population groups, while all other matters were classed as general issues. The constitution removed black representation entirely from parliament (Thornhill, 2008:493).

This is even more significant at municipalities because this as the closest sphere of government to the people, “municipalities are the ones that are responsible for providing basic services such as water and electricity to the people. Based on the above Constitutional mandate for local government, it is clear that local government is the central government’s service delivery arm (SAIRR, 2010:51). This suggests that the central government remains responsible for setting the national developmental agenda or vision for implementation by both provincial and local governments and to monitor their activities (SAIRR, 2010:52).

To reiterate, the centre remains solely responsible for funding local government to enable public goods provision at the local level. In other words, power is decentralised to the municipalities to implement the national development agenda. In a similar vein, Thornhill (2008:494) concurs that local government is at the centre of good public provision since it is often the first point of conduct between an individual or community and the central government or even the provincial government.

It is therefore paramount that municipalities implement the audit recommendations in order to improve the use of public resources and deal with these highlighted challenges. Additionally, they need to implement the AGSA recommendations in order to get a clean audit and to improve service delivery.

## **2.7 Theoretical framework for auditing**

In any discussion of governance, it is important to have an appreciation of governance theories in the literature. Audits provide a significant purpose in encouraging confidence and reinforcing trust in financial information. Several theories have

emerged to explain the demand and supply of audit services in increasing accountabilities in government agencies. The theories to be discussed under this section include: principal-agency theory, stewardship theory, behavioural theory and the policeman theory.

### **2.7.1 Principal-agency theory**

Agency theory describes the important agent-principal relationships from the point of view that because both parties are motivated to act in their own best interests, the potential for conflict is increased. According to Jensen and Meckling (1976:308 in Caers, Du Bois, Jegers, De Gieter, Schepers and Pepermans, 2006:25) and Mapanda (2018:46) “a principal-agent relationship can be defined as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent”. It is believed that the theory was established to “explain management behaviour arising from the principal-agent relationship due to the separation of ownership and management in which the principal delegates work (decision making) to the agent (managers)” (Kalyebara and Islam 2014:8 in Mapanda, 2018:46). The theory assumes that “these principal-agent relationships will be characterised by conflict between the interests of the principal and those of the agent and that the agent will be motivated to pursue their own goals” (Caers et al. 2006:26 in Mapanda, 2018:46). In the context of local government, agents (councillors and municipal employees) have an obligation to fulfil the expectations of the local communities. According to Mitchell and Meacham (2011:151) “agency theory could be used to understand a variety of organisational activities, including those in the public sector”.

The theoretical framework, when applied to public sector entities, splits when trying to distinguish between agents and stewards in the local government sphere. For example, if the local government managers behave as agents, then they are expected to manage the government’s resources, making use of national budget allocations (for housing, health, education, etc.) to improve the lives of the municipality’s citizens through effective service delivery. Thus, agency theory is concerned with the principal-agent problem, which occurs when one person or entity (the "agent") is able to make decisions on behalf of, or that impact on, another person or entity - the "principal". As is increasingly clear from the escalating levels of protest in South Africa, some local governments are failing to use their basic service budgetary allocations either in full or appropriately. Thus, at financial year-end, the unutilised funds that should have been used to provide basic services are often required to be returned to the National

Revenue Fund and are then effectively lost to the local community (National Treasury, 2015:9).

The relationship is made more complex because sometimes the agent is motivated to act in his own best interests rather than in those of the principal. In addition, there is frequently confusion as to who is "the principal" in the relationship: provincial and national governments, or tax and ratepayers and local residents. It is for this reason that the agency theory, therefore, assumes that the managers have goals that are in conflict with those of their principals, and/or that managers (agents) may pursue their own goals even to the detriment of their principals. In addition, principals have difficulty in obtaining sufficient accurate information to be able to assess some of their agents' (managers') behaviour (Jensen and Meckling, 1976:60). For example, municipalities (their management structures and procedures) are supposed to address the problems that have typically existed between distant agents and principals. Thus, the local governments are the established organs of the state tasked with "last mile" service delivery, including water supply and quality issues, building houses to reduce backlogs, and installation and maintenance of sanitation services to the communities (Motubatse, 2014:22).

### **2.7.2 Stewardship theory**

Daily, Dalton and Cannella (2003:372) noted that "stewardship theory was also commonly discussed in relation to governance. Stewardship theory argued that directors and management can have interests that are isomorphic with those of shareholders and the interests of shareholders can also serve the interests of the managers". Davis, Schooramn and Donaldson (1997:45) considered that "the primary differences between the advocates of agency and stewardship theory lay in the assumptions of human nature, with people in agency theory being individualistic and utility maximisers, whereas in stewardship theory people were collective self-actualisers who achieved utility through organisational achievement". At the same time as stewardship theorists do not consider that executives and directors are truly altruistic, "they do recognise that there are situations where self-interest and the interests of the shareholders coincide" (Dailey et al. 2003:378).

Stewardship theory is "all about being in control of something that has been entrusted to one's care but does not belong to the entrusted person" (Waters 2013:340). Hence, politicians and government administrators are alike entrusted with the care of the nation's resources placed under their control during their tenure of office. Thus, the



entrusted responsibilities can be removed by the communities, if the stewards are not accountable and responsible in their actions. For example, while most municipalities are reported to have been faced with corruption because of greedy stewards who have forgotten their roles (Corruption Watch, 2013:1), it is unfortunate that removal of such stewards has been left, increasingly, to the indiscriminating and violent actions of the previously ignored (local resident) principals. Thus, good stewardship is best demonstrated through responsibility in the management of public resources.

According to Corruption Watch (2013:2), there have been too many reports of maladministration, mismanagement of public funds and abuse of resources by the stewards at the local government level that have apparently been condoned. Corruption Watch's 2013 statistics show that 22% of reports received from the public implicate municipalities, traffic police, education institutions, housing subsidies and allocations, and the South African Police Services in poor service delivery and bribery. Corruption can creep into the running of municipalities and threaten the delivery of services if the stewards fail to protect the principals' assets and neglect their responsibilities to use the assets wisely while under their care.

### **2.7.3 Behavioural theory**

Behavioural theory argues “that multiple factors can impact the governance of organisations and various participants including stakeholders” (Pech and Durden, 2004:65). “These factors include: power and self-interest; decision making; leadership; organisational culture and values; and group dynamics” (Pech and Durden, 2004:70).

Marnet (2008:207) questioned “the application of rationality in decision making within governance models and concluded that ‘behavioural analysis appeared to explain some paradoxes on which the rational approach founders, or at best provides arduous explanations” (Marnet, 2008:207). “A knowledge of such behaviours reflects an understanding of the composition of the board; decision-making structures; and networks within the board” (Young and Thyil, 2008:95). Cutting and Koumin (2000:447) considered that “boards can fail to serve the company effectively due to apathy, ignorance and negligence of their fiduciary duties”.

### **2.7.4 The policeman theory**

The policeman theory argues that “the auditor is accountable for searching, disclosing and preventing fraud. In this sense, the auditor must act as a policeman and focus mainly on arithmetical accuracy, with the aim of detecting fraud”. Hayes, Schilder,

Dassen and Wallage (1999:31) states that “the focus of auditors has shifted since then to provide reasonable assurance, verification of truth as well as correctness of the financial statements. The detection of fraud still mobilizes concerns about the auditor’s responsibilities but does not embody the major purpose” (Soltani, 2000:17).

The policeman theory regards “the auditor as a policeman whose role is to check the accuracy of financial standings, for preventing and detecting frauds in an entity” (Hayes et al. 1999:12). The ‘policeman theory’ narrows auditors’ responsibilities to prevention and detection of fraud by describing the expectations the stakeholders have of the auditors, including protection against fraud, warning of future insolvency, general re-assurance of financial well-being, safeguards for auditor independence and understanding of audit report states. The auditor is therefore needed as an independent third party to establish a degree of correspondence between assertions made by management and user criteria (Soltani, 2000:17).

## **2.8 Legislative framework for auditing at local government level**

The transformation of local government in South Africa was brought about by the White Paper on Transformation of Local Government. The transformation presented a host of other regulations on accountability and governance in local government (RSA, 2004). The regulatory framework underneath has omitted “the Intergovernmental Relations Framework Act No 15 of 2005 which provides guidelines for creating good intergovernmental relations among the three spheres of government that is critical for effective and efficient service delivery and supporting the developmental Local Government” (Govender, 2011:34). Literature shows that “the discussion on legislation starts with the Constitution of 1996, which characterises the highest law in South Africa. All legislation finds its foundation in the Constitution. The legislation discussed after this has, in one way or the other, an influence on audit recommendations, either direct or indirect” (Chaka, 2013:41).

### **2.8.1 Constitution of the Republic of South Africa 1996**

The Constitution of the Republic of South Africa (1996:3) is the supreme law of the country and any law or conduct inconsistent with the principles and values is invalid. It has formed a developmental state with three spheres of government which must carry out their functions to ensure sustainable socio-economic development for the citizenry.

Section 216(1) of the Constitution of the Republic of South Africa, 1996 requires national legislation to establish a national treasury and prescribe measures to ensure transparency and expenditure control in each sphere of government, by introducing:

- generally recognised accounting practice;
- uniform expenditure classifications and
- uniform treasury norms and standards.

These reforms sought directly to improve the efficiency of allocations and use of funds both internally and externally, to improve public policy, funding choices and enable accountability. Legislation and other controlling instruments related to financial management are explained below:

### **2.8.2 Auditor General Act 1995 (Act 12 of 1995)**

The Act introduces the requirement for the selection of the AG and outlines his or her functions, duties and powers. "The OAGSA in effect audits and investigates all accounts of the public entities and reports back to Parliament on the findings" (AGSA, 2012: 01).

In the South African public sector, the AGSA conducts three categories of audit – mandatory audits, discretionary audits and special audits (AGSA, 2012:16). According to the AGSA (2011/12:16) "Mandatory audits: (means regularity audits), which includes reports on the financial statements; report on other and legal and regularity requirements; findings on the report of predetermined objectives; findings on compliance with laws and regulations and status of internal control". Discretionary audits (means investigations), which includes "report on factual findings with regard to financial misconduct, maladministration and impropriety; based on allegations or matters of public interest" (AGSA, 2012:16). Special audits, which includes "report on factual findings, for example, donor funding certificates for legislative compliance; performance audits (including environmental audits); economic, efficient & effective utilisation of scarce resources; and effect of policy implementation, excluding policy evaluation" (AGSA, 2012:17).

### **2.8.3 Local Government Municipal Structure Act, 1998**

The Local Government Municipal Structures Act of 1998 "provides for the establishment of municipalities, which is in accordance with the requirements relating to categories and types of municipalities, as well as appropriate division of functions and powers between categories of municipalities" (RSA, 1998:1). The Act also controls

the internal systems, structures and office bearers of municipalities, and provides for appropriate electoral systems, as well as matters related to the electoral processes.

Although the Act does not make any reference to the oversight role of an audit committee, its relevance lies in the mandate of local government, and the audit committee will have to ensure compliance with this mandate by local government. Sections 44 and 83 are more relevant in terms of the oversight function of an audit committee. Section 44 establishes the functions and powers of the executive committee, whereas section 83 provides for the functions and powers of the municipalities. Both these sections are pivotal in terms of the oversight role of the audit committee, as they have bestowed the council with the authority that they are exercising in terms of the establishment of audit committees for their municipalities.

#### **2.8.4 Public Audit Act 2004 (Act 25 of 2004)**

The AGSA's role is given more prominence in the frame of the Public Audit Act (PAA) (RSA, 2004:34). The AGSA is expected to be "an independent organisation which provides regulatory auditing (on whether the financial statements are fairly presented); on performance auditing (to determine whether the municipal resources are used economically, efficiently and effectively); on computer auditing (to evaluate the integrity of information systems, data and financial transactions); forensic auditing (to facilitate processes of prevention, detection and investigation); and budget auditing (to evaluate whether the planning and budgetary controls and guidelines are followed)" (AGSA, 2012:25).

The Public Audit Act 2004 was established to:

- give effect to the provisions of the Constitution establishing and assigning functions to an Auditor-General;
- provide for the auditing of institutions in the public sector;
- provide for accountability arrangements of the AG to repeal certain obsolete legislation and
- provide for matters connected therewith.

The AGSA plays a significant part in the municipalities by issuing reports on audit quality. In South African municipalities, it is regularly contended that it is "inadequate and incompetent leadership that leads to noncompliance with financial management regulations, and that poor oversight from governance structures results in lower quality audit opinions" (COGTA, 2009). "Quality audit reports start with compliance with organisational regulations" (Sikka, 2009:869).

### 2.8.5 Local Government Municipal Finance Management Act, 2003

The Municipal Finance Management Act (MFMA) was "enacted on 13 February 2004 and introduced an integrated set of financial instruments to regulate and manage the affairs of local governments in South Africa" (MFMA, 2003:1). Its determination is to empower, guide and secure sound and sustainable management practices in the sphere of local government, and other, associated institutions; to establish treasury norms and standards in the sphere of local government, and to provide guidelines for addressing the following matters:

- ensuring transparency and accountability, and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities;
- the management of municipalities' revenues, expenditures, assets and liabilities and the handling of their financial dealings;
- budgets and financial planning processes, and the coordination of those processes with the processes of other organs of state in other spheres of government;
- borrowing;
- the handling of financial problems in municipalities and
- supply chain management and other financial matters (RSA, 2003:43).

Thus, the importance of financial management in the local government sphere is that it is envisioned to enable "the local government to plan, mobilise and use financial resources in an efficient and effective manner as well as fulfil its obligation to be accountable to its citizens" (Venkateswaran, 2014:93). Effective financial management in every business organisation helps "to ensure that there are sound financial systems and processes in place throughout that entity" (RSA, 2003:45).

In addition, effective management brings out proper accountability in the management of funds. "It is a crucial element of effective management, that through its transparent budgeting processes and effective management of revenue, expenditure, assets and liabilities, responsive and responsible government is achievable" (Venkateswaran, 2014:93).

### 2.8.6 Municipal Systems Act

The Municipal Systems Act was established to provide a framework for planning, performance management systems, effective use of available resources and

organisational change. Thornhill (2008:502) notes that the Local Government: Municipal Systems Act promotes governance by encouraging municipalities to instil a culture of municipal governance that supplements the available formal arrangements through community development and participation.

The Municipal Systems Act, in Section 4 (3) provides that municipal councils, in exercising their executive authority, must respect the rights of citizens and other persons protected by the Bill of Rights. Section 5 of the Act provides for the rights of local communities in relation to services provided by local municipalities. The Act also cites responsibilities of the local communities in relation to their rights of access to services provided by local government (Chaka, 2013:61).

In addition, the Municipal Systems Act, in Section 38 and 41 of Chapter 6, compels municipalities to:

- Set targets to allow for the monitoring and review of performance-based indicators which are linked to the integrated development plan (IDP) of the municipality; and
- Integrate and report on a set of general indicators that is prescribed by the Minister of local government; (RSA 2000: sections 38 and 41).

The Municipal System Act, in section 46, the Act makes provision for the municipality to prepare an annual report for each financial year. The annual report includes the financial statements, which are required to be prepared in accordance with the standards of generally recognised accounting practices, in reference to section 89 of the Public Finance Management Act No. 1 of 1991, and should also comply with any other reporting requirements, as dictated by other applicable legislation. Finally, the Municipal System Act, in Section 5, specifically stipulates that municipalities must regularly disclose their activities to the public; while section 11 requires municipalities to monitor the impact and of its programmes, plans and policies (Chaka, 2013:67). In line with the Municipal System Act, it is of significance that the audited municipalities implement the recommendations provided by the AGSA to fully comply with the Act.

## 2.9 Conclusion

To sum up, this chapter provided a foundation, theoretic, contextual and legislation framework for audit matters, with a focus on auditing in the local sphere of government. The chapter elaborated on each theory and legislation and how these are critical and relevant to this research. Under this chapter, comprehensive reviews of available known existing literature pertinent to the topic under consideration were made. This

chapter further examines the auditing process at a global level, African level as well in the South African context. Moreover, this section explored how auditing and evaluation can work together to enhance municipal performance. Under this section, the relevance of evaluations of the auditing process is also discussed, and it was found that while recognising similarities between auditing and evaluation, one can conclude that both these activities are needed in public sector management. From this section one can understand how auditing is important to the public sector, particularly if the audit recommendations provided by the AG are being implemented effectively. On that note, the next chapter discusses the Importance of Implementing Audit Recommendations in the public sector.



## CHAPTER THREE

### SIGNIFICANCE OF IMPLEMENTING AUDIT RECOMMENDATIONS IN THE PUBLIC SECTOR INSTITUTIONS

#### 3.1 Introduction

The previous chapter presented a theoretic, contextual and legislative framework for auditing matters in the public sector, with a focus on auditing in the local sphere of government. Therefore, this chapter presents an overview of the South African municipal system, how it came to be in its present form along with the principles of local government, and the challenges that are facing the South African municipalities are likewise explored. This chapter also takes a closer look at the municipal financial system and the audit system in local government. Next, is the discussion of the significance of implementing audit recommendations in the public sector. Lastly, this chapter examines the state of implementation of audit recommendations in the South African municipal level. This is done so by reviewing the AGSA reports on local government from the 2010/11 to 2016/17. The chapter ends with a brief summary of the key issues discussed.

#### 3.2 Local government in South Africa

According to Powell (2012:14), local government in South Africa underwent major reform after the 1994 democracy and after the adopting of the Constitution of the Republic of South Africa in 1996 (more specifically the Act 108 of 1996). Powell (2012:14) further states that part of this reform was for "government to try and reverse the legacy of inequality, poverty, underdevelopment, discrimination and segregation left by the apartheid system through inclusive local government". The reforms included, amongst others, "the demarcation of new local government borders, new structures and institutions, new legislation and new inter-government policies including fiscal policies" (Powell, 2012:14).

In accordance with the Constitution of the Republic of South Africa, 1993 (Act 200 of 1993), and more particularly the follow up of the Constitution of the Republic of South Africa, Act 108 of 1996) (RSA, 1996) (hereafter referred to as "the Constitution"), there are currently three spheres of government in South Africa, namely national government, provincial government and local government (RSA, 2003:56). The local government sphere is "made up of district municipalities, local municipalities and metropolitan municipalities" (Maphalla, 2015:15).



The district municipalities or category C municipalities are municipalities that execute some of the functions of local government, and they exist in areas that are not eligible to have metropolitan municipalities. District municipalities will, in turn, comprise several local municipalities or category B municipalities (Maphalla, 2015:16). Metropolitan municipalities or category A municipalities are municipalities that execute the functions of local government in larger cities, conurbations, centres of economic activity, areas for which integrated development planning is desirable and areas with strong interdependent social and economic linkages (Maphalla, 2015:16).

There are currently 44 district municipalities, 226 local municipalities (including 19 secondary cities) and eight metropolitan municipalities within the nine provinces of South Africa (Cloete and Thornhill, 2005:45). These categories are listed in Table 3 below;

**Table 3: Categories of municipalities in South Africa**

Municipal category	Description of category
Category A: Metropolitan Municipality	A municipality that has exclusive municipal executive and legislative authority in its area
Category B: Local Municipality	A municipality that shares municipal, executive and legislative authority in its area with a category C municipality within whose area it falls
Category C: District Municipality	A municipality that has exclusive municipal executive and legislative authority in an area that includes more than one municipality

Source: Nyalunga (2006:34)

The establishment of local government, which is enshrined in the Constitution, serves as the mechanism for the devolution of authority to local communities. In Chapter 7 of the Constitution, “it is stated that local government must offer a democratic and accountable sphere of government and that it should also establish mechanisms for sustainable service delivery for its local communities” (Chaka, 2013:41). This is also reiterated in Chapter 3 (which deals with Cooperative Governance), and states that “each sphere of government is required to provide for an effective, transparent, accountable and coherent government” (Chaka 2013:41). Therefore, the Constitution provides the basis for “an effective local government system for South African communities” (Chaka, 2013:60).

The fundamental principle of the existence of local government, as provided by legislation, is to support and build local communities and to attend to the delivery of effective services. It is through the local government's ability to translate the

communities' needs and expectations into actions that services can be delivered. Therefore, the effectiveness of local governance systems is essential to deliver services to local communities (White Paper, 1998:31). The White Paper further stresses the fact that a developmental type of local government system must promote developmental objectives, with an emphasis on serving and creating a better life for all South African citizens (White Paper, 1998:34). By implication, this refers to effective service delivery (Chaka, 2013:66).

A local government is defined in the White Paper of 1998 as a "local government committed to work with citizens and groups within the community to find suitable ways to meet social and economic and material needs and improves the quality of their lives". To establish the specific needs of local communities requires a viable governance system, as envisaged by the White Paper, which is capable of effectively serving and developing people, and which is also able to create an enabling environment for effective governance. An effective local governance system (and by implication a local government) promotes the effective utilisation of resources within the organisation and the economy at large and also assists in protecting scarce resources for service delivery (Gregory and Simms, 1999:2).

### **3.3 Fundamental principles of local government**

It is maintained that governments are increasingly being called upon to demonstrate results and it is expected of them to make a real difference in the lives of people under their jurisdiction, and that value for money has been attained. This reality arose from the fact that citizens are no longer interested in the addition of laws, policies and regulations but in the services that they receive. Consequently, they are more than ever interested in the outcomes than the outputs such as the performance of the economy in creating jobs, providing homes, water, justice etc. (Maloba, 2015:42).

For the above to happen, "it requires departments to specify measurable objectives which clearly articulate measurable and attainable desired levels of performance. Thus, the call for, compliance to rules or principles in pursuing a governmental goal is of greater importance" (Maloba, 2015:55).

The South African local government operates under principles established and regulated by the South African Constitution, Act 108 of 1996. To avoid any misuse of power, the Constitution also prescribes the scope within which other governmental departments submit to or interact with local government by spelling out its responsibilities from the basic needs to the highest priorities. As a matter of fact, the

draft and promulgation of the new constitutional law in South Africa on the 27 April 1994 as mentioned in previous sections, implied that the old law representing the apartheid law had to undergo fundamental reforms and transformation in all the dimensions of its previous functioning. This transformation process was not targeting only the reform of national or provincial structures of government, but rather the entire governmental machinery comprising the national, regional and local government sphere within South Africa had to be transformed in order to adapt to the new post-apartheid constitutional mandate. The transforming process carried on as the new Constitution and a novel system of parliamentary sovereignty and supremacy came to replace the Interim Constitution (Maloba, 2015:60).

Furthermore, among the most important features in the new Constitution, "the Bill of Rights", which applies to all the law of the land, in which the rights of all the people in the country are recorded (Republic of South Africa, Act No. 108 of 1996). It is observed that the apartheid system, characterised by a centralised form of government was replaced by a system grounded in a decentralised form of government in which important and consistent powers and functions were devolved to provincial and local governmental authorities. Furthermore, the final Constitution, which completed the negotiated framework of transformation opened the way for a new governmental structure rooted on three spheres, which are distinctive, interdependent and interrelated.

Given the fact that the instrument transferring power and authority to local government is the Constitution, and this one being the supreme law in South Africa, it highlights the importance and values entrusted to local government (Maloba, 2015:62). The broad principles prescribed in the South African Constitution for the regulation of the new local governments are as follows:

- The Constitution of the Republic of South Africa, Act 108 of 1996 grants local government original powers. Local government is no longer a function of provincial government, or a third level of government. It has become a sphere of government in its own right. It is part of a system of co-operative government and governance, which includes provincial and national spheres.
- Local government is no longer a site for the delivery of services only, but a crucial site for social and economic development. Local government has to have a strong developmental focus to achieve this.
- Local government, within its constraints, has to appropriately contribute to both economic growth and social redistribution.

- Local government is a key arena for the democratic participation of ordinary citizens.
- Municipalities constituting the new local government system have to be financially viable and sustainable.
- Over time, through appropriate negotiations, more powers and functions can be devolved to local governments (Maloba, 2015:65).

With the above-mentioned principles, it appears that the new governmental mandate considers local government as an essential link between the government and the population. This special link is made possible due to the fact that local government is bound to a particular geographic jurisdiction, as well as to the citizens who are directly affected by issues of this geographical jurisdiction. The close affinity so displayed will enable local municipalities to understand and resolve issues attached to their respective municipalities (Maloba, 2015:66).

### **3.4 Challenges faced by municipalities**

According to Audit Scotland (2015:14), “municipalities across the globe face common challenges that include reduction of resources, increasing demands for services, and increasing public expectations”. Be that as it may, “municipalities in the developed countries are able to receive clean audits” (Audit Scotland 2015:14). For example, the Victoria Auditor-General (2015:61) points out that “all financial statements of municipalities received clean audit opinions”. This means that the annual financial statements were reliable and fairly presented the results of the municipalities' operations and their assets and liabilities (Victoria Auditor-General, 2015:61).

On the other hand, according to Chaka (2013:61) “municipalities in developing countries, especially in Africa, were still struggling to obtain clean audits”. A study conducted by Kakumba and Fourie (2008) in Uganda demonstrated that there were accountability deficiencies in municipalities. The deficiencies in Uganda “emanated from the internal control, risk, and governance weaknesses” (Kakumba and Fourie, 2008:13). The main municipal challenges in Uganda as outlined by Kakumba and Fourie (2008:14) were:

- “poor monitoring and supervision;
- misappropriation of funds;
- sub-standard quality of work done by contractors;
- inadequate skills in financial management and other technical areas like planning and engineering;

- corruption and irregular awarding of tenders and
- irregular recruitment and appointment of staff” (Kakumba and Fourie, 2008:14).

The study conducted by Kakumba and Fourie (2008:121) revealed that “the punitive measures did not necessarily improve accountability and local government effectiveness”. The study further suggested that the government should identify the organisational structural deficiencies and focus on putting preventive measures in place to combat corruption and promote efficient and effective public sector performance. Implementation of performance management systems at all levels within the organisation and continuous monitoring of performance contributes positively towards the achievement of the organisation's objectives and accountability (Lesolang, 2015:20).

South African municipalities are not an exception; 30 out of the 319 audited institutions received a clean audit. The number of clean audits represents only 9% of the auditees (AGSA 2014:14).

An analyses conducted by SALGA (2010) and to Lesolang (2015:21) reveal that the factors that contribute to unfavourable audit opinions are:

- “Non-compliance with the applicable accounting standards,
- Inadequate preparation of asset registers,
- Poor systems of internal control,
- Weaknesses in accounting processes/reconciliations, and
- Valuation and completeness of assets and liabilities”.

According to Lesolang (2015:21) the analysis furthermore points out that the following were issues that were generally raised under emphasis of matters:

- “Amendments to applicable financial reporting framework in order to comply with the applicable accounting policy or to accommodate peculiar transactions.
- Unauthorised, fruitless, and wasteful expenditure that is continuously increasing and not accounted for in accordance with the applicable regulations.
- Material under-spending of conditional grants.
- Revision of figures from preceding financial statements in order to correct significant errors discovered in the current year” (Lesolang, 2015:21).

Over and above the challenges and risks faced by municipalities, Lesolang (2015:21) further argues that a study conducted in Canada suggested that “auditors do have an influence on the organisations they audited, but their attempts often fail”. The same study found that “the mere presence of auditors or their expected visits to the municipalities does not really encourage auditees to behave correctly” (Lesolang, 2015:21). Therefore, “neither do auditors consistently convince auditees to change their management practices” (Morin, 2008:81). The assertion by the Canadian study was confirmed by a study conducted by Ngoepe (2008:25) which outlined that “follow-ups and remedial actions were not done to address internal audit findings in government”.

It is therefore significant that municipalities implement the audit recommendations in order to improve the use of public resources and deal with these highlighted challenges. Additionally, they need to implement the AGSA recommendations in order to get a clean audit and to improve service delivery.

### **3.5 Audit system in the South African municipal level**

As set out in the Local Government Municipal Systems Act No. 32 of 2000 and the MFMA, “the financial management of municipalities and local government is entrusted to an accounting officer and chief financial officer. These officials are supported by the municipal mayor and their respective managers” (Craythorne, 1994:56).

In particular, the MFMA establishes a rigorous annual auditing process with which all municipalities must comply. Firstly, every municipality or municipal entity has to set up an internal audit team, whose responsibility it is to institute internal checks and balances that ensure that no fraud or misconduct occurs during daily operations (Craythorne, 2006:57). The team is tasked with the job of formulating strategies pertaining to issues such as risk, performance and loss management (Craythorne, 1994:68). “The MFMA also makes provision for an audit committee in each municipality or municipal entity. Acting as a source of advice, this committee is comprised of three or more people, who are mostly external to the organisation and provide support and guidance on financial or administrative issues submitted to it by municipal staff” (Craythorne, 1994:59).

The roles of each of these various stakeholders are all interfaced with the AG due to section 188, chapter nine of South Africa’s Constitution. This clause mandates the establishment of an independent, unbiased and nonpartisan AG, which is meant to

'act without fear, favour or prejudice.' It is subject only to the Constitution and accountable solely to the National Treasury (AGSA, 2015:23).

The duties of the AG are further legislated in the Public Audit Act No 35 of 2004. It is the AG's task to 'produce audit reports on all government departments, public entities, municipalities and public/constitutional institutions or accounting entity' (AGSA, 2015:24). It must also fulfil the requirements of both the Public Finance Management Act and the MFMA, 'auditing and reporting on the accounts, financial statements and financial management' of all the entities listed therein (Craythorne, 1994:60).

Consequently, in order to facilitate the auditing process, by the 31st August every year, local municipalities across South Africa are required to produce annual financial statements for the AG to examine. The outcome of the AG's assessment is then recorded in each municipality's annual operational report, which is to be made publicly available each year. The municipal financial reports compiled by the municipalities' accounting officer and financial team must consequently include:

- information on the financial position, performance and liquidity of the entity;
- how it performed against its budgeted and expected objectives;
- how it managed its revenues, expenditures, assets and liabilities;
- the various business activities it undertook: and
- the receipt and expenditure of any intergovernmental transfers and allocations (Craythorne, 1994:61).

These reports must also be 'free from material misstatements,' meaning that 'incorrect or omitted information' is not permitted (AGSA, 2012:34). Once submitted, the AG will then assess them to determine the state of financial affairs at each municipality and express an 'opinion' reflecting whether they feel that the public expenditure has been adequate and appropriate. There are three main sections that the AG investigates and on which they base their opinion:

- Whether the financial statements have been accurately and truthfully presented, with no major mistakes, and whether the information contained therein is useful and reliable for users (AGSA, 2015:38).
- Whether the entity's performance with regards to predetermined service delivery objectives has been accurately and truthfully presented. Predetermined objectives are the performance targets that municipalities set on an annual basis and which are meant to be used as instruments supporting service delivery. The AG will assess the extent to which the municipal entity has

achieved its stated goals by comparing the information in the financial statements to the predetermined objectives. This has been a part of the auditing process since 2005. However, it was only in 2009 that the AG included a separate outcome based solely on predetermined objectives (AGSA, 2015:40).

- Whether the entity has complied with financial rules and regulations (AGSA, 2015:41). This section of the audit checks how well municipal entities have abided by the financial duties and obligations placed upon them by the many pieces of legislation referred to earlier, such as the MFMA and the Municipal Structures and Systems Acts. This is also where municipal entities 'disclose any unauthorised, irregular as well as fruitless and wasteful expenditure incurred (AGSA, 2015:42).

More specific examples of factors examined by the AG's include the quality of submitted financial statements, the quality of annual performance reports, supply chain and human resource management, information technology controls and financial health (AGSA, 2012:35). Although the core sections have remained the same, it should be noted that the sophistication and thoroughness of the audit reports have been improving over the years. Between 2007 and 2011, the audit reports have become more comprehensive in terms of factors examined and appeared to be focusing more on service delivery performance than solely on financial compliance.

There are five possible audit opinions that the AG can give:

- A clean audit – the municipality achieved positive outcomes in all three of the criteria listed above. Not only are the financial statements free of mistakes, but the entity has also complied with all rules and regulations while accurately representing its performance with regards to predetermined objectives. A clean audit is also recorded as an 'unqualified with no findings' outcome (AGSA, 2011:34).
- Financially unqualified audit with findings – while the statements are accurately represented with no major mistakes - the AG has found a few concerns regarding predetermined objectives or compliance, which result in findings being raised (AGSA, 2011:36).
- Qualified audit with findings – the financial statements have quantifiable and clearly identifiable mistakes which jeopardise its validity and reliability (AGSA 2011:39).



- Adverse audit with findings - the financial statements are marred by significant mistakes and misstatements that are not quantifiable.
- Disclaimer audit – this is the worst possible outcome. The financial statements lack sufficient information, to a significant degree, for the AG to form an opinion on its contents.

### **3.6 Performance of South African's municipal audit system**

South Africa is the only country in the world to adopt the idea of a 'clean audit' outcome. In international accounting standards, there are only three audit outcome categories – unqualified, qualified and disclaimer – and financial statements free of major misstatements would normally earn them the status of a 'financially unqualified' audit (AGSA, 2015:36).

South Africa, however, has introduced an extra auditing standard, requiring municipalities to also meet compliance requirements and predetermined objectives before they can achieve a 'clean' audit. These additional regulations have significantly contributed to the generally poor national audit results – 299 of the 338 municipalities audited in 2012/2013 were not awarded clean audit outcomes due to the findings around their predetermined objectives (Hugo, 2013:12).

Releasing his report on local government audit outcomes for the 2014-15 financial year, the AG revealed that municipalities had shown an encouraging improvement in their audit results over the past five years from 2010-11 to 2014-15. He said the number of municipalities that received financially unqualified audit opinions with no findings (commonly known as "clean audits") had increased from 13 to 18, however additional municipal entities also achieved clean audit status, taking the total number of clean audits to 72 in the current period.

There were notable regressions during this period at 13%, while 34% of municipalities recorded the same outcomes as in 2010-11. Another welcome development in these audit outcomes is the significant reduction in adverse and disclaimed opinions, which have decreased from more than 30% in 2010-11 to about 11% of municipalities in the current period.

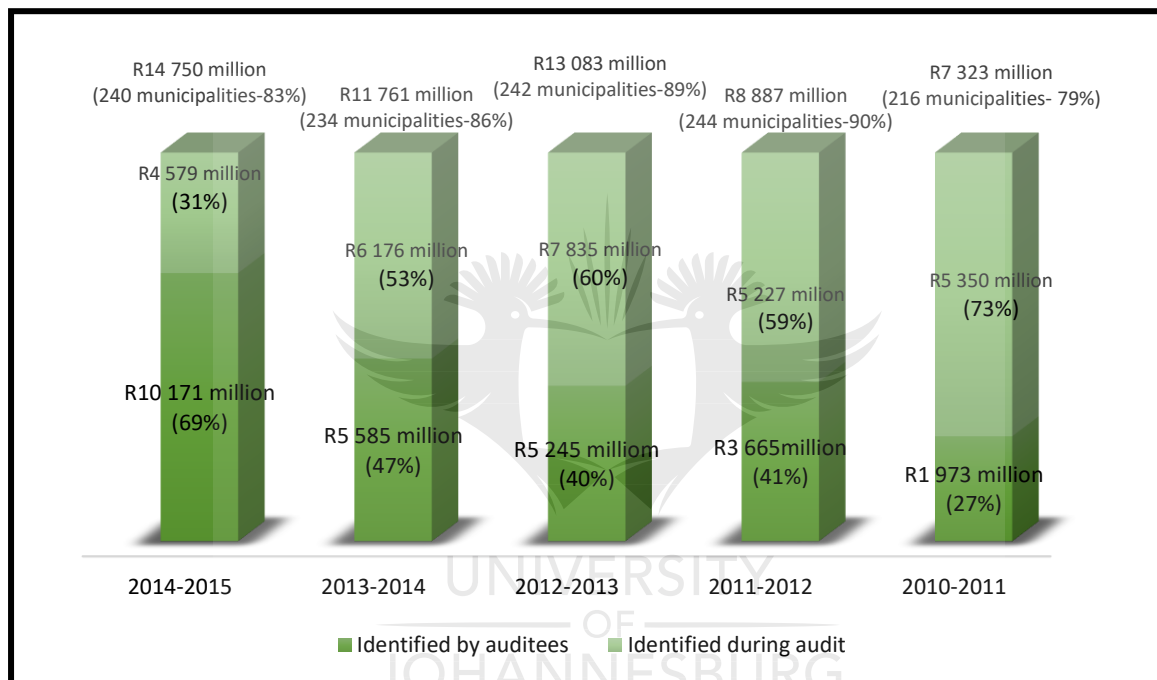
The AG argued that while the number of municipalities with clean audits increased by 14 to 54 in the 2014/15 financial year, the financial health of 92% of the country's 278 municipalities remains a source of concern or requires intervention. The AGSA further (2014:45) expressed its concern regarding municipal managers who had not instituted

the measures necessary to prevent irregular, unauthorised, and fruitless and wasteful expenditures.

### 3.6.1 Irregular expenditure

During the reporting period, 88% of all municipalities, that is a total of 240, incurred R14.7 billion of irregular expenditure. That means that they spent money without following the applicable laws. It is more than double the amount incurred in 2010/11 and shows an increase of about R3 billion from the previous financial year. Figure 5 below shows the five-year trend in irregular expenditure from 2010-11 to 2014-2015.

**Figure 5: Five-year trend in irregular expenditure**



Source: (AGSA 2014)

The AG noted that irregular expenditure was primarily the result of failure to comply with supply chain regulations. R3.5 billion was spent without a competitive bidding or procurement process; R10 billion as a result of non-compliance with the procurement process requirements; and R792 million as a result of non-compliance with legislation relating to contract management. Fruitless and wasteful expenditure increased dramatically in 2014/15 to R1.3 billion, compared with R685 million in the previous financial year. This refers to “expenditure that was made in vain and could have been avoided had reasonable care been taken.”

As irregular expenditure constitutes amounts that were spent in contravention of legislation and outside of approved programmes (AGSA, 2013a:23; AGSA, 2014:47;

AGSA, 2015:48), the sustained high values recorded above support the notion that not much is being done to promote an ethical culture within municipalities. This environment enables government resources to be utilised for personal gain instead of for the achievement of service delivery objectives.

### **3.6.2 Unauthorised expenditure**

An accumulated unauthorised expenditure of R11.4 billion was incurred by 190 (71%) municipalities during the 2013-14 financial year, “compared with R9.2 billion incurred by 170 (53%) municipalities during the 2012-13 and R9.8 billion incurred by 181 (57%) municipalities during the 2011-12 financial year. Unauthorised expenditure represents amounts that were spent on unplanned, unapproved and unbudgeted activities and objectives” (AGSA, 2013a:27; AGSA, 2014:45; AGSA, 2015:51). Over time, this can contribute to the failure of local government, as increasing numbers of objectives are compromised, increasing the possibility that the municipality is judged to be no longer a growing concern.

### **3.6.3 Fruitless and wasteful**

Fruitless and wasteful expenditure of R687 million was accumulated by 250 (77%) municipalities during the 2013-14 financial year, in comparison with the total of R815 million accumulated by 220 (69%) municipalities during the 2012-13 financial year, and R568 million accumulated by 202 (64%) municipalities during the 2011-12 financial year. The 2012-13 figure for fruitless and wasteful expenditure thus represents an increase of 31% over the previous year, while the 2013-14 figure shows a slight decrease (AGSA, 2013a:33; AGSA, 2014:26-130; AGSA, 2015: 50-110). Fruitless and wasteful expenditure relates to the amount spent incorrectly or inappropriately, and which could have been avoided if reasonable care had been taken (AGSA 2013a:32; AGSA 2014:49-85). Again, this expenditure represents money that could have been utilised in pursuit of authorised and legitimate service delivery objectives.

## **3.7 Significance of implementing audit recommendations**

Audit recommendations are “courses of action suggested by the auditor in line with the objectives of the audit to address the condition or adverse audit findings and control weaknesses as a means of improving government programmes and operations. achieve these major goals” (Chandler, 1997:33). The benefit from the audit work is not in the recommendations made but in their effective implementation.

Audit findings are written explanations of errors, weaknesses, deficiencies, adverse conditions, needs for improvement or changes that are disclosed in an audit. Chandler (1997:34) asserts that it is a constructively critical commentary on actions or inactions, which in the auditors' judgement hinder the accomplishment of desired objectives in an effective and efficient manner. Aikins (2012:164) postulates that "audit findings are usually followed by recommendations for specific actions to correct the cited deficiency".

Australian National Audit Office (2015:43) states that "auditors are supposed review how programs are being carried out and how activities are managed". Furthermore, they assert that "this affords excellent opportunities to make recommendations to management that improves their ongoing programs, conserve resources, provide better customer service and ultimately provide the taxpayers expect". However, Australian National Audit Office (2015) argues that auditors can provide poor quality recommendations which are non-specific, unconvincing, imprecise, negative in tone and content, non-feasible and insignificant with no response to underlying causes of the problems. Aikins (2012:43) states that "recommendations should be action oriented, convincing, well supported and effective. When appropriately implemented they should get the desired beneficial results".

Through recommendations, the AG brings out a wide variety of ways to improve government operations and operations on a regular basis. For example, audit recommendations may show the cognizant agency how government services can be more responsive to citizen needs at less cost to taxpayers. Recommendations made are not really the beneficial from an auditing stand point, but in their effective implementation. Important measures of an audit organisation's effectiveness are the type of issues it tackles and the improvements it is able to affect. In addition, one of an auditor's primary objectives is to have his or her work make a difference. When a recommendation is made to an agency, its management is primarily responsible for implementing it. However, auditors can do a great deal to improve the likelihood that a recommendation will be appropriately implemented (Aikins, 2012:43).

Important measures, of an audit organisation's effectiveness, are the type of issues it tackles and the improvements it is able to affect. In addition, one of an auditor's primary objectives is to have his or her work make a difference. When a recommendation is made to an agency, its management is primarily responsible for implementing it. However, auditors can do a great deal to improve the likelihood that a recommendation will be appropriately implemented (Fakie, 1999:52).

Fundamental to effective audit work, are recommendations, when adequately implemented, will accomplish defined and worthwhile results. Audit Recommendations must state a clear convincing and workable basis for implementation. The utility and continued relevance of recommendations should be continuously re-evaluated as follow-up actions progress (Aikins, 2012:43).

The recommendations in the AG's report are designed to help an organisation achieve effective and efficient governance. Audit findings and recommendations tend to relate to particular assertions about transactions, such as whether the transactions audited were valid or authorised, wholly processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements. It is an entity's responsibility to manage the implementation of audit recommendations to which it has agreed, including determining an appropriate strategy to help achieve timely and effective implementation. Primary responsibility for implementing audit recommendations lies with Senior Management in the organisation and also the business unit subject to the audit (Zhou and Zinyama, 2012:25).

While the implementation of audit recommendations is a management responsibility, the AG's Office is well placed to monitor the progress of implementation. Effective monitoring requires a system that accurately tracks progress and records the actions of program managers responsible for progressing action against timeframes.

### **3.8 The state of implementing audit recommendations in the South African municipalities**

Processes such as implementing the AG's recommendations are vital in ensuring accountability, efficiency and effectiveness in the local government. This is also a measure of whether the AG is being taken seriously or not.

Annual audit reports on South African municipalities, compiled by the AGSA, for much of the period of South Africa's democratic government - all point to a high prevalence of poor audit outcomes within the ranks of public institutions (AGSA, 2013b:15) in all three phases of government. The state of affairs prevails despite concerted efforts by the Office, to carry out its mandatory roles and responsibilities, including undertaking own initiatives - in its attempt to improve the situation (AGSA, 2013b:16).

However, the study reviewed the consolidated general report on the audit outcomes of local government, and it is found that there are numerous recurrences of findings previously pointed out by the AGSA, often on an annual basis. To further elaborate this finding, Khumalo (2007:79) analysed several departmental audit reports for

Gauteng for a couple of years, to check for recurring findings, and noted in her master's research thesis on the efficacy of the Office of the AGSA in the Gauteng Province, that:

*“Out of the eleven sampled departments, eight departments constantly had the same recommendations made to them by the AG” (Khumalo, 2007:81).*

Moreover, the 2013/14 report of audit outcomes by AGSA paints a gloomy picture about the state of financial management and accountability in municipalities of the country. Most of the problems identified by AGSA have a direct bearing on the implementation of audit recommendations in municipalities, as they point to poor controls and lack of consequences for the transgression of rules. According to the report:

*Findings on compliance with legislation, unauthorised, irregular as well as fruitless and wasteful expenditure were due to weak control environments and a lack of actions taken against transgressors. Good governance and sound financial management will ensure that resources are used in an economical, effective, efficient and transparent manner for the benefit of citizens (AGSA, 2014:38).*

Though the report does not explicitly define the problems at municipalities as lack of implementation of audit recommendation, the lack of financial controls and poor governance suggest otherwise. The report recommends that municipalities deal with transgressions of legislation and conflicts of interest, which can also be done through ethics management (AGSA, 2014).

The AGSA (2014:45) also expressed its concern regarding municipal managers who had not instituted the measures necessary to prevent irregular, unauthorized, and fruitless and wasteful expenditures. The increasing rate of non-compliance is the apparent lack of consequences for transgressions of regulations and laws, and for poor performance (AGSA 2013a:103; AGSA 2014:19).

The AGSA (2013a:92; 2014:25; AGSA 2015:10) revealed that this lack of consequences was evident in about 71% of audit clients during both the 2011-12 and 2012-13 financial year audits and in 42% of audit clients during the 2013-14 financial year. The report further highlighted that some audit clients had not yet investigated the previous year's irregular, unauthorised, and fruitless and wasteful expenditures, and had failed to determine if any person was liable, or could be held responsible, for the purpose of recovering such money, as is required by the Municipal Finance Management Act (South Africa 2003; AGSA 2013a:103; AGSA 2014:45; AGSA

2015:10). When public servants are not held accountable for noncompliance with laws and regulations and poor performance, the perception is created that such behaviour is acceptable and tolerated (AGSA 2013a:92; AGSA 2014:80).

Furthermore, presenting the report for municipal outcomes 2016/17, T.K Makwetu noted that the recommendations made by AGSA last year to ensure that the basics are in place, thereby improving accountability and audit outcomes, did not receive the necessary attention at most municipalities (AGSA, 2017:45). This, he notes that,

*“is evidenced by the findings from our audits that included attention not being paid to audit action plans, poor performance planning and budgeting (resulting in unauthorised expenditure of R12,6 billion), and regressions of varying degree in the status of internal control and the assurance provided by the different role players in local government” (AGSA, 2017:45).*

Of most concern to T.K Makwetu is that the AGSA’s consistent and insistent calls for stricter consequences have not been heeded. He reported material non-compliance with legislation dealing with consequences at 55% of the municipalities. This lack of consequences is also evident in municipalities again not paying sufficient attention to the findings on supply chain management and the indicators of possible fraud or improper conduct that we reported and recommended for investigation (AGSA, 2017:45).

In 2015-16, the AGSA reported such findings at 148 municipalities, but 47% of these municipalities did not investigate any of the findings, and 24% investigated only some of the findings. In 2016-17, the AGSA reported these types of findings at 145 of the municipalities, 71% of which also had such findings in 2015-16. At 61% of the municipalities, the council failed to conduct the required investigation into all instances of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year – a regression from 52% in the previous year (AGSA, 2017:48).

From the above discussion, one can deduce that the implementation of the AGSA's recommendations seems to be a major problem in the local South African municipalities, as this is established from the reviewed literature and AGSA’s financial reports. This is also an indication that those charged with governance are not taking adequate measures to amend identified leakages and risks in their respective municipalities.

Findings extrapolated from the AGSA reports as shown in (table 1) indicate that negative findings in the South African municipalities tend to resurface consistently,

year after year. These recurrences also imply that overall the South African municipalities' struggles to address functional and process issues that are identified by the AGSA. Furthermore, the analysis of the AGSA reports suggests that the actual root causes of the municipal problems have not yet been adequately investigated, analysed or addressed. However, even though the results of this study may not be conclusive since it is based on a limited sample, it does provide evidence that the municipalities struggle with adequate and sustainable corrective action. The consistent recurrence of the audit recommendations may imply that the municipalities need to reconsider its problem resolution processes to gain a better understanding of the actual root causes of the challenges it faces. In order to minimise the problems recurring, root cause analysis techniques should perhaps be further explored as an alternative method to counter this situation.

### **3.9 Conclusion**

In summary, the chapter presented an overview of the South African municipal system, how it came to be in its present form and long with the principles of local government. Moreover, under this chapter, the challenges that are facing by the South African municipalities are explored. It was found that in Africa, municipalities are still struggling to obtain clean audits and that there are accountability deficiencies in municipalities. The deficiencies emanated from the internal control, risk, and governance weaknesses. This chapter also examined the municipal financial system and the audit system in local government, and it was found that South Africa has introduced an extra auditing standard, requiring municipalities to also meet compliance requirements and predetermined objectives before they can achieve a 'clean' audit. However, these additional regulations have significantly contributed to the generally poor national audit results – 299 of the 338 municipalities audited in 2012/2013 were not awarded clean audit outcomes due to findings around their predetermined objectives.

This chapter also considered the significance of implementing audit recommendations in the public sector. Lastly, this chapter examined the state of implementation of audit recommendations in the South African municipal level. This is done so by reviewing the AGSA reports on local government from the 2010/11 to 2016/17. It was found that from the reviewed and analyses of the AGSA reports, the Implementation of the AGSA's recommendations seems to be a major problem in the local South African municipalities. This is also an indication that those charged with governance are not taking satisfactory measures to amend identified leakages and risks in their respective municipalities. The next chapter focuses on discussing factors that influence the



effective implementation of audit recommendations given by the AG in the public sector.



## CHAPTER FOUR

### FACTORS INFLUENCING THE EFFECTIVE IMPLEMENTATION OF AUDIT

#### RECOMMENDATIONS

##### 4.1 Introduction

Chapter three provided an outline of the South African municipal system, how it came to be in its present form as well as discussing the performance of the audit system in the local government. This chapter discusses the factors influencing the effective implementation of audit recommendations given by the AG. However, theories formerly established concerning the area under study are analysed and discussed to create a foundation for this chapter. The chapter begins by outlining the importance of audit reports, outlining the structure of the audit report in terms of engagement's objectives and scope as well as applicable conclusions, recommendations, action plan and internal auditor's overall opinion. This chapter also explores the challenges faced by management in implementing audit findings and recommendations, also taking note of the dilemmas confronted by the AGSA in the South African municipalities. This chapter will attempt to examine whether the identified factors are also applicable to the South African municipal setting. Ultimately, the chapter concludes with a summary of the issues explored.

##### 4.2 Auditor-General's reports

According to Carmichael (1996:33), an audit report is a "culmination of the work that was performed by the OAGSA or its representatives". The audit report should be precise, impartial, clear, concise, constructive and timely. If appropriate, satisfactory performance should be acknowledged. In addition, "the report should include the engagement's objectives and scope as well as applicable conclusions, recommendations, action plan and where appropriate contains the internal auditor's overall opinion" (Carmichael, 1996:33).

According to Carmichael (1996:34), audit reports are "fundamentally a good communication device within the organization". In sum up, it illustrates clearly and concisely a highly technical subject to a variety of interested readers and users.

The purpose of the AG's report is to facilitate public accountability by bringing to the attention of Parliament findings of various government structures. In these reports," the AGSA highlights problems and expresses an opinion on the financial statements

and compliance with the relevant laws and regulations applicable to financial matters” (Khumalo, 2007:32).

Thus, according to Khumalo (2007:32), “the audit report is the most important and only independent assessment of the quality of financial statements. It is, therefore, one of the most important reports to consider when reviewing a department's annual report”.

Besides the audit opinion, AG reports must contain important findings that do not affect the fair presentation of financial statements and the audit opinion. These findings are outlined in the report because of their significance; they are referred to as emphasis of matters (SALGA, 2010). Emphasis of matters could include:

- “Going concern refers to the ability of the municipality to continue operating indefinitely; this simply means that the municipalities’ assets are sufficient to cover both the short-term and long-term obligations” (AGSA, 2009:31). The AG may raise a finding on the municipality’s ability to operate as a going concern if there are possibilities that a condition or an event may have an impact on the municipalities’ capacity to honour its short-term and long-term obligations (AGSA, 2009:31).).
- Significant uncertainty on the other hand highlights outcomes that are based on future events that cannot be reasonably measured at the date in which the report is signed. The matter is regarded as significantly uncertain if it has the potential to affect the financial statements (AGSA,2009:32). A material inconsistency of information highlights the existence of information that contradicts material information contained in the audited financial statements. Information is regarded as material if it has the potential to influence the opinion of its user (AGSA, 2009:33).
- The basis of accounting outlines that there were amendments to the applicable accounting policies. In the context of South African municipalities, the authority to amend the basis of accounting is granted by the National Treasury; the effected amendments must be presented or disclosed in the financial statements (AGSA, 2009:34). Even though the emphasis of matters does not have an impact on the audit opinion, their degree serves as a yardstick to evaluate general controls, financial and risk management, and legislative compliance (SALGA, 2010).

The AG is compelled by Section 21 of the Municipal Finance Management Act to submit the audit report in accordance with the relevant legislation. The relevant

legislation in the context of municipalities in South Africa is the Municipal Finance Management Act (Act 56 of 2003). Section 126 of Municipal Finance Management Act (Act 56 of 2003) require AG to submit an audit report on financial statements of a municipality to the accounting officer of the municipality within three months of receipt of the statements. Once the AG has submitted an audit report to the accounting officer, no person other than the AG may alter the audit report or the financial statement.

Section 131 of Municipal Finance Management Act (Act 56 of 2003) obliges municipalities to address all issues raised by the AG in an audit report. The municipal mayor is required to ensure that the municipality complies with the provisions of this section by providing oversight over the development of a plan to address issues raised by AG; this plan is typically referred to as audit recovery plan. The Section furthermore requires the Member of Executive Council (MEC) for local government in the province to establish whether municipalities have adequately addressed any issues raised by the AG and to provide support where necessary.

Lastly, the financial report together with the AG report and the audit recovery plan must be included in the municipal's annual report, which has to be made public. Furthermore, a report on actions taken by MECs for local government to address issues raised by the AG has to be tabled in Parliament by the Cabinet member responsible for local government (SALGA, 2010).

### **4.3 Attitude towards audit recommendations**

As highlighted by Fishbein and Ajzen, (1975:1), one of the most commonly used classes of models is Theory of Reasoned Action (TRA). This section examines the applicability of the TRA in accordance to attitude towards audit recommendations with specific reference to municipal level. The TRA states that attitude is a function of one's beliefs. If a person believes that performing certain behaviour will lead to very profitable results, this attitude will encourage him to perform that behaviour, and vice versa (Ajzen, 1991:80). "Past researchers measured a person's attitude based on his belief in the importance and usefulness of the behaviour" (Buchan 2005:66). Correspondingly, in "the implementation of audit recommendations, if auditees believe that the audit recommendation will improve their performance, save public money and improve public services then they will tend to implement it" (Aikins, 2012:196). This is because, "in overcoming the organization's weaknesses or to achieve organisation's goals, audit recommendation determines the required actions, the responsible officers, the term of implementation and the monitoring action" (Roe 2014:65).

According to Dain and Rahmat (2017:5) “when the attitude, which is formed as a result of the auditees’ confidence, towards the positive impact of implementing the audit recommendations increased, the intention to implement the recommendation will also increase”. Ajzen (1991:80) further elaborates that, “the positive impact such as improving local government activities and increasing the auditees’ skill will portray a good image of the organization to the public. Additionally, it will indirectly provide the auditee with a satisfaction in view that his efforts have inspired others”. In accordance with the TRA and the evidence from past studies, “the relationship between attitude and intention to implement audit recommendation is proposed that there is a positive relationship between credibility and quality of auditors and the auditees’ intention to implement audit recommendation” (Dain and Rahmat, 2017:6).

Ajzen (1991:80) points out that, “subjective norm is the second important element of the TRA. Individual interaction with the reference group in its environment will directly transfer the norms held by the reference group”. Individuals consider performing their actions based on the importance of the perception of others either in the form of approval, opinion, support or advice. From the auditing aspect, the evidence shows that auditors, audit committee (AC) and the media are among the factors that influence auditees in implementing audit recommendations (Alzeban and Sawan, 2015:63).

In addition, audit activities such as a follow-up audit, media and an audit committee are also elements used in the South African public sector to monitor the implementation of audit recommendations. However, the extent to which the auditees’ perception about the auditor, follow-up audit, and media as a reference group, that influences their intention to implement the audit recommendations, is limited and has not been consistently proven. This section contributes to the TRA which supports attitude and subjective norms in influencing the intention to implement audit recommendation. However, one of the limitations of the TRA, is that it did not consider the perceived behavioural control which refers to the internal and external constraints in implementing behaviour such as skills, capabilities, resources, emotional (stress) and others (Ajzen, 1991:81).

Thus, this study will rely heavily on the reports from the AGSA and other relevant reports to support the elements emphasised by the TRA. The following elements are discussed in detail below.

### 4.3.1 Credibility and quality of auditor

According to Hatherly and Parker (1988:23) the credibility and reliability of the auditors is one of the important factors in auditing. Quality auditors should be able to produce quality recommendations. When the auditee questioned the credibility of the auditor, the recommendation given by the auditors may be rejected or there may be a delay in implementation as it is considered less important. Lowensohn, Johnson, Elder and Davies (2007:710) argue that experience and skills can help auditors to better understand the organisation and provide quality recommendations. Lowensohn et al. (2007:710) also states that the “involvement of a senior auditor in the auditing is also important in providing value added recommendations. In addition, auditors who are responsive to the auditees’ needs and provide room for discussion will influence the auditees to implement the audit recommendations”.

In accordance with the TRA, the auditees’ satisfaction with the quality of an auditor’s work can create auditee confidence with the recommendations given; and thus, influence the auditees’ intention to implement them. Auditors, who have the skill, provide guidance and create room for discussion and will motivate auditees to take action as recommended. Auditees, being confident that auditor is the reference group that provides advice and support, will strengthen their intention to implement the audit recommendations; moreover, the support is provided by credible and quality auditors. Auditees also believe that the auditor will perform the same behaviour if he/she is in a similar situation (Hatherly and Parker, 1988:24).

The purpose of having audit recommendations, is to state what an audit organisation believes should be done to accomplish beneficial results. They do not direct what must be done but seek to convince others of what needs to be done. Thus, “recommendations should be action-oriented, convincing, well-supported, and effective. When appropriately implemented, they should get the desired beneficial results” (Dain and Rahmat, 2017:8).

Within the South African setting, audit recommendations are communicated through the reporting procedures through the internal auditing. Thus, high quality reporting is critical for auditors to gain the attention of management; it is an opportunity to demonstrate that audit recommendations are helping achieve management’s objectives (Sawyer, Dittenhofer, and Scheiner, 2005:687). Sawyer et al. (2005:688) further assert the following on reporting:

*“audit reports can be powerful instruments when they are well-used and constructed. They can create the impression of audit professionalism. They can tell their clients – senior management – about important events they would otherwise not know about. They can change thinking. They can impel action.”*

Sawyer et al. (2005:687) further warn against poor reporting, stating that:

*“much too often, auditors clearly throw away this golden chance to open management’s eyes, to show management what they have accomplished and what they can accomplish, to explain what management needs to know and what it needs to do. Internal auditors throw away this opportunity by using pallid prose, by making mountains out of rubbish heaps, by being content with uninviting report formats, by making allegations that won’t withstand assault, by drawing unsupported and illogical conclusions, and by reporting findings without solutions (Sawyer et al., 2005:688).”*

These types of concerns appear to be evident in IAF’s in municipalities in South Africa, as noted in the Auditor-General’s findings (AGSA, 2011:32; AGSA, 2012:86; AGSA, 2013b:31). It is, therefore, imperative to determine the extent to which internal audit is, or is not, adhering to sound reporting practices.

#### **4.3.2 Follow-up audit**

“Through a follow-up audit, the previously raised audit recommendations are verified to establish whether they have been acted upon. By knowing that the auditor will conduct a follow-up audit, the auditees are motivated to implement the audit recommendation” (Edwards-Faulk, 2012:20). Morin (2008:99) further states that the “auditees may feel uncomfortable with a follow-up audit; which suggests the auditors’ scepticism towards the auditees’ ability to implement the recommendation”. A follow-up audit also adds “workload to the auditees since they have to refer to the previous year’s documents” (Van Acker, Bouckaert, Frees, Nemec, Lawson, Matel, Savulescu, Monthubert, Nederhand, and Flemig, 2015:36).

Although previous findings showed mixed evidence, it is predicted that a follow-up audit may influence the auditees’ intention to implement audit recommendations; as auditees do not want the auditor to report similar issues (Morin, 2008:100). If the auditees believe that a follow-up audit is the reference group, then it will be a motivating factor for them to implement the audit recommendations. Furthermore, audit recommendations which have not been implemented will be reported again in the

current year audit report, affecting the image and reputation of the agency. Therefore, it reinforces the auditees' intention to implement the recommendation. The more effective the follow-up audit, the higher the likelihood of auditees implementing audit recommendations.

In accordance with TRA, the reviewed literature on audit recommendations in South Africa and the consolidated municipal audit outcomes reports, the study is of the view that there is a positive relationship between effectiveness of follow-up audit and the management intention to implement audit recommendations.

This point of view is also supported, by the AG's report for the 2016-17 financial years, it stated that the recommendations made by AGSA last year would ensure that the basics are in place, thus improving responsibility and audit outcomes. This did not receive the necessary attention at most municipalities (AGSA, 2017:34). The AG noted that:

*“is evidenced by the findings from our audits that included attention not being paid to audit action plans, poor performance planning and budgeting (resulting in unauthorised expenditure of R12,6 billion), and regressions of varying degree in the status of internal control and the assurance provided by the different role players in local government” (AGSA, 2017:38).*

This lack of consequences is also evident in municipalities again not paying sufficient attention to the findings on supply chain management and the indicators of possible fraud or improper conduct that was reported and recommended for investigation (AGSA, 2017:34). The AG stated:

*“in 2015-16, they reported such findings at 148 municipalities, but 47% of these municipalities did not investigate any of the findings and 24% investigated only some of the findings. In 2016-17, they reported these types of findings at 145 of the municipalities, 71% of which also had such findings in 2015-16. At 61% of the municipalities, the council failed to conduct the required investigation into all instances of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year a regression from 52% in the previous year” (AGSA, 2017:35).*

In local South African government, Internal auditors are tasked to follow up on the status of initial recommendations made on internal audit findings (Flynn, 2010:1). Therefore, they need to report on the disposition of the original internal audit findings



again. The Chief Audit Executive (CAE) should report the results of the follow-up to senior executives and the audit committee.

The internal auditor notifies the relevant department that a follow-up engagement must be take place. Once the engagement starts, the internal auditor needs to ascertain whether corrective action did indeed occur. The internal auditor needs to determine whether the actions taken by management were adequate in mitigating the risk associated with the original finding in particular. After the assessment, the internal auditor needs to report back on the status of the internal audit findings, indicating either that the findings were addressed, still in progress or unattended (Flynn, 2010:1). It is also good practice to state why a certain finding is still being attended to or has not been attended to at all, in the report.

The above statement indicates that without a follow up audit, the management at local level will continue to neglect the audit recommendations given by the AGSA. However, by knowing that the auditor will conduct a follow-up audit and reporting, the management is motivated to implement the audit recommendations.

#### **4.3.3 Ministry's Audit Committee (AC)**

Monitoring by the AC, which comprises of higher-ranking officers in the ministries, is a mechanism that helps the auditees seriously monitor the audit issue. AC that communicates regularly and determines the type of action, term of action and the officer in charge could improve the agency's internal control, financial reporting and customer satisfaction (Alzeban and Sawan, 2015:62).

When auditees are confident that the AC will monitor them regularly, it will influence the auditees' intention to implement the audit recommendations. An effective discussion will increase the auditees' intention to implement the audit recommendations in order to show to the AC that the auditees have implemented their obligations. Auditees also believe that the AC's support does not only motivate the auditees to implement the audit recommendations, in order to enhance organisational performance, but also shows the effectiveness of the AC. Auditees are also confident that the AC will do the same if they are in a similar situation (Armitage, 2011:97).

In the Malaysian public sector, the AC from each ministry is required to submit minutes of AC meetings to the central agency (Ministry of Finance) quarterly. This reporting will indirectly encourage the auditee to take corrective and preventive actions in order to avoid receiving a reminder letter from the central agency. Generally, the effectiveness of the AC in other contexts, including in corporate management, has often been

proven. However, empirical evidence in terms of the public sector is still limited (Ogoro and Simiyu, 2015:58).

The above presented hypotheses set a foundation to understand the relationship between the audit committee's effectiveness and South African municipalities, as well as their intention to implement audit recommendations. Moreover, the above premise is also reinforced by Van des Nest, Thornhill, and De Jager (2008:547) in the relationship between audit committees and accountability in the South African public sector. The study concludes that the audit committees are being effective in improving governance, and they are performing well in their task of reviewing the work of external auditors in public sector organisations. In South Africa's local governments, the audit committees' areas of authority and responsibility are defined by the terms of the MFMA.

In view of the fact that the audit committee needs to demonstrate its effectiveness, CIPFA (2010:34) makes several recommendations of which the most important is that the audit committee's effectiveness depends on it being independent of both executive management and directors. It plays its role in helping improve the adequacy and effectiveness of risk management and internal control; promoting the principles of good governance; overseeing internal audit and supporting the audit quality; reinforcing the objectivity and importance of external audits; raising awareness of the need for sound risk management, internal control and the implementation of recommendations made by internal and external audit; and also in helping to promote the values of ethical governance (IFAC, 2014:35).

According to SALGA (2012:12) "An effectively functioning local government is believed to improve service delivery, which can be achieved through effective utilisation of allocated public resources". The complexities of local government operations and an increasing need for effective management of its resources (SALGA, 2012:12) "require local government to have an effective governance system in place to entrench accountability" (Deloitte, 2012:5). Therefore, "the establishment of audit committees plays a significant role in realising the goals of local government of South Africa" (Muhiuddin and Karbhari, 2010:93).

#### **4.3.4 Media**

Dowding and Lewis (2012:237) enlightens that "mass media influences the public in cases where there are compliance issues with the regulations set by the authorities and this could cause the fall of individuals". Justesen and Skaerbaek (2010:326)

further argue that the “media can also influence the auditee to establish better agency”. In this instance, media reporting on audit reports puts pressure on auditees to accelerate the implementation of audit recommendations. This is because the “media’s reports are focused on the wastage, fraud and inefficiency, which certainly will be main concern to the public” (Dowding and Lewis, 2012:238).

According to Dowding and Lewis (2012:239) through the media, “the auditees can find weaknesses in the public sector which are of public interest, and directly pressure them to immediately overcome the bad reputation of the agency”. Dowding and Lewis (2012:240) further emphasise that “media is also a common medium used to criticise and question the credibility of the auditees in implementing audit recommendations”. The more negative issues featured by the media, the greater the tendencies of auditees to implement the audit recommendations in order to improve their image. Auditees also believed that the media publishes the audit issue to help auditees to reduce shortcomings in the agency. “Auditees are confident that the media will also take the same action if they are in similar situation as auditees” (Justesen and Skaerbaek, 2010:326).

Morin (2008:103) points out that, in the Malaysian public sector, the Public Service Department will hold a dialogue session (town hall) between media and all ministries’ secretary-generals after the AGR is tabled in Parliament. This session will allow the media to highlight any issues raised in the AGR and the relevant secretary-general should respond to it. As a preparation, the secretary-general needs to know the status of the action taken by the auditee in advance. This mechanism will indirectly influence the auditee's intention to take immediate action as preparation before the session is held (Morin, 2008:104).

Media coverage of local government in South Africa usually consists of sensational stories aimed at boosting sales and exposing fraud and corruption by municipal officials and politicians. Whether they are newspapers or radio stations, the media often portrays local government in a negative light, which influences the perceptions of the broader public and may increase dissatisfaction with the municipality (GCIS, 2011:153).

While this fulfils the important need of holding public servants accountable to the people they serve, what is often absent is news stories that inform and educate citizens about service delivery progress, problems, achievements and the important municipal plans and public participation opportunities that shape service delivery. This is often

the result of dysfunctional and hostile relationships between municipal representatives and local media (GCIS, 2011:154).

Ndlovu (2008:64) points out that while journalists may lack a real understanding of how municipalities work and sometimes results in inaccurate and misleading coverage, municipalities often have only themselves to blame because they tend to cover-up mistakes or do not respond when asked.

Both municipalities and local media have an important role to play in communicating with the public. By having an open communication policy, municipalities can address the negative perceptions of the public and keep them informed about service delivery progress and delays, plans and priorities and opportunities for public input. At the same time, the media has a critical role to play in ensuring a healthy democracy by informing citizens, holding politicians and public servants accountable by acting as an independent body and providing a 'space' where citizens can participate in discussions and deliberate over public issues (Thukur and Singh, 2012:113).

Improving the relationship between the two is thus critical for entrenching democracy, and an important step toward improving the extent and nature of issues covered in the local media. More important local media can also hold municipalities accountable for implementing the audit recommendations issued by the AGSA and examine whether they are implemented or not.

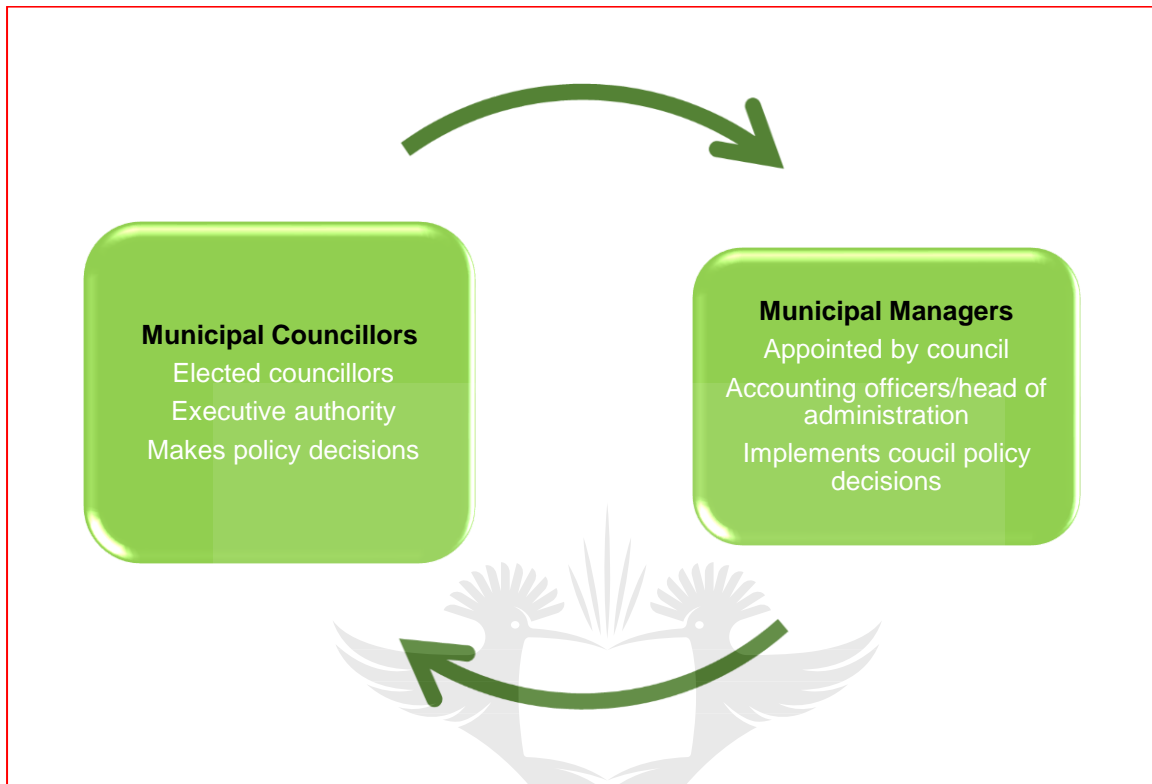
#### **4.3.5 Role-players involved in the implementation of audit recommendations within Municipalities**

There are various and interested actors involved in the implementation of audit recommendations and analysing the financial performance of local government in South Africa, and these actors include the, Municipal councillors, Municipal manager, Mayors, Internal audit units, Audit committees, and Offices of the premier. However, this section will briefly pay attention to Municipal Manager and Municipal councillors, because of the influential role in ensuring that audit recommendation are implemented within the municipalities.

The implementation of the audit recommendation have become a concern within the South African municipalities, since local governments continue to fail to effectively implement audit recommendations. This condition also raised concerns about the quality of municipal leadership because there is a generally accepted positive correlation between audit quality and leadership quality (Motubatse, 2014:75).

Leaders are defined by legislative frameworks and government policy documents, and leadership in local government is made up of its governing body (comprising elected and/or appointed office-bearers) (IFAC, 2014:24), as well as its senior management. The table below present as overview of the of local government leadership.

**Figure 6: Overview of local government leadership**



Source: Zhang, 2014:362 cited in Motubatse (2014:76).

According to Siegel (2010:141, cited Motubatse, 2014:76), the local government leadership consists of the municipal council and elected officials. Municipal councillors are the elected political leaders who then delegate the administrative leadership to the municipal manager. The MFMA (RSA, 2003) recognises the municipal council as the highest authority in the municipality; the council's power is strengthened by significant powers of approval and oversight vested by provincial and national government departments.

Municipal councillors have a duty to provide the critical political linkage between the executive mayor, executive committee and the community (Siegal, 2010; Zhang, 2014, see also Motubatse, 2014:76). A good relationship between municipal leadership and the community brings with it hope for effective implementation of policies. Thus, the effectiveness of municipal leadership depends on the councillors' political powers and their abilities to advance policy decisions. This means that the political leadership has

responsibility to provide political guidance over the policy, budget and financial affairs of the municipality (Zhang, 2014 cited Motubatse, 2014:76).

On the other hand, Municipal managers are serving two masters, one at the political level and the other at the administrative level. Their roles are thus influenced by political dynamics and they are expected to take responsibility for policy implementation (Zhang, 2014 cited Motubatse, 2014:77). Thus, the municipal manager, acting in the capacity of leader, is expected to be able to provide the mayor, councillors and senior administrative officials with the appropriate guidance and advice on finance and budget issues (RSA, 2003). This is an administrative leadership position in which the municipal manager is expected to prepare the annual financial statements for the audit.

Zhang (2014) argue that leadership plays an important role in improving the quality of financial reporting, which is a vital component of the audit quality (IFAC, 2014). As a result, it is expected of such leaders (Municipal Councillors and Municipal Managers) that they become aware of the role of audit and the effect of its findings and recommendations on the municipality and local citizens (AGSA, 2012).

#### **4.4 Factors influencing the implementation of audit recommendations**

Globally, empirical studies indicate that the factors that affect successful implementation of audit recommendations includes the auditor type, audit opinion and firm performance in terms of financing. However, no evidence was found to support the effect of board independence, audit committee size, audit committee meetings and audit committee qualifications on the implementation of the AG's recommendations.

In the African context, studies show that the failure to implement the AG's recommendations is a result of political, economic and business environment, legal framework, education background, culture, and perceptions of audit. Furthermore, studies indicate that the AG recommendations continue to not be implemented as a result of corruption, lack of consequences for not implementing the AG recommendations, poor financial management and governance challenges, which consequently cut off their ability to ensure effective and efficient service delivery to the masses (Wamajji, 2015:2).

The study also examines research done globally about factors affecting the successful implementation of audit recommendations and attempt to place the identified factors within the South African context and examine whether these factors are applicable

within in the South African municipalities and their intention to implement the audit recommendations given by the AGSA.

Additionally, the AGSA's consolidated general reports on the audit outcomes of local government for the 2010-11 to 2016-17 financial years were reviewed in order to identify the factors influencing the implementation of audit recommendations in the municipal level of South Africa. The following factors are discussed in detail below.

#### **4.4.1 Availability of resources and time**

According to Cohen and Savag (2010:297) “the foundation of the implementation of audit implementation is the availability of resources and time to adopt the recommendations”. Abdullah (2014:6) explained that the implementation process requires funding such as the unavailability of adequate funding results in the delay or non-implementation of audit recommendations. Internal audit recommendations may include the establishment of new functions such as credit control departments, recruitment and training of employees and change or modification of accounting systems to ensure the reduction of risks and optimisation of business processes which requires segregation of duties on the already available employees instead of hiring new employees.

Steward and Subranium (2010:13) argues that the “implementation of some audit recommendations demands huge funding and involves long processes of evaluating current business methods and trying new ways of doing things”. However, Steward and Subranium (2010:14) further argues that management may not need to worry about the resources available, since not all recommendations require such inputs and funds”.

The hypothesis presented above was deduced in an economic set-up other than South Africa. However, the study intends to determine how unavailability of resources and time affect the implementation in the South African municipalities. Though, the notion of unavailability of resources in South Africa is mainly around the issues of inadequate human resources capacity, it might also impact the implementation of audit recommendations given by the AG in local government.

The South African local government sector depends mainly on human capital in order to achieve their objectives (PSC, 2008:16). Nevertheless, “inadequate human resources capacity has been identified as one of the aspects negatively affecting the performance of local government. This lack of capacity is due to ongoing high vacancy rates” (Deloitte 2012). The Municipal Demarcation Board (2012:15) highlighted that at

end of 2011 financial year, an average of 32.5% of the funded posts within the national local government sector were vacant. A further concern is that some of these vacancies are for key positions such as municipal managers and chief financial officers. The National Treasury (2015:15) reported that by 02 October 2012, 20.9% of municipalities were headed by acting municipal managers, while for acting chief financial officers the statistic was 25.9%. "It should be fairly obvious that these vacancies in key positions, and the excessive time taken to fill them, negatively affect the productivity and efficiency of local government entities" (Deloitte, 2012:3).

Inefficient utilisation of available resources has also been identified as one of the challenges facing the public sector (National Treasury, 2005:3). For example, the manner in which positions are created in the public sector does not seem to contribute to the efficient utilisation of the resources needed to enhance the rate of achievement of objectives. The positions are reportedly created on the basis of logical sequencing and not necessarily on the job demands or complexity (Deloitte, 2012:3). In light of the above discussion, this study is of the view that inefficient utilisation of available resources and financial constraints are regarded as factors that contribute to the delay of the implementation of audit recommendations, because resources are used for other matters other than dealing with the identified findings.

#### **4.4.2 Lack of follow ups**

According to Ashouri (2015:45) the other factor that affects the adoption of suggestions and recommendations given by the AGSA is the lack of follow ups. The authors explained that when the auditors or audit committee do not follow up to see whether the recommendations are implemented or not, management relaxes and tends to ignore the process. Hutchings (2014:77) added that management may also overlook or ignore implementing recommendations when they know there are no consequences to non-implementation without proper reasons. Ashouri (2015:46) posited that management end up treating the audit process as a formality when they know they are not brought to account on non-implementation of any of the audit recommendations.

It is argued that a follow-up does not guarantee the implementation of all audit recommendations when other factors such as resources and funds are unavailable. This was supported by MacRaue and Gills, (2014:70) who highlighted that when management appreciates the contribution of the internal audit team, they implement audit recommendations even without follow-ups being made.



Aaron and Gabriel (2010:34) took an impartial stance highlighting that follow-ups are necessary as they encourage timeous implementation of audit recommendation but then without the follow-ups, implementation can still be done. In the South African context, the Public Service Accountability Monitor (PSAM) was established with the aim to monitor the municipal and financial performance of the local government in South Africa. It is argued by the PSAM, that while the AGSA has adopted sound auditing systems, more needs to be done to hold municipalities to account for the maladministration of public funds. While the local government audit outcomes for the 2014-15 financial year reveal what the AGSA called an encouraging improvement in the overall audit results over the past five years from 2010-11 to 2014-15. The PSAM suggests there may be continued oversight at political and administrative leadership level in local government departments (Ramkumar and Krafchik, 2005:13).

The head of PSAM Nodana Nleya, stated:

*“Over a 10-year period the same thing has been repeated and the same audit finding is being made in terms of insufficient documentation and the likes, which hides what is actually happening. In simple terms we have a system that says it is okay (AGSA, 2015:45).”*

Mentioning the recurring problem of unauthorised and irregular expenditure in particular, Nleya stated further that the information and insights provided by the AG were not being carefully considered by those municipalities which had repeatedly received poor audit outcomes (Ramkumar and Krafchik, 2005:14). He noted:

*“There is no improvement on the issues that would have been raised by the AG preceding years. Over and over again the same things are raised AGSA, 2015:49).”*

Considering the above argument, one can conclude that the lack of follow-ups in South Africa is a factor which critically influences municipalities not take action for the recommendations given by the AGSA. This view also supports the problem statement raised in this study, about the repetition of audit recommendations given by the AG as a result of not implemented or followed up.

#### **4.4.3 Lack of audit action monitoring processes**

Monitoring progress is integral to the internal audit process in order to establish the status of agreed action plans or recommendations. Further reporting of the results of follow-up activities, in the form of a verbal or written report, is critical for senior

executives and audit committees to have a better understanding of the status of internal controls, risk management and governance processes.

Presenting his audit report for 2014-2015, the AG observed that management in 73% of auditees has been slow to respond to the recommendations aimed at assisting them to improve key controls and addressing risk areas. He stressed that when there are no consequences after matters have been raised, they tend to repeat themselves and nothing will stop someone who has become accustomed to acquiring transactions in a manner that is not transparent. He stated that “If there is no follow up, municipalities will not be persuaded to do anything different (AGSA, 2015:23).

The audit covered 468 auditees, including 167 national and provincial departments and 301 public entities, with a total budget of R1111-billion for the year under review. The AG further stated undertakings are made, but commitments are not often achieved. The slow response that the AG had been seeing for some time, looked like becoming no response (AGSA, 2015:24).

The audit committee participant views audit action monitoring processes as a remedial exercise to ensure that corrective action is taken on issues identified by the external auditors and internal auditors or the AGSA (National Treasury, 2005:4).

In order to monitor the implementation of audit findings and recommendations, the audit committee requires the internal audit to compile a formal findings register that would indicate corrective actions taken and list the unresolved findings. This could also assist the audit committee in overseeing how management is responding to the recommendations made by external and internal auditors. It may also assist the audit committee to affect accountability and to follow up on critical audit recommendations (Motubatse, 2014:34).

To facilitate the monitoring process, the CAE must take overall responsibility to ensure:

- That a timeframe exists for management to deal with the original internal audit findings;
- That an evaluation of management’s responses to the internal audit findings takes place;
- That verification of management’s responses through follow-up has taken place and
- That the results of follow-up activities have been communicated (IIA, 2010:122).

The communication can either be verbal or in a written report. In the feedback, the internal audit must use the same criteria as in the original audit. The benefits of dealing with the internal audit findings must be stated together with a brief summary of the objectives of the follow-up. The internal audit can also state how the follow-up was conducted. Supporting evidence could be included in an appendix. The report can also detail events which could have caused management not to take corrective action or to not implement recommendations (IIA, 2010a:131).

If during the follow-up activity, “the CAE feels that management’s means of dealing with the internal audit finding did not address the finding or the root cause, the CAE must implement procedures to re-emphasise the importance of the matter and even escalate the problem to a higher level of management” (IIA 2010a:131), Whatever the procedures established by the CAE to enable follow-up, it is important that internal audit’s responsibility regarding follow-up activities be stated in the internal audit charter (IIA, 2012a:18).

In the light of the above discussion, concerning the lack of audit action monitoring processes, the study argues that there are no formal audit action monitoring processes in the South African municipalities, and this influences the management attitude to not commit themselves by responding swiftly to audit’s recommendations.

#### **4.4.4 Corruption**

In South African municipalities, corruption is a social and economic distortion of local development. According to Philip (1997:29-30) corruption “is a practice that can lead to the degeneration, even disintegration and debasement of social life”. Euben (1989:222) postulates that corruption “means that a system, condition or function of an institution (in this case, a municipality) becomes infected”. Corruption can, therefore, be described as a challenge because of the above reasons. In most instances, the corrupt and the corrupted become faster, more efficient and sophisticated than those who have to eliminate corruption.

Municipalities are a vital political, social and economic constituent in the public sector. Therefore, comprehending corruption in the municipal sphere is crucial to understanding the nature of social disorganisation in society and the state (Euben, 1989:223). The central physiognomies of a municipality do not differ significantly from those of other state entities in terms of organisational structure and imperatives, human and political relationships, performance management systems or assessment

and evaluation tools. "Corruption emerges largely from the erosion of such relations by individuals or groups" (Euben, 1989:224).

For instance, what follows here is a presentation of a number of incidents of corruption in local South African government of which beliefs affect the implementation of audit recommendations. The context for many of these is the absence of proper financial management systems. Public institutions that lack strong financial controls, provide fertile ground for corruption. Too often, municipalities ignore the reports of the AG or fail to furnish the AG with the necessary financial records on which to base meaningful audits.

The most accurate reflection of the financial state of affairs of South African municipalities is the AG's annual report, which is a very substantial barometer of the situation of the entities entrusted with development and growth at the local level throughout the country. According to the AG's Report for 2010/2011 (published in 2011), more than sixty percent of municipalities could not account for the revenue they had received. This implies that they were unable to show how and when financial transfers from government took place and could not provide proof of where the amounts listed in their financial statements came from. "Fifty percent could not account for the bulk of their expenditure and therefore their financial statements could not be trusted" (AGSA, 2011:1).

A main challenge the country faces, is that it does not have a strong state champion determined to fight corruption. The anti-corruption campaign appears disjointed with members of the civil society, the media and certain state institutions achieving minimal success. A high number of corrupt public and private sector officials remain, waiting in the wings to take advantage of a transforming state. A culture of greed, fuelled by the ever-present wealth gap in South Africa, continues to destroy personal integrity at all three spheres of government (AGSA, 2011:5).

The Municipal audit report of 2010-2011 identified four major areas of risk related to Supply Chain Management, where there is a growing trend of irregular expenditure. These areas of risk are predetermined objectives (service delivery reporting), which displayed some improvement in certain provinces; Information Technology (IT) controls, which displayed minimal improvement in terms of internal control; human resource management, which displayed minimal improvement; and significant errors in financial statements, which displayed no improvements at all despite the increased use of consultants (AGSA, 2012:13).

According to Woods and Mantzaris (2012:137) there are a number of general wrongdoings that are common throughout South Africa, namely “employee-related fraud and corruption, such as presenting fake educational qualifications and or a falsified curriculum vitae and other misrepresentations of relevant personal information; and payroll/remuneration scheme-related fraud such as ghost employees, commission schemes, workers’ compensation fraud, falsified wages, backdated salary increase etc.”.

Bearing the above in mind, it is clear that the AG’s (2012:67) comments on the appalling state of the municipalities in South Africa, suggests that the weaknesses of the municipalities that the institution laments confirm the presence of almost all the corruption related instances examined above. In fact, the AG’s findings are an empirical manifestation of the existence of the types of crimes and abuse identified, weak oversight systems with regards to local government are also a contributing factor. Relatively autonomous municipalities that control considerable budgets have been established in areas where, prior to 1994, no form of local government existed. Moreover, in many of these areas, the municipality is the main employer and source of work in the area. The lack of enforcement and oversight that could be employed by national and provincial governments, at the instigation of a vigilant civil society, may have contributed to the proliferation of corruption in local government (AGSA, 2012:15).

The architecture of anti-corruption agencies and strategies in South Africa is impressive but this has had little impact in many local authorities. Clearly, the implementation of local government anti-corruption strategies needs strengthening. This study is of the view that corruption in South African local municipalities has a negative influence on management through the lack of implementation of the recommendations given by the AGSA.

#### **4.4.5 Lack of consequences for not implementing the Auditor-General’s recommendations**

Aikins (2012:59) argues that “when status monitoring identifies dormant recommendations, follow ups should determine why action is not being taken”. In addition, “the environment could have changed such that the problem no longer exists or that the recommendation is no longer relevant or feasible” (Aikins, 2012:60). In this instance, municipalities could be reluctant towards implementing AG’s

recommendations, because there are no consequences for inactions from the respective municipalities.

The AG, Mr T.K Makwetu, has criticised the lack of consequences for senior officials responsible for unauthorised, fruitless, wasteful and irregular expenditure of state funds (AGSA, 2014; AGSA, 2015; AGSA, 2016). In his financial report of 2012/13 he stated that despite OAGSA's constant and insistent advice and caution to those charged with governance and oversight about administrative lapses since 2013, their counsel has largely not been heeded (AGSA, 2017:14). He further commented that:

*“When we released the 2011-12 municipal audit outcomes in August 2013, we highlighted, amongst others, a lack of decisive leadership to address the lack of accountability by ensuring consequences against those who flouted basic processes that hampered effective municipal governance. We reported weaknesses in internal control and the risks that needed attention in local government by providing root causes for audit findings and recommendations to remedy these underlying causes. It is now five years later, and we are still faced with the same accountability and governance challenges we had flagged throughout these years. There has been no significant positive change towards credible results; instead we are witnessing a reversal in audit outcomes (AGSA, 2017:14)”*

The AG stated that, “an absence of consequences, the misuse of funds will continue unabated” (AGSA, 2014:45). The AG is of the view that these matters are among the effects that cause these audit outcomes to continue to come out poor is largely as a result of poor leadership, highlighted often times. He further mentioned that;

*“We reported material non-compliance with legislation dealing with consequences at 55% of the municipalities. This lack of consequences is also evident in municipalities again not paying sufficient attention to the findings on supply chain management and the indicators of possible fraud or improper conduct that we reported and recommended for investigation” (AGSA, 2014:46).*

The above comment indicates that in the absence of consequences, some municipalities will continue to ignore the AG recommendations as well. “Thus, one can deduce that actions will not happen fast enough, in terms of responding to the AG findings as long as consequences are not in place” (AGSA, 2014:49).

Leadership's inaction, or inconsistent action, created a culture of 'no consequences', often due to inadequate performance systems and processes (AGSA, 2014:49). "This as a result lead to non-implementation of audit recommendations in the local sphere of government. Some of the reasons for failure to implement AG's findings is that "leadership did not take repeated audit recommendations and warnings of risks for which they needed to prepare seriously" (AGSA, 2014:61).

The AG's statement on the continuing lack of consequences for those who do not implement audit recommendations in local government comes at a time when the parliamentary committee responsible for OAGSA the SCOAG, "is finalising its deliberations on possible amendments to the Public Audit Act, the legislation that governs the operations of the AGSA" (AGSA, 2017:13).

The amendments will provide the OGSA with the power to refer material irregularities to appropriate authorities to investigate as well as with a level of remedial power, including the recovery of money lost as a result of the irregularities. Material irregularities will include any non-compliance with legislation, fraud or theft, or a breach of fiduciary duties that caused, or is likely to cause, a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public (AGSA, 2017:34).

The study postulates that if the AGSA lacks power to impose sanctions on those who do not act on the findings identified by the AG, it will be an indication that there will be no consequences for those municipalities who do not implement the AG's recommendations.

#### **4.5 Challenges faced in implementing audit recommendations**

Audit recommendations identify risks to the successful delivery of outcomes, consistent with policy and legislative requirements, and highlight actions aimed at addressing those risks, and opportunities for improving entity administration (Aikins, 2012:43). Entities are responsible for the implementation of audit recommendations to which they have agreed, and the timely implementation of recommendations allows entities to realise the full benefit of audit activity. This section identifies the challenges faced by the management in implementing the audit recommendations. However, the below arguments and notions, about challenges faced in implementing audit recommendations, was developed on specific research of other organisations in other countries, for that reason the study is of the view that these implementing challenges are also applicable South African municipalities and this view will be supported by the

evidence from the analysed AGSA reports and other empirical studies. Thus, this section only highlights the major challenges believed to influence the implementation of audit recommendations in the local government of South Africa. The challenges include the following:

#### **4.5.1 Financial constraints**

According to the Australian National Audit Office (2015:23) financial constraints “frequently cause delays in implementing audit recommendations, especially where new investments are required”. Cull, Weili, and Lixin (2015:294) further argues that “lack of funding can hamper the recruitment of additional personnel to ensure an adequate segregation of duties in the finance area”. Should organisations come across financial constraints in implementing audit recommendations Adeyemi and Uadiale (2011:7971) states that the “AC should be able to resolve issues and problems faced by the company and provide a way forward for the entity”. However, Ibrahim et al. (2014:179) argues that “recommendations which involve violations of laws and policies must be implemented even if the cost of implementation is very high and the organisation has scarce resources”.

Chiang and Northcott (2010:223) agree with this statement stating non-compliance with audit recommendations for environmental matters like occupational health and safety environments, emissions, waste disposals because of financial constraints become a punishable offense. Therefore, Australian National Audit Office (2015:24) states that the management holds the ultimate responsibility on the implementation or non-implementation of the audit recommendations and prioritization of the recommendations despite the constraint's factors. However, Zhou and Zinyama (2012:87) have also commented stating that “legal framework gaps in the current Audit Office Act and the Public Finance Management Act does not give the Auditor General sufficient power and authority to monitor the implementation of auditor recommendations”.

Therefore, this study also attempts to examine whether the financial constraints might delay the implementation of audit recommendations in South African municipalities. Section 53 of the Constitution of the Republic of South Africa, 1996, states that:

*“a municipality must structure and manage its administration, 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 and*



*participate in national and provincial development programmes” (RSA 1996:34).*

According to Wallis and Dollery (2001:247) “state incapacity in many developing countries is so endemic as to preclude even the adequate delivery of minimal services, let alone any more complex operations”. South Africa is not immune to this problem. The rendering of municipal services to satisfy a specific community’s needs is, of necessity, dependent upon the availability of sufficient resources. All spheres of government are frequently confronted with increasing and competitive demands for more and effective services and a general lack of sufficient resources to meet such demands. This supports Powell’s (2012:16) view that the local government was being asked to do more, with less resources and a crumbling skills base.

According to Powell (2012:17) “the introduction of the “*Project Consolidate*” during President Mbeki’s era attempted to resolve this crumbling skills base by deploying the necessary expertise to all affected municipalities”. Powell (2012:18) confirms that “Project Consolidate deployed technical experts to 136 municipalities, generally in rural areas or former homelands, which had the highest backlogs in basic services and were economically depressed”. Similar programmes, such as Syenza Manje, were also employed; it was, however, difficult to measure the impact of these interventions.

It is a fact that municipalities depend on strong revenue bases to sustain their viability and ability to deliver services to individual households. In situations where these revenue sources are depleted, communities are likely to be characterised by high levels of abject poverty and unemployment and also have strong elements of rural and informal economies, resulting in increasing demands for subsidisation and welfare, which are unsustainable. This is evidenced by the escalation of informal settlements which puts pressure on the municipalities to provide free basic services such as water, electricity and housing for the indigents. A free basic service in itself is burdensome and causes policy failure” (Fourie and Valeta, 2008:39).

Taking into consideration the above argument, one can logically argue that the government cannot afford to take policy decisions arbitrarily because such decisions always have financial implications which, in the end, trouble the grassroots. Any change in the nature and scope of the municipal services rendered stems from a change in or amendment to policy and may become a financial burden if not carefully contemplated. Furthermore, it can be argued that that municipalities might also delay

implementing audit recommendations due to financial challenge factors, which lead to recurring findings every year.

#### 4.5.2 Complex issues

Australian National Audit Office (2015:32) defines complex issues as “matters which require extensive consultations and negotiations as well as approvals involving a wide range of stakeholders”. World Health Organisation (2012:12) “gives an example staff health insurance fund in World Health Organization and asserts that although measures were initiated shortly after the audit report, it took 2 years for the new government structure to be designed”. Aikins (2012:49) states that “some audit implementations require new policies to be established for them to be compatible”. According to Aikins (2012:53) “this can be a time-consuming process for consultations in the implementation of audit recommendations”.

Some audit recommendations can be delayed due to linkages with other initiatives. Adeyemi and Uadiale (2011:7977) took an impartial standing alluding that it takes time and it is difficult to affect significant changes in an organisation, regardless of the complexity of the issues at hand.

The above arguments and notions were developed on specific research to other organisations in other countries. However, the study argues that the complexity of the audit recommendations given by the audit function is also one of the challenges faced by South African municipalities in implementing audit recommendations.

For instance, in South African setting, as the consequences of complexity of issues, the local government continues to use consultancy to provide technical skills and speed-up the process. Some of the reasons why governments rely on consultants at municipal level is depicted below in Table 4:

**Table 4: Reasons for the continued use of consultants**

	Financial	Performance
Municipal officials lacked the required skills	43%	33%
Positions were vacant	14%	33%
Combination of lack of skills and vacancies	14%	33%

Source: AGSA 2011:15

The AG stated that municipalities continue to rely on consultants to prepare financial statements and underlying records and rely on auditors to identify material misstatements to be corrected. To this end, consultancy costs for financial reporting

services continued to increase over the past five years to R892 million in 2014-15. The AG further stated that;

*“The management of consultants (not just limited to financial reporting services) continues to be inadequate. Weaknesses in the planning and appointment processes, performance management and monitoring, and transferring of skills were identified at 68% of the municipalities that used consultancy services,” (AGSA, 2011:16).*

As in previous financial years, auditees continued to hire consultants to assist them with accounting-related services and the preparation of year-end financial statements. A total of 226 auditees (71%) were assisted by consultants in 2011-12, compared to 224 (68%) in 2010-11. Based on available information, auditees spent more than R378 million (2010-11), and R295 million) on consultants in the 2011-12 financial year. This excludes the amounts spent by the treasuries and the departments of cooperative governance on consultants assigned to assist municipalities (AGSA, 2011:17).

The following table show the key aspects of the assistance provided by consultants. Not all improvements in audit outcomes (or the lack thereof) can be directly attributed to the assistance provided by consultants, as the contracted scope of work varies from one auditee to the next.

**Table 5: Key findings on the use of consultants**

Key findings	Good	Concerning	Poor
<b>Auditees using consultants remained high, and costs increased</b>	The extent of assistance provided by consultants remained the same as in the previous year, namely 226 in 2011-12 compared to 224 in 2010-11. The reported cost of consultants increased by R83 million (28%) from R295 million to R378 million. The average cost of consultants per auditee and the average cost per consulting contract increased by 27% and 20%, respectively.		
<b>Recurring use of consultants increased</b>	The recurring use of consultants occurred at 199 (88%) of the 226 auditees. The auditees that used consultants again this year increased by 41 (26%) from the previous year.		
<b>Audit outcomes of some auditees improves</b>	Thirty-six (16%) of the assisted auditees obtained improved opinions, four of which improved to financially unqualified with no findings.		
<b>Financially unqualified audit opinions</b>	Eighty-seven (38%) of the auditees that were assisted by consultants obtained financially unqualified audit opinions in 2011-12 as well as in the previous financial year.		

<b>Low rate of transfer of skills</b>	The low rate of skills transfer occurred at all types of auditees, namely metropolitan municipalities (33%), district municipalities (36%), local municipalities (40%) and municipal entities (39%).
<b>Lack of technical skills remained the main reason for the use of consultants</b>	Overall, 89% of the auditees indicated that the main reason for using consultants was a lack of technical skills, which remained at similar levels to the previous year (92%).

Source: AGSA (2012:40).

As can be seen in the above in the above table, most auditees in local government continued to use consultants to assist with accounting-related functions and the preparation of financial statements. Although it is expected that consultants could be used where there are vacancies in finance sections, they are predominantly used to supplement a lack of skills in local government. Councils and provincial and national government should be concerned about the recurring use of consultants and the slow rate of skills transfer, as it could indicate that auditees depend too much on consultants and do not ensure that financial officials obtain the required skills and competencies (AGSA, 2017:43).

The subjects of complex issues in South African municipalities are of serious concern as discussed above, as result municipalities have to rely heavy on consultants to supplement their audit performance. On that line, the study argues that complex issues remained a challenge for management to effectively implement audit recommendations on time.

#### **4.5.3 Quality of audit recommendations**

Auditors can do a great deal to improve the likelihood that audit recommendations will be appropriately implemented through the quality of the recommendations. Basic to effective audit work are recommendations that, when adequately implemented, accomplish a defined and worthwhile result. They must state a clear, convincing, and workable basis for implementation. Their utility and continued relevance should be re-evaluated as follow-up actions progress.

Whether audit objectives are achieved is dependent on the quality of the recommendation. A recommendation that is not convincing will not be implemented. A recommendation that does not correct the basic cause of a deficiency, may not achieve the intended result.

Poor quality reporting that is such that the audit findings get disputed and audit recommendations do not get implemented arise as a result of the following:

Inexperience of auditors/poor skills and training of auditor's staff.

- lack of auditors' knowledge of the AGSA practical working environment;
- unclear audit objective at the planning stage of the assignment;
- lack of report writing skills;
- unmotivated Auditor and
- recommendations do not address the weaknesses reported in the factual find.

Recommendations call for action to correct existing conditions or improve operations and are a guide for management to achieve the desired objectives. Thus, recommendations must provide an answer to senior executives and audit committees to the question "how should we fix this problem?" The recommendations must thus address the condition and the root cause (IIA, 2010a:54). Best practice on recommendation formulation states that it should adhere to the SMART principle:

- Specific: it must state precisely what the entity should aim to accomplish.
- Measurable: it must be able to be evaluated to determine whether it has been accomplished.
- Action-oriented: it must specify the actions the entity should take.
- Relevant: it must relate to the finding and root cause.
- Time-based: it provides a deadline by which the entity must accomplish the objectives (IIA, 2010a:55).

"It is important to note that the users e.g. senior executives can disagree with the recommendations given. It is, therefore, important to note in the report what senior executives must do to address the internal audit finding. If a consensus on action plans cannot be reached, it is good practice to include both the internal audit recommendation and the management comment in the internal audit report as well as the reason for the disagreement" (IIA, 2010a:55).

As argued earlier; the issues of qualified and skilled auditors, to produce quality audit recommendations seems to be a challenge in the South African municipalities. This is as a result becoming a challenge for municipalities to implement recommendations that sound unconvincing to them.

#### **4.5.4 Staffing issues**

The Australian National Audit Office (2015:67) defines "staffing issues as the non-availability of staff with the appropriate expertise and delays in recruitment present challenges that need to be met in order to ensure an efficient response to audit recommendations". World Health Organization (2012:43) gives an example "of a case

of the audit report on the WHO Country Office, Teheran, a period of managerial vacuum existed until the new WHO representative was appointed which resulted in a delay in mounting a comprehensive response to the audit”.

According to Nash (2013:46), staffing changes due to organizational restructuring slow down efforts to resolve audit recommendations. Nash (2013:47) further argue that “it becomes challenging for a unit to comply fully with the recommendations of the audit which would have been issued at a time when the unit was operating in a different setting and with a different structure”. Ibrahim et al. (2014:179) agree that “the public-sector salary scale do not compete well to the private sector as well as insufficient career perspective, training opportunities and no systematic mentoring programs in parastatals”. However, Ibrahim et al. also (2014:180) states” that some countries face difficulties in attracting, motivating and retaining high quality employees due to political, economic and environmental instabilities leading to the drainage of brainpower”.

The AGSA expressed concern regarding the inadequate management of vacancies within local government. The report revealed that there were vacancies in the key senior positions of municipal managers, chief financial officers and heads of supply chain management units (AGSA, 2013a:17; AGSA, 2014:58; AGSA, 2015:77-79). The details are summarised in Table 6 below.

**Table 6: Vacant positions for senior managers**

Position	Vacant positions as at year-end			Movement description
	2011-12	2012-13	2013-14	
Municipal Managers	21%	16%	12%	The rate decreased by 5 percentage points (or 23.8%) in 2012-13 and by further 4 percentage points in 2013-14
Chief Financial Officers	23%	27%	13%	The rate increased by 4 percentage points (or 17.4%) in 2012-13 but decreased by 14 percentage points in 2013-14
Heads of Supply Chain Management units	21%	31%	24%	The rate increased by 10 percentage points in 2012-13 but decreased by 7 percentage points in 2013-14

Source: Ramutsheli and Janse van Rensburg (2015:110).

The above results indicate that while the vacancy rates fluctuate for all three of these key managerial positions, there is no material improvement in the situations in the longer term. Furthermore, the reports indicate a high staff turnover rate amongst municipal managers, chief executive officers, chief financial officers and heads of supply chain management units. The incumbents occupied these positions for an average period of just less than two years (AGSA, 2014:58).

This high turnover rate also plays a part in increasing the vacancy rate of these positions – and complying with statutory recruiting procedures adds many months to the turnaround time. Operating at a high vacancy rate may also have a negative impact on the efficient and effective achievement of municipal objectives, as some objectives (tasks/projects) may not have dedicated officials managing them. In addition, vacancies inevitably increase the workloads of the remaining staff, a situation that usually accelerates staff turnover and skills loss due to these often-extended periods of excessive workloads (AGSA, 2014:59).

The AGSA’s reports also identified the number of senior managers who had been appointed but who did not have the prescribed qualifications for these positions (AGSA 2013a:31; AGSA 2014:60). The details are summarised in Table 7 below.

**Table 7: Senior managers appointed without proper qualification**

Position	Number of senior managers appointed without being in possession of prescribed qualifications		Increase percentage
	2011-12	2012-13	
Municipal Managers	10	30	300%
Chief Financial Officers	19	32	168%
Heads of Supply Chain Management units	16	39	244%

Source: Ramutsheli and Janse van Rensburg (2015:111)

One of the reasons, “identified as a contributing factor to the skills shortages, is the fact that senior local government appointments seem to be based on whether the appointees support the political direction of the government or ruling party, and not necessarily on their qualifications, skills and experience” (Kanyane, 2006:116; SALGA, 2010; Deloitte, 2012:3). “There seems to be politically motivated interferences in the recruitment processes of the local government sphere, manifesting as a disregard for the candidate’s technical competence” (COGTA, 2009:66).

In addition, the government, in general, “is faced with a problem of accelerated staff mobility where, after just one year in a position, an employee is promoted to a higher

position. Such employees are, therefore, not provided with an opportunity to deepen and broaden their skills in anticipation of later promotion to higher positions” (Draai and Oshoniyi, 2013:870). This ultimately results in “the managerial field being one of the areas in the local government where there is a significant skills shortage” (Draai and Oshoniyi, 2013:871).

As indicated in the above explanation, staffing issues remain a challenge and slow down efforts to resolve audit recommendations. This view is also demonstrated by the AGSA noting that there is an inadequate management of vacancies within local government. With that in mind, the study argues that staffing issues remains a challenge for municipalities in South Africa.

#### **4.6 Challenges facing the office of the Auditor-General South Africa**

As stated in chapter one, the AGSA is significant state organization that exists to toughen constitutional democracy and to promote financial accountability in all spheres of government. The AG audits and reports on the financial statements and financial management of government departments and institutions in all the three spheres of government as stated in the Constitution. However, in carrying out its constitutional mandate of ensuring public financial accountability, the office of the AGSA encounters a number of challenges which are discussed below in to detail.

##### **4.6.1 Lack of authority to ensure audit recommendations are implemented**

The first challenge facing the AGSA is that it lacks sufficient authority to ensure that audit findings and recommendations are acted on. Erasmus and Visser (2002:46) argue that “it is important to note that the Auditor-General’s authority ends with the report and recommendations made to Parliament on each audited department”. The AG “has no legal authority to prosecute or dispense disciplinary action; this is left to other public institutions such as the Director of Public Prosecutors and the Public Protector” (Erasmus and Visser, 2002:46).

Van der Waldt, Van Niekerk, Doyle, Knipe, and du Toit (2002:273) provide that “the office of AG has in the last years proved to be quite effective in exposing corruption and the unaccountable manner in which government resources are used.” Unfortunately, “the office experiences a lack of authority to ensure that the executive acts on the recommendations of the AG” (Van der Waldt et al., 2002:273).

While the AG provides reports and recommendations to the legislative body, “these reports are rarely debated in Parliament” (Van der Waldt et al., 2002:273). The lack of



power and authority to enforce recommendations is a major challenge to the functioning of the office of the AG; thus, resulting in other resolutions aimed at improving financial accountability not being implemented. Although the AG's annual reports offer distressing insights into weak governmental financial systems, the AG can only make recommendations.

From an operational standpoint, local political and leadership dynamics hinder the work of the office of the AG. For instance, the AGSA (2011b:13) provides that the reasons for slow progress towards clean audits in the municipalities can be found in the fact that around half of the political leaders at municipal level have not been responsive to the messages of the AGSA. Operation clean audit was launched by government in 2009 to address the poor audit outcomes of local government in the country (AGSA, 2011b:13). The AGSA (2011b:13) provides that, "without a positive and committed reaction from mayors and councillors, opportunities to build a sustainable culture of accountability at municipal level remain limited". The AGSA (2011b:26) further argues that "political instability in some municipalities diverts the attention of the council away from financial management and its oversight role".

The AGSA (2011b:31) also provides that, "the leadership did not support governance structures in order to strengthen control environments. In some cases, these structures complied with the legislative requirements, however, information was not always provided to internal audit units to enable them to conduct their audits. Internal audits reports were not responded to at all or were responded to too late for appropriate actions to be implemented, while recommendations were not implemented, resulting in repeat findings during follow up audits." "The political leadership's will to improve audit outcomes at some municipalities is not evident and the assistance provided is therefore not bearing fruit" (AGSA, 2011b:72).

According to the AGSA (2011b:31) "all success stories are based on the leadership of auditees implementing three elements, namely a leadership tone depicting a willingness to accept accountability for financial management throughout the financial year, creating a control environment that is conducive to accountability and oversight and decisive action plans with clear time frames to address the root causes of continuous qualifications and the continuous monitoring". Unsurprisingly, "these very same best practices that form the foundation for the move to clean administration are not found in the auditees that were qualified" (AGSA, 2011b:31). According to the RSA (1996:24) "the lack of oversight by the municipal leadership and the provincial

Corporate Governance and Traditional Affairs is one of the findings in the audit outcome reports”.

The AGSA indicated that experience has taught them that “when the country’s political leadership sets the right tone and acts on AG’s audit findings and recommendations, the results tend to be positive hence the emphasis on the key objective of visibility of leadership in the AG’s strategic plan” (Parliament, 2012:24). To this end, lack of adequate monitoring and follow up of audit findings is a major challenge affecting the work of the AGSA. Control over public funds is not effective if audit queries and recommendations are not followed up by parliament and acted on by the executive.

#### **4.6.2 Institutional challenges**

Among many key institutional challenges faced by the office of the AG in the past years have been the following, “filling significant vacancies within the audit environment, strengthening the leadership focus on operational and strategic focus areas, improving the operating environment and positioning the AG as an example of accurate and transparent reporting on both qualitative and quantitative aspects of its work” (AGSA 2008: 26). The AGSA (2008:26) argues that, “we continue to be inspired by the core challenge of identifying good talent and strive to nurture and grow our people internally as we grapple with the key vacancy challenges”.

#### **4.6.3 Retaining of staff**

According to the AGSA (2009:9) “attracting and retaining sufficient qualified skilled staff is becoming increasingly difficult for the AGSA given the scarcity of accounting and auditing professionals in South Africa”. Thus, the AG operates in an environment where skills are scarce and there is high mobility among professionals with those required skills. Staff retention is a major challenge for the office of the AG, as was clear from the high staff turnover in 2007-2008 (AGSA, 2008:47). During this period the AG achieved an average labour turnover rate of 20% which was well above the financial service sector (including audit firms) average turnover of 16% (AGSA, 2008:47).

To build the AG’s auditing and accounting skill base, which directly affects its mandate, the organization has for some time been investing in Trainee Accountant Scheme (TA Scheme) (AGSA, 2009:9). Recruitment for the TA scheme which also addresses employment equity requirements is now being driven in conjunction with an improved retention strategy (AGSA, 2009:10). More so, the AG started looking offshore for auditing skills to augment its capacity (AG, 2009:10). According to the AG (2009a: 10), while some degree of outsourcing is a necessity considering the workload of the AG,

the current vacancy rate is counterproductive. It compels the organization to draw disproportionately on outsourced skills, which adversely affects cash flow management and financial sustainability of the institution (AGSA, 2009:10).

#### **4.6.4 The cost of auditing**

Another challenge threatening the work of the office of the AG is the cost of auditing. The cost of auditing to the government is driven by a combination of factors, those which are controllable and those which are not (AGSA, 2008:31). The factors over which the AG has significant control, and which drive the cost of auditing include the following:

- the span of control within the audit business units and audit teams;
- the ratio between work performed by the AG's own staff (own hours) and that contracted out to private audit firms (contract work);
- the recovery of time ratio of individuals within the audit teams and
- the tariff structure for own staff and those of private audit firms and the operational efficiency of the audit methods and administration systems used by the AG (AGSA, 2008: 31).

The largely uncontrollable factors include the scope, size and complexity of the entity being audited, the inherent risks relating to the nature of activities of the entity and the maturity of financial management capability within the entity (AGSA, 2008: 31). All these factors provide challenges and threaten the work of the office of the Auditor-General.

The AGSA (2009:9) states that "another ongoing challenge is the need for continuous improvement of the AG's business processes to ensure that they are efficient and cost effective and support effective risk management and decision making. "According to the AGSA (2008:31), the total cost of auditing increased from R893, 8 million in 2006–2007 to R1 109 million in 2007–2008. This increase is argued to have exceeded the 2007–2008 budget by R95, 7 million or 9, 4% (AGSA, 2008:31).

Another factor that contributes to increase in cost of auditing is the increase in contract work. Contract work increased by 67% as a result of the actual audit staff vacancies and staff turnover being higher than anticipated (AGSA, 2008:32). The contracting out strategy assists the AG in managing workload during peak periods and limits idle time during low periods. The additional contract work should also be viewed in the context of the staff turnover and the challenge of attracting and retaining qualified candidates in a highly competitive market (AGSA, 2008:32). Furthermore, the AG provides that

tariffs increased by 1% due to alignment with market-related salaries, additional overtime and premium paid for temporary staff (AGSA, 2008:32). As a result, the cost of auditing continues to be a major challenge that threatens the work of the office of the Auditor-General.

#### **4.7 Conclusion**

To sum up, this chapter presented the factors influencing the effective implementation of audit recommendations given by the AG. And it was found that audit recommendations are not implemented as a result of financial constraints, staffing issues, complex issues, non-compliance, non-feasible recommendations made by auditors as well as management's ignorance as to how their organizations can be affected as result of non-implementation of audit recommendations. This chapter also provided challenges faced by the management in implementing audit recommendations, these challenges include corruption, quality of recommendations and resource and time constraints.

The chapter also provided challenges encountered by the AGSA in fulfilling its constitutional mandate, which includes lack of authority, retention of staff, institutional problems and cost of auditing. However, theories formerly established concerning the area under study were analysed and discussed to create a foundation for this chapter. Under this chapter the importance of audit reports is briefly described, outlining the structure of the audit report in terms of engagement's objectives and scope as well as applicable conclusions, recommendations, action plan and internal auditor's overall opinion. This chapter also presented possible scenarios in an attempt to examine whether the discussed factors are also applicable to the South African municipalities.

## CHAPTER FIVE

### STRATEGIES TO ENHANCE THE EFFECTIVE IMPLEMENTATION OF AUDIT RECOMMENDATIONS

#### 5.1 Introduction

The benefit from AGSA is not in the recommendations made, but in how well they are implemented. The effectiveness thereof can be measured by the improvements it is able to bring to the organisation. Thus, an AGSA basic objective amongst others is to have their work to make a difference. On that note, this chapter focuses on ideal measures that should be taken by the AGSA to enforce the implementation of audit general recommendations in the public institutions. These measures are of importance as they are not addressed in the AGSA reports.

The following strategies have been identified and discussed in other countries other than South Africa, and this study argues that if they are effectively addressed in the South African context they will resolve the issues around audit recommendations in the local government of South Africa. Though, these strategies have strengths and weaknesses, they are identified as remedies that if effectively employed can improve the implementation of audit recommendations in South African municipalities. This chapter will also attempt to highlight and identify possible measures the AGSA put forward to deal with the challenges faced in implementing audit recommendations in the local government. Lastly this chapter will provide mechanisms for effective follow-up audit and explain how these mechanisms can positively influence the implementation of audit recommendations. Finally, this chapter will provide a summary of all-important aspects discussed.

#### 5.2 Establishment of ideal methods to implement the recommendations

Audit findings and recommendations would not serve much purpose unless management is committed to implement them. It is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005:12) and the management of an organisation is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening public auditing is vital to audit effectiveness.

The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to

the benefit of audit effectiveness. Further, management retains the authority to improve the organisational setting and influence the auditee towards a positive effect on audit effectiveness, which in turn, benefits audit quality. When a recommendation is made to an organisation, its management is basically responsible for implementing it. But auditors can do a great deal to improve the likelihood that a recommendation will be appropriately implemented. Auditors get more action and better results from their audit work through the following means below identified by the (US Government Accounting Office, 2013:45).

### **5.2.1 Establishment of register of internal and external audit findings**

The Internal control within the departments should establish a register of all Internal and External Audit findings. The register should be populated with amongst other information, the agreed action plans, due date and the responsible official to ensure implementation of each action plan. The Internal Control should apply pressure by performing regular spot checks in an effort to obtain progress of the implementation of action plans. Such progress or lack thereof should be reported timely to the Accounting Officer after which Internal Audit should conduct follow-up audits to ascertain that appropriate action is taken on reported audit findings. This monitoring process should be undertaken upon the due date of the agreed action plan. This approach is also emphasised by (Berber, Pasula, Radosevic, and Ikonov, 2012:414).

If no action has been taken even after the follow-up audit has been taken, the audit committee should consider implementing a more systematic process in discharging its responsibilities. The management checklist is one approach the Audit Committee can adopt in an effort to ensure that audit recommendations are implemented. The checklist should consist of a series of questions that management is required to answer and submit to the Audit Committee to provide assurance that appropriate action will be undertaken to reduce audit findings (Public Sector Audit Committee, 2011:231).

Therefore, the study argues that to resolve the issues around audit recommendations in the local government of South Africa, there should be an establishment of register of internal and external audit findings across the municipalities.

### **5.2.2 Regular progress checks follow up and monitoring to find out whether the recommendations are being implemented**

Recommendation monitoring is an ongoing responsibility and the status of open recommendations should be determined on a regularly scheduled basis. According to

Aikins (2012:65) monitoring and follow up systems can be sophisticated or rather simple depending on a number of factors including size and complexity of the audit client organization. Zahran, Chulkov and Inomata, (2010:54) state that follow up systems in place for implementing audit recommendations vary in terms of refinement and effectiveness since only a few organizations have implemented on line systems. However, Daugherty, Dickins, Hatfield and Higgs (2012:56) also argues that it is the Audit firm's or organisation responsibility to be clear that audit follow up is a significant and valued activity and audit staff should not be made to believe that follow up time must be borrowed from other activities considered more significant.

Aikins (2012:45) writes that the follow-up activity performed by professionals is a process by which they determine the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others.

According to Aikins (2012:45), a follow-up process should be established to help provide reasonable assurance that each review conducted by professionals provides optimal benefit to the enterprise by requiring that agreed-on outcomes arising from reviews are implemented in accordance with management undertakings or that management recognizes and acknowledges the risk of delaying or not implementing proposed outcomes and/or recommendations.

In South Africa, PSAM was established as an independent research project at Rhodes University in 1999. It initially took on the task of tracking actions taken by the provincial administration in response to reported cases of corruption. A number of these cases had originally been identified in AG's reports. PSAM collected this information in a database that was made available to the public on its website. The database shows that effective corrective action had been taken and there is information that citizens and civil society organisations could use to gauge the commitment of government agencies in combating corruption involving agency members (Khumalo, 2007:43).

Over time, PSAM began to shift its focus to the structural context of weak financial management that was responsible for many of these acts of corruption and maladministration. It began to systematically monitor the compliance of provincial administrative agencies with public finance regulations and administrative directives. This included creating a database of information on the coherence of strategic planning within agencies and their annual and audit reports. In particular, PSAM monitored whether recommendations to improve financial controls made to agencies by the AG

and the legislature's oversight committees were being implemented (Khumalo, 2007:43).

PSAM utilises a wide variety of means to obtain documents pertaining to financial management, maladministration and corruption including, when necessary, using freedom of information provisions. It publicises its findings on a regular basis, including by producing a weekly column (the "Accountability Monitor") in a provincial newspaper. PSAM produces analysis that is geared toward public understanding and specifically designed to engender and support public involvement in governance processes. It endeavours to produce and distribute its analysis of public expenditure management in a manner timed to coincide with the budgeting and oversight cycle in order to influence budget and spending priorities and improve service delivery (Khumalo, 2007:44).

This study is of the view that by establishing a regular progress checks follow up and monitoring systems, municipalities will be encouraging and force management to take into consideration the findings identified by the AGSA.

### **5.2.3 Establishing and ensuring a vibrant Audit Committee**

According to Ibrahim, Baker, and Doyle (2014:15) this is a committee that is responsible for the following up of the implementation of audit recommendations of the Ministries and Government departments and bodies to determine the extent to which they have responded to the AG's recommendations. Ibrahim et al. (2014:176) argues that implementation of audit committee recommendations is one measure of the committee's usefulness and effectiveness.

In the most governmental bodies (77%) have established audit committees as prescribed by legislation and recommended by the King Report III. This agrees with findings by Sigidi (2012:14) that 91% of municipalities have established audit committees. Despite the availability of the audit committees, it would seem that they were not performing their work properly. Van des Nest (2008:176) contends that although many audit committees exist in the South African public sector, the degree to which they are effective varies. Indeed, the current study found that a number of audit committees in the public sector are dysfunctional. The audit committee can strengthen the organisation's ability to identify and assess risks.

As reflected in Table 8 a study by Sigidi (2012:15) indicates 254 (91%) out of 278 South African municipalities had established audit committees by March 2012 (Ngoepe, 2008:31-47).



**Table 8: Audit committee establishment in municipalities**

Province	Total number of municipalities	Number of municipalities with audit committees
Eastern Cape	45	43 (96%)
Free State	24	19 (79%)
Gauteng	12	12 (100%)
KwaZulu-Natal	61	59 (97%)
Limpopo	30	29 (97%)
Mpumalanga	21	20 (95%)
Northern Cape	32	24 (75%)
North West	23	20 (87%)
Western Cape	30	28 (93%)
<b>Total</b>	<b>278</b>	<b>254 (91%)</b>

Source: Sigidi (2012:15)

Van des Nest (2006:183) argues that “Audit committees are required to continuously review their oversight role in an effort to maintain their effectiveness”. The audit committee charter provides for audit committees’ performance to be evaluated on an annual basis and for such evaluation to include self-assessment, and evaluation by management and internal and external auditors (Van des Nest, 2006:183). The evaluation of audit committees’ function needs to be done to determine if it is discharging its role in line with its terms of reference in the charter (Deloitte 2011:48). Deloitte (2011:48) further argues that “feedback from the evaluation is very important, as it can “identify areas which need improvement by audit committees and ensures adequate alignment with the charter”. The charter refers to a formal document that defines audit committee’s activities, purpose, authority and responsibility (NSW Government, 2010:49).

According to Young and Thyil (2008:12), an effective audit committee evaluation can yield the following benefits:

- prioritisation of meeting agendas and restructuring of meetings to focus on critical issues;
- reengineering of audit committee processes for alignment with the organisation’s current and future activities, so that future challenges can be addressed effectively (Chaka, 2013:91);
- creating an opportunity to revisit the timing, level of detail and quality of materials provided by management;

- Identification of areas for continuing development to improve effective functioning of the committee (Chaka, 2013:91) and
- raising awareness of the need for sound risk management and internal control, and the implementation of recommendations by internal and external audit (Chaka, 2013:91).

On the basis of the discussion in this section, it is apparent that the complexities of the local government operations and an increasing need for effective leadership for management of its resources requires local government to have an effective governance system in place to ensure that audit recommendations are effectively implemented (Deloitte, 2011:5). Therefore, it is essential for audit committees in local government to demonstrate the “worth” of following up audit recommendations are implemented (Chaka, 2013:83).

#### **5.2.4 Improving the quality the AGSA’s recommendations/reporting**

Whether audit results are achieved depends on the quality of the recommendation. A recommendation that is not convincing won't be implemented. A recommendation that does not correct the basic cause of a deficiency may not achieve the intended result.

Audit reports must be accurate, objective, clear, concise, constructive, complete and timely. The reported findings must be free from error, supported by the evidence and the result of the objective evaluation of observations made during fieldwork. The report must be easy to understand, using language the client will be familiar with and giving users exactly what they need – significant and relevant information on internal control, risk management and governance processes. Reports are required to be concise, must avoid repetition or any unnecessary details. The report must therefore be helpful to the client and be able to lead to improvements in the area under review. The report must contain all work in support of the internal audit objectives, the scope of the audit and recommendations made and must therefore not exclude essential information. During the planning phase of the audit, it is good practice to provide a timeline within which the internal audit will be completed so that the client is informed on when to expect the final report (Chaka, 2013:63).

#### **5.3 Mechanism for effective follow-up audit**

The objectives of follow-up audit are basically to help augment the effectiveness of audit report; assisting legislature; evaluating the AGSA performance and provide input the enhancement policy with regards to performance audit. For example, in the

performance audit context, principally, the audit stage comprises five phases which are planning, preparation, execution, reporting, and follow-up. In particular, the follow-up audit also provide feedback to the AGSA as well as the government on performance audit effectiveness and which in turn help in embracing public sector management (AGSA, 2012:131).

However, it must be made known, that the outcomes of follow-up initiatives have not been uniformly positive, as problems have often been experienced. For instance, some academic literature highlight difficulties or problems associated with follow-up audits in terms of availability of resources such as additional timing; cost and staff will continuously be an issue (Irawan, 2014:56). In addition to that, management deficiency in terms of planning the follow-up audit; guidance; auditees' resistance or even the lack of auditors' effort may likely hinder the follow-up audit uptake.

In South African context, *Standard 2500, Monitoring Progress*, creates the responsibility for internal audits to conduct follow-up activities. This standard states that the "CAE must establish and maintain a system to monitor the disposition of results communicated to management". The rationale behind follow-up activities is the fact original internal audit reports had the possible effect of increasing controls, risk management and governance process. However, this would only eventuate if management took corrective action (IIA 2010a:121). Standard 2500 thus sets the ground for internal audit to assist in this matter by continuously keeping the users up to date on the status of internal control, risk management and governance process previously communicated.

Based on the above example and arguments the study argues that follow-up audit can influence the management positively to implement audit recommendations as wells assist in the effectiveness of audit report and evaluating the AGSA performance. Thus, other mechanisms for effective follow-up audit are discuss below;

### **5.3.1 Increasing the influence of Parliament and political oversight**

Auditors, consultants, Parliament and members of Public Account Committee (PAC) are positive about the performance audit whom vested interest on its practice (Funnell and Wade 2012). These authors argued that the most critical external stakeholder in determining the nature and role of performance audit is the Parliament represented by the elected political parties. Performance audit report used by the Parliament and its relevant commission to hold the ministries to account for unsatisfactory performance, management practice or lack of compliance in its policy area (Laegreid, 2013:152).

Since the audited organization faces formal pressures from an organization upon which they are dependent such as Parliament, the impact of the SAI's reports can differ depending on Parliament influences (Reichborn-Kjennerud, 2014:207). According to this author, ministry tend to be unresponsive toward audit recommendation implementation as result of disagreement to the report's audit findings and recommendation. Nevertheless, in spite of this unresponsiveness exerted by audited agencies at the ministerial level, decisions and influence of Parliament can make the ministry to comply. (Reichborn-Kjennerud, 2014:208) agreed that influence of Parliament has an impact in dealing with unresolved performance audit issues during the follow-up audit.

The following hypothesis is of the view that as a result of Parliament influence on the unresolved performance audit issues, the more the auditors feel accountable to perform follow-up audit, so as to achieve its effectiveness. For instance, the legislative framework cited above, revealed that the AGSA has the power to audit and report, while Parliament has the power to enforce corrective action. The lesson of this revelation is: that there is not much that the AGSA can achieve without a high level of cooperation between itself and Parliament – if audit performance is to be effectively, and appreciably improved in South Africa. Thus, the influence of the parliament is also essential in encouraging for effective implementation of audit recommendations in the South African Municipalities.

### **5.3.2 Increasing the influence of Public Account Committee (PAC)**

Relationship between performance auditing and various public-sector stakeholder such as PAC; Parliament and media claimed to be an important indication on how public and political interference affect the performance audit (Nath, 2010:127). According to Bringselius (2014:321), without assigning Public Accounts Committee (PAC) to respond or even to receive the SAI reports, it will most likely lead to a situation where many reports were not well addresses without action or even debated. This author finding indicate as if, without the existence of PAC the audit recommendation was not follow up and left unattended. Besides that, the distresses raised and recommendations in the AG report should be follow up by public servant before the commission to a take charge (Brown, 2011:49).

This resulted on this following hypothesis is that the greater the influence from the PAC on unresolved performance audit issues, the more the auditors feel accountable that follow-up audit should be undertaken so as to achieve its effectiveness.

In South Africa, the Public Accounts Committees (PACs) also known as the Standing Committee on Public Accounts (SCOPA) at provincial and national level, and Municipal Public Accounts Committees (MPACs) at local level, are established in order to conduct oversight and hold the executive accountable for their action when spending public funds. This implies that the PACs have critical role to play in overseeing the financial and non-financial performance of government departments and state-owned entities. The intentions for the PAC, when executing its function, is to ensure that there is effective, efficient and economical use of public funds; promote transparency and accountability in the use of public resources; ensure that public funds are spent in order to benefit the public; and to ensure that quality the audit recommendations are implemented effectively by the management (Brown, 2011:50).

### **5.3.3 Influence of media**

Media can be one of the sources of influence that carry weight on follow-up audit process as a key channel and by putting pressure on auditees to speed of their corrective action. Media, in spite of its ultimate role to keep stakeholder informed about the unresolved issues as well as audit recommendation may also put pressure on it to speed up remedy action. Technology has transformed the structure of the public sector. The mass media have dominated the public sector for a century and has the ability to influence public opinion (Pehe, 2012:95). Media made it possible as a communication channel to transmit messages directly to the people (Miguel and Rostam, 2013:342) and this often involves efforts to manipulate the public with the help of sensitive issues.

On such a continuum, the following hypothesis is anticipated that the more debate in the media on performance audit issues, the more the auditors will feel accountable that follow-up audit should be undertaken so as to achieve its effectiveness.

Santucci (2005:38) is of the opinion that traditional basic communication methods prescribed by the First World, that is, mass media channels, are not necessarily applicable to the development of Third World countries. The view is that the communication process in development must be led by the needs of the community and not by technology, because the goal is to meet real and accurately defined needs based on the values of all the participants in the communication process.

These opinions were to some extent substantiated by the findings in the reviewed literature which showed that mass media methods are not necessarily the channels of

choice or most commonly used communication channels in the South African municipalities (World Wide Worx, 2013:45).

However, radio in the form of the local community station, is regarded as an accessible and effective communication media because of its huge listenership and because it uses the local language. For instance, the SABC radio stations, namely Ikwewezi (Ndebele) and Thobela FM (Sepedi), are used when there is a need to communicate messages and interviews with the municipal authorities. National newspapers are mainly used for advertising tenders and similar announcements by the municipality. The municipal website was another communication channel that has recently been developed by the municipality. It was indicated that television is not used as a medium for communicating because it is too expensive (Ndlovu, 2008:71).

In principle the South African government, through local government, endorses and acknowledges the importance of communication that is participatory and democratic in nature as an instrument for social change and sustainable development. Following are some of the laws, policies and strategies that have been developed and adopted in this regard:

- Participatory communication is explained in Chapter 7, Section 152 of the Constitution of the Republic of South Africa (South Africa, 1996), which envisages that local government is democratic and accountable to local communities. It further encourages the involvement of communities in the matters of local government.
- These provisions in the Constitution are further supported by Chapter 2, Section 19 of the Local Government Municipal Structures Act (South Africa, 1998b), which requires municipalities to achieve the objectives set out in the Constitution, and also outlines the participatory systems that should exist in municipalities as a platform for addressing the needs of the communities.
- The White Paper on Local Government (1998a), often referred to as the constitution for local government, visualises a process where communities will be involved in governance matters, including planning, implementation and performance monitoring, and review. It states that communities should be empowered to identify their needs, set performance indicators and targets and thereby hold municipalities accountable for their performance in service delivery.
- The Local Government Municipal Systems Act (South Africa 2000), Chapter 4, calls for municipalities to develop a culture of municipal governance that works

hand-in-hand with formal representatives of government within a system of participatory governance.

- The Local Government Municipal Finance Management Act (South Africa 2003) protects and fosters accountability and transparency on municipal finances and spending. The Act outlines ways in which the community can be informed on and involved in the financial issues and budgetary processes of the municipality.
- The Batho Pele White Paper (DPLG, 2005:15) is the national government's key policy document for transforming public service delivery and is also applicable to the municipal officials. Batho Pele – meaning “People First” – has eight principles that guide government's approach to public service delivery, encourage participation and promote responsive governance.
- The Guidelines for the Establishment and Operation of Municipal Ward Committees provides guidance to municipalities on the establishment of ward committees as a structure responsible for facilitating democracy, participation and structured communication between the municipality and the community (DPLG, 2005:15).

By implication, the policies and legislative framework as outlined above, place municipalities at the forefront of development in South Africa. They also serve as drivers for democratic, participatory development that involves the participation and involvement of the communities. These principles and policies provide a valid and logical foundation on which the media have influence in the implementation of audit recommendations in South African municipalities.

To sum up, the above hypothesis also demonstrates that there is a direct relationship between the mass media and the public in South African local government. The media is an effective actor in publishing audit findings. It is also believed that the publication of audit reports has a role in indirect enforcement to implement audit recommendations. Therefore, the AGSA should create relationship with the existing media in the local government to publish or broadcast a summary that highlight any positive and negative audit recommendations to enhance transparency and so as to discourage misappropriation of resources in public institutions.

#### **5.3.4 Influence of general public (Citizens)**

Recently, DPLG (2005:18) suggested that general public could play an important role by criticizing the result of performance auditing work as they could control the performance auditing activities by expressing their voice about the poor government

performance. On the other hand, citizens or their representatives in particular, can observe how society's resources been used.

Likewise, "citizens have valid privileges regarding the operations of public organizations" (Tanko, 2011). The civil service particularly those at the lower level with diverse political stand should sensitive of the ultimate goal of civil service that supposed to be independent. Moreover, involvement of the general public by creating pressure for sound utilization of public fund by audited organization could have enhanced the effectiveness of audit findings recommendation (DPLG, 2005:19).

Therefore, the following hypothesis is anticipated that the more the general public/citizen become interested on performance audit issues, the more the auditors will feel accountable that follow-up audit should be undertaken so as to achieve its effectiveness. One of the specific tools and approaches for developmental local government in South Africa as described in the White Paper is referred to as "working together with local citizens and partners." It states that "building local democracy is a central role of local government, and municipalities should develop strategies and mechanisms (including, but not limited to, participative planning) to continuously engage with citizens, business and community groups" (DPLG, 2005:18).

According to the White Paper, citizens may participate in local governance in four capacities: (1) as voters; (2) as citizens who, through various stakeholder associations, express their views in policy processes in order to ensure that policies reflect community preferences; (3) as consumers and end-users of government services; and (4) as organised partners involved in the mobilisation of resources for development via businesses, NGOs and CBOs (DPLG, 2005:21).

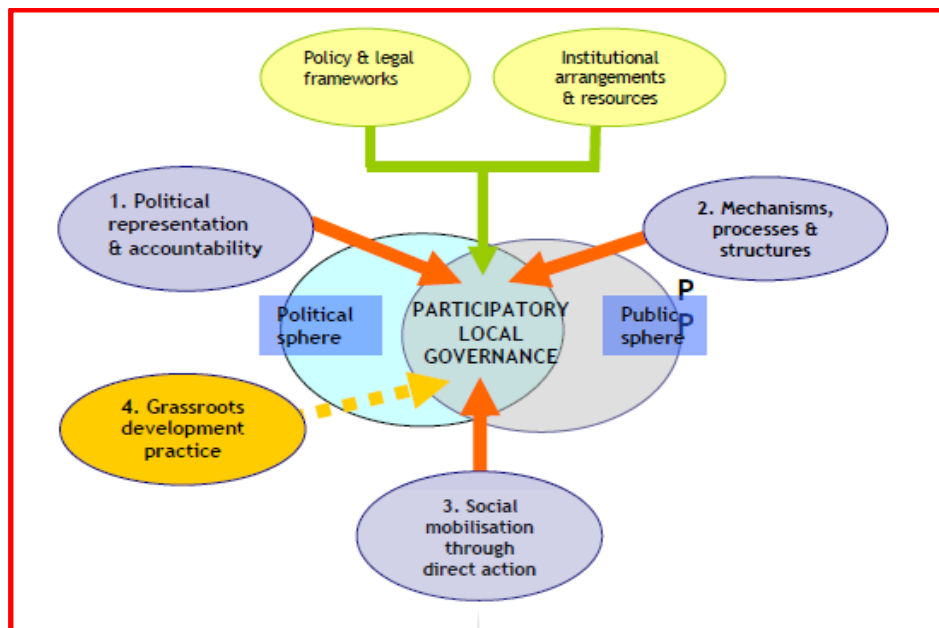
Furthermore, the Local Government: Municipal Systems Act, No. 32 of 2000 devotes chapter 7 to community participation and goes further to mandate municipalities to create mechanisms and procedures and develop strategies to promote it. This is very important as most of the previously disadvantaged communities have low levels of literacy and are ignorant about their rights and responsibilities (Sikhakane, 2008:149). They need to be encouraged to participate and, in the process, holding politicians accountable for their actions and also inaction. Government structures determine, to a large extent, its relationship with civil society (Sikhakane, 2008:150).

The diagram below offers a model for conceptualising the relationship between citizens and the state. Where the two circles in the middle intersect represents the space of



engagement between the political and public spheres (or the local state and civil society).

**Figure 7: Schematic model of participatory local governance**



Source McGee (2002:42)

The intended outcome of this intersection is participatory local governance. The key question becomes how the intensity or effectiveness of this interaction might be improved and/or the extent of it increased. Bringing more civil society representation into the government sphere is one approach; another is to bring more government actors into closer interaction with civil society. What is clear though, is that the capacity and responsiveness of both government and civil society need to be attended to if the benefits of closer engagement are to be reaped. Local governance to prove democratic and socially just, work is needed on both sides of the equation – enabling civil society to exercise voice in local governance processes, while simultaneously strengthening accountability and responsiveness of local government institutions and policies (McGee, 2002:48).

From the above discussion one can deduce, that the community in the South African municipalities could have an influence in the municipal audit performance, as they could control the performance auditing activities by expressing their voice about the poor government performance.

### 5.3.5 Influence of the Key-role players within municipalities

During the follow-up audit, a free flow of information by all relevant actors enable them to voice their concern or stand to ensure performance audit issues are well taken care in terms of corrective as well as preventive action (Nath, 2010:127). In other words, it implies how auditors with the influence of Municipal councillors, Municipal manager, Mayors, Internal audit units, Audit committees, and Offices of the premier participating during the follow-up audit and consequently become one of the accountability mechanism of municipal performance auditing. Thus, this study is of the view that the influence of each actors in the process of follow-up audit can strengthen the effective implementation of audit recommendation within the municipalities.

Moreover, Nath (2010:129) further argues that these actors can also constitute as effective factors of accountability mechanism for effective follow-up audit framework. This approach facilitates identification of a variety of existing actors and highlighting the importance of each of their influence in making the follow-up audit more meaningful and useful for public sector performance improvement. Consequently, it will likely improve public sector image and expectation of the people toward government. Accountability lens are used to discover those actors that dominantly should play their accountable role and has the ability to trigger other to act can be acknowledged.

As discussed earlier municipal leadership style can have a major influence on the effective implementation of audit recommendation in the municipalities. This view is reinforced by Krohmer and Noël (2010:253) as they investigated leadership style within the Big Four audit firms in France. Interestingly, their findings revealed that leadership style are mainly associated with performance of an organisation and that they also essentially guarantee audit quality. They further alluded to the fact that leading by good example is a favoured way to improve audit outcomes and audit quality (Krohmer and Noël, 2010:254).

According to Krohmer and Noël (2010) leadership skills remains the strongest influence in improving the effective implementation of audit recommendation. Moreover , leadership is viewed as a mechanism to enhance accountability. There is a body of evidence to support this view. Nath (200:133) view the relationship between the auditors and the auditee's leadership as the foundation from which to improve financial reporting quality, hence this study also argues that that there is a positive relationship between leadership and audit quality in the local government environment.

Moreover, the AG, in its annual assessments, reveals that it is a lack of accountability on the part of leadership that negatively affects public sector audit quality (AGSA, 2011). Accountability requires that leadership commands (Thompson, 2013), which is a crucial step essential to enhance public confidence. Audit quality is best served when the audit enhances public confidence. In the South African local government environment, audit quality has been a subject of a debate for more than two decades of this democratic government's existence. The debate had been fuelled by the repeated failures of leadership to ensure that the local governments achieve clean audit opinions. And the full implementation of the Municipal Finance Management Act in early 2004 has managed to focus the widespread concern about leadership in local government by virtue of its clear statement of what good management and leadership should look like (Motubatse, 2014:81).

From the above discussion, the study is of the view that, there is a significant positive relationship between leadership quality and audit quality. Given this positive relationship between leadership and audit quality, it could be argued that, on the basis of a good quality audit the users of financial statements can confidently assume the business is being well led and this might as well lead to effective implementation of the audit recommendation.

#### **5.4 Amendments of the Public Audit Act to empower Auditor General role**

The National Assembly (NA) is of the view that amendments to the Public Audit Act of 2004 will empower the (AG) to recover monies lost through financial mismanagement and corruption, and to refer fraud and irregularities to relevant agencies for investigation (RSA, 2016:2). Chair of the (SCAG), Mr Vincent Smith, reiterated the importance of the bill, which he raised in the period when the AG released audit outcomes for local government. Smith stated that;

*"Every cent of taxpayer money must be put to best use – for the benefit of citizens – not for a corrupted few in the public and private sector" (AGSA, 2017:14).*

Smith further emphasised the AG's frustration, that since back from the year 2013 the AG's constant and insistent advice had not been heeded by those charged with governance and oversight regardless of the fact that there is legislation in place such as the PFMA and the MFMA, however, the situation with prudent financial management still left much to be desired (AGSA, 2017:19).

The AG will now be able to make recommendations with remedial action that is binding much like the case with the Public Protector - to recover losses incurred. The AGSA is now of the view that continued mismanagement of taxpayer money can be stopped and will be stopped when harsh consequence management is meted out (AGSA, 2017: 21).

The AG itself can facilitate or initiate forensic or other investigations that must be conducted by relevant agencies such as the Hawks, the police, the Special Investigating Unit and the Public Protector, among others. These agencies will then be required to update Parliament and the AG on the progress of investigations (AGSA, 2017:22).

The AG will also be able to hold municipal officers to account for irregular expenditure. These may be the director generals of departments, as well as the management of boards, who are the primary custodians of public money. The AG can issue a debt certificate to accounting officers which are not compliant with the PFMA or the MFMA. The relevant director general, board or municipal manager will be personally liable to repay funds to the state for poor financial management (AGSA, 2017:23).

The AG will also report to the National Assembly Speaker on the instances of debt certificates issued, so that relevant portfolio committees can demand accountability on the progress of repayment. "All individuals or entities issued a certificate of debt will have the opportunity to make representations as to why the debt certificate must be withdrawn and can seek a review from the courts" (AGSA, 2017:26).

Following the publishing of the latest local government audit findings report of 2016-2017, the AG suggested that the Bill would help halt the deterioration in municipal finances. The AG's report showed that only 33 of the country's 257 municipalities received a clean audit in 2016-2017, compared with 48 the year before. Irregular expenditure rose 75% to R28.4-billion in 2016-2017, up from R16.2-billion the previous year. He further stated that repeated advice and warnings to accounting officers over the past five years had been ignored. Most municipalities failing to act on the Ag's findings and recommendations (AGSA, 2017:27).

Considering the above discussion, the study is of the view that the new bill will also influence most municipalities to take AG's recommendation into consideration and act on them. This is because the new bill is now binding, and if municipal officers continue to ignore AG's findings and audit recommendations, the AG will to take punitive actions against them.

## **5.5 Establishment of Monitoring and Evaluation (M&E) unit to track progress for implementation of audit recommendations**

The factors pertaining implementation of audit recommendations within the municipalities calls for the establishment of M&E Unit in the local government. At a municipal level, a part of M&E functions includes, amongst others, municipalities reporting on their performance to the respective national and provincial government departments, legislature as well as other related local government stakeholders. This means municipalities are supposed to produce credible quarterly, midyear and annual performance information reports that will be used for financial performance review and assessment by the above-mentioned stakeholders (National Treasury, 2015:9).

It is crucial for the institutions in charge of auditing (AGSA) and monitoring and evaluation (DPME) to communicate with each other for the benefit of municipal financial performance. That communication should focus on covering their objectives, approaches and the tools they apply, so as to get the most out of potential synergies. The M&E unit should be seen as a complementary activity to strengthen the implementation of audit recommendations. This is because M&E can provide robust and persuasive audit evidence to support the achievement of audit objectives in the local government (National Treasury, 2015:13).

M&E is a strategy which South African municipalities may use to ascertain if existing recommendations given by the AG's are being implemented as they ought. Furthermore, M&E provide critical information by which to determine the economy, efficiency, and effectiveness of government action and the basis for holding accountable those responsible for the implementing the policies and audit findings at the municipal level. The proper use of M&E at the municipal level can save audit time and money (2008:21).

Furthermore, section 71 of the MFMA requires municipalities to submit, on a monthly basis, information regarding actual expenditure and revenue collection. As such, these reports capture information regarding:

- actual revenue by source; actual borrowings;
- actual capital and operational expenditure by vote;
- allocations received; actual expenditure on allocations; and
- explanations for material variances (Presidency, 2008:22).

Presidency (2008:22) further states that in all instances, the actual expenditure and revenue must be compared with the amounts projected in the municipal budget. This provides municipalities and other stakeholders with the needed information to monitor municipal expenditure and revenue collection. It is in this context that the study suggests that M&E unit is a relevant approach to strengthen the implementation of audit findings in the South African municipalities.

Currently, financial legislations and regulations, namely the MFMA and Treasury regulations are the key instruments used by the AG's office and Local governments to drive the creation of M&E systems in municipalities. The focus of the current M&E activities is compliance rather than outcomes and impacts evaluation which is achieved through the regular submission of financial reports to the office of the Auditor-General, National and Provincial Governments (National Treasury, 2015:13).

Through M&E unit, the AGSA will be able to assess the performance of the municipality based on what was agreed upon in terms of plans or priorities (AGSA, 2010:14). Consequently, this will lead to the achievement of the long-term results of the local government from the Result-Based M&E (National Treasury, 2015:16).

## 5.6 Conclusion

To summarise, as indicated in this chapter the benefits of audit recommendations from AGSA is mainly based on how well they are implemented. The effectiveness thereof can be measured by the improvements it is able to bring to the organisation. Nonetheless, this chapter studied the ideal measures that should be taken by the AGSA to enforce the implementation of audit general recommendations in the public institutions. This measure involves establishment of register of internal and external audit findings; regular progress checks follow up and monitoring; establishing and ensuring a vibrant audit committee; and quality recommendations/reporting. These measures are of importance as they are not addressed in the AGSA reports.

As noted in this chapter, the following strategies have been identified and discussed in other countries other South Africa municipalities, and this study argues that if they are effectively addressed in the South African context they will deal with issues of audit recommendations in the local government of government of South Africa. It is emphasised in the chapter that these strategies have strengths and weaknesses; however, they are remedies that can be employed to improve the implementation of audit recommendations in South African municipalities. This chapter also acknowledged possible measures and possibilities identified by the AGSA to deal with

the challenges faced in implementing audit recommendations in South African context. Lastly this chapter provided mechanisms for effective follow-up audit and explain how these mechanisms can positively influence the implementation of audit recommendations. These mechanisms for effective follow-up audit involve the following; Influence of Parliament; Influence of Public Account Committee (PAC); influence of media; influence of general public (citizens).



## CHAPTER SIX

### SYNTHESIS, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 6.1 Introduction

The principal aim of this study was to provide an assessment of factors that influences implementation of audit recommendations in the South African municipalities. To deal with these dilemmas, the researcher focused on the theoretical and pragmatic description and analysis of a variety of dimensions that lead to challenges of implementing audit recommendations, with reference to the South African municipalities. The motivation for the study was based on the lessons that can be learnt by the local government management and leadership. Thus, under this part of the study, the summary of finding, conclusions and the recommendations are presented. Based on the analysis made in previous chapters, the following summary, conclusions and recommendations are made on implementation of audit recommendation in South African municipalities.

The central research question for this minor-dissertation was: What are the factors influencing the implementation of the Auditor-General's recommendations in South African municipalities?

Subsequent to the main research question, the following research objectives were developed to provide the researcher with satisfactory answers used to address the main research question. These research objectives were as follows:

- Discuss the contextual and legislative framework governing the AGSA functions in South Africa.
- Discuss how evaluation and auditing can work together to improve municipal performance.
- Discuss the purpose of auditor general recommendations in public institutions?
- Explain the state of the implementation of audit recommendations in South African municipalities.
- Identify and discuss factors influencing the effective implementation of audit recommendations in South African municipalities.
- Identify and discuss strategies that can be employed to enhance the effective implementation of audit recommendations in the municipalities.



## 6.2 Synthesis of the Chapters

**Chapter One** of this research essay provided the general orientation and background of the entire minor-dissertation. The researcher then provided the rationale and problem statement for the study. Subsequently, the main research question, subsidiary questions and study objectives were respectively described, and central concepts which appeared throughout this minor-dissertation were also dealt with. The chapter also provided an explanation of the qualitative research methodology and all the applicable research and data collection methods used in this minor-dissertation. Finally, the chapter presented a short summary of the entire study with a brief explanation of the subsequent chapters.

In **Chapter Two** presented a more extensive background for the following chapters. The researcher systematically presented the theoretic, contextual and legislation framework for audit matters, with a focus of auditing in the local sphere of government. Furthermore, the chapter provided a review of the literature on auditing process. Under this chapter, comprehensive reviews of available known existing literatures pertinent to the topic under consideration are made. This review included published texts, research works, scholarly articles, research journals, policy documents, audit reports and other publications, among others. Comparative analysis is then made, and conclusions drawn thereafter. This chapter further examined the auditing process at a global level, African level as well in the South African context. The conceptual framework and contextual framework are specified on this section. Moreover, the theoretical and legislative framework of auditing process is also provided on this chapter. Additionally, the importance of auditing in a public sector and local government sector is described and explained in this chapter. Ultimately, this section discovered how auditing and evaluation can work together to enhance municipal performance.

**Chapter Three** presented an overview of the South African municipal system, how it came to be in its present form and long with the principles of local government. Moreover, under this chapter the challenges that are facing by the South African municipalities are explored. It was found that in Africa, municipalities are still struggling to obtain clean audits and that there are accountability deficiencies in municipalities. The deficiencies emanated from the internal control, risk, and governance weaknesses. This chapter also examined the municipal financial system and the audit system in local government and it was found that South Africa has introduced an extra auditing standard, requiring municipalities to also meet compliance requirements and

predetermined objectives before they can achieve a 'clean' audit. However, these extra regulations have significantly contributed to the generally poor national audit results – 299 of the 338 municipalities audited in 2012/2013 were not awarded clean audit outcomes due to findings around their predetermined objectives.

This chapter also considered the significance of implementing audit recommendations in the public sector. Lastly, this chapter examined the state of implementation of audit recommendations in the South African municipal level, this is done so by reviewing the AGSA reports on local government from the 2010/11 to 2016/17. It was found that from the reviewed and analysis of the AGSA reports, the Implementation of the AGSA's recommendations seems to be a major problem in the local South African municipalities. This is also an indication that those charged with governance are not taking satisfactory measures to amend identified leakages and risks in their respective municipalities.

**Chapter Four** presented the factors influencing the effective implementation of audit recommendations given by the AG. And it was found that audit recommendations are not implemented as a result of financial constraints, staffing issues, complex issues, non-feasible recommendations made by auditors as well as management's ignorance as to how their organizations can be affected as result of non-implementation of audit recommendations. This chapter also provided challenges faced by the management in implementing audit recommendations, these challenges include corruption, quality of recommendations and resource and time constraints.

The chapter also provided challenges faced by the AGSA in executing its duties in the local sphere of government, these challenges are classified as, political challenges, institutional challenges, staff retention and the costing of auditing. However, theories formerly established concerning the area under study were analysed and discussed to create a foundation for this chapter. Under this chapter the importance of audit reports is briefly described, outlining the structure of the audit report in terms of engagement's objectives and scope as well as applicable conclusions, recommendations, action plan and internal auditor's overall opinion. This chapter also presented possible scenarios in an attempt to examine whether the discussed factors are also applicable to the South African municipalities.

**Chapter Five** focused on the ideal measures to enforce the implementation of audit general recommendations. In this chapter it is indicated that the benefits of audit recommendations from AGSA is mainly based on how well they are implemented. The effectiveness thereof can be measured by the improvements it is able to bring to the

organisation. Nonetheless, this chapter studied the ideal measures that should be taken by the AGSA to enforce the implementation of audit general recommendations in the public institutions. This measure involves establishment of monitoring and evaluation unit; regular progress checks follow up and monitoring; establishing and ensuring a vibrant audit committee; and amendment of the Public Audit Act to strengthen the AGSA authority. These measures are of importance as they are not addressed in the AGSA reports.

As noted in this chapter, the following strategies have been identified and discussed in other countries other South Africa municipalities, and this study argues that if they are effectively addressed in the South African context they will deal with issues of audit recommendations in the local government of government of South Africa. It is emphasized in the chapter that these strategies have strength and weaknesses; however, they are remedies that can be employed to improve the implementation of audit recommendations in South African municipalities. This chapter also acknowledged possible measures and possibilities identified by the AGSA to deal with the challenges faced in implementing audit recommendations in South African context. Lastly this chapter will be provided mechanisms for effective follow-up audit and explain how these mechanisms can positively influence the implementation of audit recommendations. These mechanisms for effective follow-up audit involve the following; Influence of Parliament; Influence of Public Account Committee (PAC); Influence of Media; Influence of General Public (Citizens).

### **6.3 Summary of major findings**

The study scrutinised the reports from the AGSA which showed a distinction between matters reported for the first time and matters reported in both current and previous years. Out of the seven sampled reports from the financial years of 2010/11- 2016/17, there is a repetition of recommendations given previously. Although there were many reasons as to why those recommendations were not being affected, it is important for departments to ensure that they implement all the AG's recommendations.

Findings disclose that most auditors are not well qualified to perform their audit tasks. It is a major predicament when auditees feel that auditors are under qualified. The study is of the view that it compromises the effectiveness of the AG's when auditees believes that audit staff is not competent enough to carry out their task. The study's analysis is that this might affect AGSA audit recommendations to be taken seriously.

The study has found out that within the local sphere of government continuous follow-up actions are not effectively undertaken by the municipal officials to check whether audit recommendations are implemented unsatisfactory or suitably. An outcome of this study points toward that the accountability to follow-up audit recommendation not only become single responsibility of local government. AGSA can take an active role by continually strive to improve the competencies. These roles will in turn advance the quality of financial statements in the South African municipalities.

Results disclose that the management (leaders) within the municipal level are not discharging their responsibilities in implementing audit recommendations given by the AGSA. Findings extrapolated from the AGSA reports as shown in (table 1) indicate that negative findings in the South African municipalities tend to resurface consistently, year after year. These recurrences also imply that overall the South African municipalities' struggles to address functional and process issues that are identified by the AGSA before.

The study revealed that, financial constraints, insufficient utilisation of resources and other sources, corruption, staffing issues these are some of the main factors that affect implementation of audit recommendations in the South African municipalities given by the AGSA.

Furthermore, the study has found out that progress report of implementation of audit recommendations, accountability, and monitoring and evaluation systems are not effectively established in the local sphere of government. Thus, the study is of the view that without the establishment of formal audit action monitoring processes in the South African municipalities, and this influence the municipal officials not to commit themselves to respond swiftly to audit's recommendations.

The study has found out that the with the amendment of the Public Audit Act of 2004, the AG has now power to enforce the implementation of audit recommendations and to take corrective actions against those who refuse to implement his recommendations or findings.

## **6.4 Conclusions**

The following section presents, the main points drawn from the study on the implementation of audit recommendations and the critical factors influencing the implementation of audit recommendations in South African municipalities.

- The study concludes that, an inadequate corrective action taken on waste/breach of financial rules and regulations of public institutions encouraged

fraudulent activities and financial irregularities thereby negatively influence the implementation of audit recommendations given by the AGSA.

- Furthermore, inadequate follow up action by auditee AGSA and AC to check whether recommended actions have been implemented has committed the non-implementation of audit recommendations in the South African municipalities' government.
- For audit of any sort to be successful, it needs to operate in an environment where transparency and public accountability are normal occurrences. Thus, the study concludes that there is lenient accountability with regard to implementation of audit recommendations.
- Since, municipalities do not submit implementation progress report to the AGSA to compare plan and target achieved, recommended findings not implemented are not emphasized and no further action is taken.
- Because there has been no reasonable time period and resources given by the AGSA to municipalities to implement audit findings and recommendations, the implementation of some recommendations has not been implemented in time or even rejected.

Main duty for implementing the audit recommendations generally falls upon management/leaders of municipalities that were subject to the audit. Successful implementation of audit recommendations requires strong management (leaders) to oversee and plan implementation and timeframes for addressing the required action. Implementation planning should involve key stakeholders, including the internal audit function. In this regard, municipalities' leaders have no strategic plan to implement audit recommendations.

The risks involved, and the time taken to implement recommendations within the municipal entities can vary. Nevertheless, if the implementation process is not developed punctually, and individual risks remain untreated, the full value of the audit is not being achieved. In this context it is important that the AGSA make the municipal institutions/leaders liable for non-implementing audit recommendations.

## 6.5 Recommendations

Based on the findings and conclusions of the study, the following are principal recommendations made to improve effective implementation of audit findings and recommendations in South African municipalities:

Employees of the AGSA are very crucial in effecting the implementation of audit recommendations and as such should be kept motivated. There is a high demand for

accountants and auditors and the private sector is leading in providing the best incentives which attracts a highly competent workforce. Thus, the study commends that effort must be made to raise employee satisfaction by providing the following, better remuneration practices; better administration of resources; and reducing recruitment of under qualified and inexperienced personnel.

The above points will also help control the problem of high staff turnover at the OAGSA. Employees stay where they feel happy and well compensated. Therefore, the researcher recommends that the office of the AG should continuously consider its compensation parameters so as to retain and even attract a highly qualified and competent workforce.

Cases of public fund mismanagement were picked up during the course of audits. Reports of the AG's reveal public fund mismanagement mainly in the form of unauthorized, irregular, fruitless and wasteful expenditure. In the light of these challenges the researcher recommends that strict disciplinary actions should be taken against officers who misuse public funds and public positions. There are instances where officials who misused public funds were not punished and continued their duties as usual. The study recommends that follow-ups should be done so as to ensure accountability as well as to instil a sense of responsibility within municipal officials.

The municipal governance shall enforce rules and regulations properly so that leaders and employees should refrain from breaking rules and regulations. To be specific, this study proposes that Parliament takes a firm decision that it would henceforth consider the advisability of engaging the assistance of, or work in partnership with the OAGSA in the exercise of its (Parliament's) powers to enforce implementation of its resolutions.

Necessary disciplinary action should be taken at different levels for all proven fraudulent activities and against public servants flouting/breaking financial regulations. Disciplinary actions should also be taken to those who fail to implement the AGSA recommendations – because they are misusing public funds. These measures may discourage the municipal officers from committing similar offenses. This degree will also minimise corruption within the municipalities.

The study recommends that all unfavourable findings should be followed up to determine whether the agreed action was taken, AGSA, auditee, and permanent committee e.g. (audit committees) should continuously follow-up to determine whether recommended corrective actions have been implemented and are effective. The follow-up should be scheduled after the recommendations are agreed up on and

should be based on who assigned the responsibility, when corrective action is to be taken and what has to be done.

It is recommended that AGSA should establish systems for progress report of implementation of audit recommendations within the municipalities, detailing their plan and implementation target achieved preferably semi-annually and the closure should be formal.

The auditee public institutions should maintain separate records for the number of audit recommendations received (financial and performance) to fully/partially implement and submit implementation progress report to OAGSA.

Audit findings or recommendations should be shared with the community. Communication strategy should be adopted to communicate audit findings in easily understandable wording in general public. In addition to this recommendation, the study recommends that media whistle blowing activities and civil participation in audits should be encouraged.

All municipalities in consultation with the AG are mandated to “develop sound audit recovery plans to address findings raised by the Auditor-General. Implementation of these plans should be monitored on a monthly basis by management and quarterly basis by the audit committee and council” (Chaka, 2013:2).

In light of the above, it is recommended that M&E approach should be used as a relevant method in the local government. In this regard, the establishment of the M&E have a role to play to foster accountability to the municipal authorities. This approach will allow the citizens to participate in planning, and also to assess the performance of the municipalities. The researcher therefore recommends that the establishment of the M&E unit should be supported with necessary resources in order to perform their duties in strengthening the implementation of audit recommendations.

In democratic countries, there is a direct relationship between the mass media and the concept of publicity. The media is an effective actor in publishing audit findings. Publication of audit reports has a role in indirect enforcement to implement audit recommendations. Therefore, the AGSA should create relationship with the existing media in the region to publish or broadcast a summary that highlight any positive and negative audit recommendations to enhance transparency and so as to discourage misappropriation of resources in public institutions.

All municipalities in consultation with the AG must develop sound audit recovery plans to address findings raised by the AG. Implementation of these plans should be

monitored on a monthly basis by management and quarterly basis by the audit committee and council.

The author posits that since local government is at the heart of social change and an important tool for pertinent service delivery, the ambivalence of different leadership of political parties should not obstruct its efficacy and efficiency. The researcher recommends that the AGSA should have more powers to take actions against fraud in financial data rather than simply reporting.

## **6.6 Recommendation for future Study**

This study focused on examining the factors that influence successful implementation of the AG's recommendations in the local sphere of government. There is a need to conduct a similar study in other spheres of government audited by the OAGSA in order to get further input on the topic. Since the study only focused on South African municipalities, other researchers can do further research on other spheres of government to find out what factors affect them as well in implementing the AG's recommendations.





## BIBLIOGRAPHY

- Aaron, F. and Gabriel, T. 2010. Internal Audit in the State and Local Governments of Malaysia. *Southern African Journal of Accountability and Auditing*. 7(1): 32-41.
- Abdel-Qader, W. 2002. *An Evaluation of the International Auditing Standards and Their Application to the Audit of Listed Corporations in Jordan*. Unpublished Doctoral Thesis. Australia: University of Western Sydney.
- AbdulGaniyy, A. 2013. Audit Practice in Global Perspective: Present and Future Challenges. *Research Journal of Finance and Accounting*. 4(6): 44-51.
- Abdullah, K.O. 2014. The Audit Profession\_ Ensuring Quality Service Delivery. *In Auditing Journal*. 1(1): 1-7.
- Adams, J., Khan, H.T.A. and Raeside, R. 2014. *Research methods for business and social science students*. 2<sup>nd</sup> ed. New Delhi: Sage Publications.
- Adeyemi, S.B. and Uadiale, O.M. 2011. An Empirical Investigation of the Audit Expectation Gap in Nigeria. *African Journal of Business Management*. 15(19): 7964-7971.
- Aikins, S.K. 2012. Determinants of Auditee Adoption of Audit Recommendations: Local government Auditor's Perspectives. *Journal of Public Budgeting, Accounting & Financial Management*. 24(2): 195-220.
- Ajao, O.S., Olamide, J.O. and Temitope, A.A. 2016. Evolution and development of auditing. *Journal of Business Management Research*. 3(1): 32-40.
- Ajzen, I. 1991. The Theory of Planned Behaviour. *Organizational Behaviour and Human Decision Processes*. 50(1): 79-211.
- Alzeban, A. and Sawan, N. 2015. The Impact of Audit Committee Characteristics on the Implementation of Internal Audit Recommendations. *Journal of International Accounting, Auditing and Taxation*. 24(4): 61-71.
- Anichebe, A.S. 2010. *Auditing and Investigation*. Onitsha: Ade Graphics & Publishers.
- Apollo, M. 2008. Impact assessment of the local government reforms in Rwanda: The case study of Kigali City . Port Elizabeth: NMMU. (Thesis - MPA).
- Armitage, J. 2011. Creating Effective Public-Sector Audit Committees. *Journal of Leadership, Accountability and Ethics*. 8(3): 96-102.

Ashouri, R.E. 2015. Internal Auditors—Integral to Good Corporate Governance. *Internal Auditing*. 1(11): 44–49.

Audit Scotland. 2015. *An Overview of Local Government in Scotland 2015*. Edinburgh: Audit Scotland.

Auditor General of South Africa (AGSA). 2008. *Consolidated General Report on the Audit Outcomes of Local Government 2006-07*.

Auditor General of South Africa (AGSA). 2009. *Consolidated General Report on the Audit Outcomes of Local Government 2007-08*.

Auditor General of South Africa (AGSA). 2010. *Consolidated General Report on the Audit Outcomes of Local Government 2008-09*.

Auditor General of South Africa (AGSA). 2011. *Consolidated General Report on the Audit Outcomes of Local Government 2009-10*.

Auditor General of South Africa (AGSA). 2012. *Consolidated General Report on the Audit Outcomes of Local Government 2010-11*.

Auditor General of South Africa (AGSA). 2014. *Consolidated General Report on the Audit Outcomes of Local Government 2012-13*.

Auditor General of South Africa (AGSA). 2015. *Consolidated General Report on the Audit Outcomes of Local Government 2013-14*.

Auditor General of South Africa (AGSA). 2016. *Consolidated General Report on the Audit Outcomes of Local Government 2014-15*.

Auditor General of South Africa (AGSA). 2017. *Consolidated General Report on the Audit Outcomes of Local Government 2015-16*.

Auditor General of South Africa (AGSA). 2018. *Consolidated General Report on the Audit Outcomes of Local Government 2016-17*.

Auditor General South Africa (AGSA). 2013a. *Consolidated General Report on the Audit Outcomes of Local Government 2011-12*.

Auditor General South Africa (AGSA). 2013a. Report of the Auditor-General of South Africa on a Performance Audit of the Use of Consultants at Selected National Departments. <http://www.agsa.co.za/auditreports/SAR.aspx>. Accessed 12 June 2018.

Auditor General South Africa (AGSA). 2013b. *Consolidated General Report on the Audit Outcomes of Local Government 2011-12*.

Auditor General South Africa (AGSA). 2013b. Report of the Auditor-General of South Africa on a Performance Audit of the Use of Consultants at Selected National Departments. <http://www.agsa.co.za/auditreports/SAR.aspx>. Accessed 12 June 2018.

Auditor-General of South Africa's perspective. 2014. Paper Presented at the 3<sup>rd</sup> Annual General Meeting of the South African Records Management Forum, Midrand (South Africa).

<http://www.khunkhwane.co.za/uploads/The%20Contribution%20of%20Proper%20Records%20Keeping%20towards%20auditing%20and%20risk%20mitigation%20%20Auditor%20General%20Perspective.pdf>. Accessed 18 April 2018.

Auditor-General Report. 2011. *General Report on the Audit Outcomes of the Limpopo Local Government: 2010-11*. Office of the Auditor-General South Africa: Pretoria.

Auditor-General Report. 2012. *General Report of the Audit Outcomes of the Limpopo Local Government: 2011-12*. Office of the Auditor-General South Africa: Pretoria.

Auditor-General. 2011a. Simplifying Audit Opinions and Findings to Enable Government Leadership to Exercise Meaningful Oversight Towards Clean Administration. AG Online Column.

Auditor-General. 2011b. Implementing Key Controls to Eliminate Undesirable Audit Outcomes. <http://www.agsa.co.za/LinkClick.aspx?fileticket=VttbmTiLJrY%3d&tabid=36&mid=637>. Accessed 15 June 2018.

Auriacombe, C.J. 2006. *Qualitative Research Design: Lecture notes for Honours Students in Honours Public Governance programme in the Department of Public Governance. Lecture Unit 6*. Johannesburg: University of Johannesburg.

Auriacombe, C.J. 2011. *Methodology Class Lectures for Honours Students. Unpublished Document*. Johannesburg: University of Johannesburg.

Auriacombe, C.J. 2012. *Methodology Class Notes. Honours Methodology Unit 4*. Johannesburg: University of Johannesburg.

Auriacombe, C.J. 2017. *Methodology Class Lectures for Honours Students. Unpublished Document*. Johannesburg: University of Johannesburg.

Australian National Audit office. 2015. *Operations of the Australian National audit Office*. Report presented to Parliament on the 11th of September in Australia.

Babbie, E. and Mouton, J. 2001. *The Practice of Social Research*. Cape Town: Oxford University Press.

Berber, N., Pasula, M., Radosevic, M., Ikonov, D. and Kocic V.V. 2012. Internal Audit of Compensations and Benefits: Tasks and Risks in Production Systems. *Engineering Economics*. 23(4): 414-424.

Blaxter, L., Hughes, C. and Tight, M. 2001. *How to Research*. 2<sup>nd</sup> ed. Buckingham: Open University Press.

Bless, C. and Higson-Smith, C. 1995. *Fundamentals of social research methods: an African perspective*. Kenwyn: Juta & Co.

Bowen, G.A. 2009. Document Analysis as a Qualitative Research Method. *Qualitative Research Journal*. 9 (2):27-47.

Bratton, M. and Mxolisi, S. 2006. Delivery or Responsiveness? A Popular Scorecard of Local Government Performance in South Africa.

[www.afrobarometer.org/publications/working-papers/107-wp-62](http://www.afrobarometer.org/publications/working-papers/107-wp-62). Accessed 3 July 2018.

Braun, V. and Clarke, V. 2008. Using thematic analysis in psychology. *Qualitative Research in Psychology*. 3 (2): 77-101.

Bringselius, L. (2014). The Dissemination of Results from Supreme Audit Institutions : Independent Partners with the Media ? *Financial Accountability & Management*. 30: 75–94321-3837.

Brown, R. 1962. Changing Audit Objectives and Techniques. *The Accounting Review*. 37(4): 696-703.

Brown, R. 2011. Changing Audit Objectives and Techniques. *The Accounting Review*. 37(4): 696-703.

Buchan, H.F. 2005. Ethical Decision Making in the Public Accounting Profession: An Extension of Ajzen's Theory of Planned Behaviour. *Journal of Business Ethics*. 61(5): 65-181.

Cadotte, J.R. 2015. The Legacy of Robert Kuhn Mautz (1915-2002). *Research in Accounting Regulation*. 27(2): 187-189.

- Caers, R., Du Bois, C., Jegers, M., De Gieter, S., Schepers, C. and Pepermans, R. 2006. Principal-agent relationships on the stewardship-agency axis. *Nonprofit Management and Leadership*. 17(1): 25-47.
- Carmichael, D.R. 1996. *Auditing Concepts and Methods*. London: Mc Graw- Hill Co.
- Chaka, M.M. 2013. *An Evaluation of the Effectiveness of the Audit Committee in the Westonaria Local Municipality*. Master's in Public Administration Mini-Dissertation. Potchefstroom: North-West University.
- Chandler, R.A. 1997. Judicial Views on Auditing from the Nineteenth Century. *Accounting History*. 2(1): 61-79.
- Chartered Institute of Public Finance and Accountancy (CIPFA). 2010. *The CIPFA FM model – assessment of financial management in public service organisations statements of good practice*. London: CIPFA.
- Chelimsky, E. 1997. The Coming Transformations in Evaluation. In E. Chelimsky and W. Shadish (Eds.). *Evaluation for the 21st Century: A handbook*. Thousand Oaks, CA: Sage.
- Chiang, C. and Northcott, D. 2010. The Audit Consideration of Environmental Matters: Best Practice or Business as Usual? *Pacific Accounting Review*. 22(3): 199-223.
- Cloete, J.J.N. and Thornhill, C. 2005. *South African municipal government and administration: A new dispensation*. Pretoria: Dotsquare Publishing.
- Cohen, A. and Sayag, G. 2010. Effectiveness of Internal Auditing, an Empirical Examination of its Determinants in Israeli Organization. *Australian Accounting Review*. 3(23): 296-307.
- Cooperative Governance and Traditional Affairs (COGTA). 2009. *Local Government Turnaround Strategy*. Pretoria.
- Corruption Watch. 2013. Local government the weakest link. <http://www.corruptionwatch.org.za/local-government-the-weakest-link/>. Accessed 09 April 2018.
- Craythorne, D.L. 1994. *Municipal Administration*. Cape Town: Zebra Publications
- Creswell, J.W. 2003. *Research design. Qualitative, quantitative and mixed methods approaches*. Thousand Oaks, CA: Sage.

- Crotty, M. 1998. *The foundations of social research: Meaning and perspective in the research process*. London: Sage.
- Cull, R., Weili, B. and Lixin, C. 2015. Government Connections and Financial Constraints: Evidence from a Large Representative Sample of Chinese Firms. *Journal of Corporate Finance*. 32: 271-294.
- Cutting, B.A. and Koumin, D. 2000. The Emerging Patterns of Power in Corporate Governance: Back to the Future in Improving Corporate Decision Making. *Journal of Managerial Psychology*. 15(5): 447-507.
- Dailey, C.M., Dalton, D.R. and Cannella, A.A. 2003. Corporate Governance: Decades of Dialogue and Data. *Academy of Management Review*. 28(3): 371-383.
- Dain, N and Rahmat, N.M. 2017. Factors Influencing Public Sector Auditees on Implementing Audit Recommendations. *Jurnal Pengurusan*. 51 1-19.
- Dalton, D.R., Daily, C.M., Ellstrand, A.E. and Johnson, J.L. 1998. Meta-Analytic Reviews of Board Composition, Leadership Structure, and Financial Performance. *Strategic Management Journal*. 19(3): 269-290.
- Daugherty, B.E., Dickins, D., Hatfield, R.C. and Higgs, J.L. 2012. An examination of partner perceptions of partner rotation: Direct and indirect consequences to audit quality. *Auditing: A Journal of Practice & Theory*. 31(1):97-114.
- Davis, J.H., Schooramn, F.D. and Donaldson, L. 1997. Towards a Stewardship Theory of Management. *The Academy of Management Review*. 22(1): 20-47.
- De Jager, H. 2009. Editorial: Auditing and Credibility. *Auditing SA Summer Edition*. 1(1) : 3-4.
- De Vos, A.S. 2001. *Research at Grass Roots*. Pretoria: Van Schaik Publishers.
- Deloitte. 2011. Audit committee- resource guide.  
<http://www.corpgov.deloitte.com/site/us/audit-committee/audit-committee-resourceguide/;jsessionid=ndyLTN2c9PygQJTFQ5FSXHv22mF1nWcNQ8d2vL1psm5hSq3h9 3D7!1501908958!> Accessed 17 February 2013.
- Deloitte. 2012. Municipal Clean Audit Efficiency Series–Leadership Ownership.  
<http://deloitteblog.co.za/www102.cpt1.hosth.net/wpcontent/uploads/2012/12/Municipal-Clean-Audit-Efficiency-Series-LeadershipOwnership.pdf>. Accessed 13 June 2018.

Department of Provincial and Local Government (DPLG). 2005. *Ward Committee resource book: best practices and lessons learnt for municipal officials, councillors and local governance practitioners*. Pretoria: Department of Provincial and Local Government.

Derek, M. 2006. *A History of Auditing: The Changing Audit Process in Britain*. United States: Taylor & Francis.

Dittenhofer, M. 2001. *Performance Auditing in Governments: Managerial Auditing*. Pretoria.

Divorski, S. 1996. *Differences in the approaches of auditors and evaluators to the examination of government policies and programs*. In C. Wisler (Ed.), *Evaluation and auditing: Prospects for convergence* (New Directions for Evaluation, No. 71). San Francisco: Jossey-Bass.

Dlalisa, W.L. 2009. *Strategies for Enhancing Good Governance in South African Local Government*. Master of Public Administration. Stellenbosch: University of Stellenbosch.

Dowding, K. and Lewis, C. 2012. Newspaper Reporting and Changing Perceptions of Ministerial Accountability in Australia. *Australian Journal of Politics and History*. 1(1): 236-250.

Draai, E. and Oshoniyi, O. 2013. Scarce and Critical Skills for Local Government: Assessing the Nelson Mandela Bay Metropolitan Municipality. *Journal of Public Administration*. 48(4): 867-882.

Economic Governance and Management. 2006. *The South African Institute of International Affairs* (SAIIA). Pretoria: Government Printers,

Edwards-Faulk, P. 2012. The Importance of Following Up. *Internal Auditor December*. 4(1): 19-22.

Erasmus, C. B. and Visser, P. W. 2002. *The Management of Public Finance: A Practical Guide*. Cape Town: Oxford University Press Southern Africa.

Euben, J.P. 1989. *Corruption*. In Ball, T., Farr, J. and Hanson, R.L. (eds), *Political innovation and conceptual change*. Cambridge: Cambridge University Press.

European court of auditors (ECA). 2013. Key Elements for Building up a Programme for Auditing an Evaluation System. *Audit Guidelines on Evaluation*. 5(2): 34-62.

Fakie, S. 1999. *The role of the office of the auditor-general in South Africa*. Unpublished Masters Dissertation. Durban, South Africa.

Fawcett, J. 1997. *A Framework for Analysis and Evaluation of Conceptual Models of Nursing*, in *Perspectives on Nursing Theory*. Lippincott, Philadelphia, USA.

Ferreira, I. 2007. *The role of internal auditors in the professional development of audit committee members*. Master of Commerce Dissertation. Pretoria: University of South Africa.

Fishbein, M. and Ajzen, I. 1975. *Belief, attitude, intention and behaviour: An introduction to theory and research*. Reading, MA: Addison-Wesley.

Fitzpatrick, L. 1939. The story of bookkeeping, accounting, and auditing. *Accounting Digest*. 3(2): 217.

Flynn, L.D. 2010. *How Do I Conduct Follow-up Engagements?* <http://www.theiia.org/intAuditor/back-to-basics/2010/conduct-follow-up-engagements/index.cfm?print>. Accessed 15 August 2018.

Fourie, D. and Valeta, L. 2008. Intergovernmental fiscal relations in the South African context. *Journal of Public Administration*. 2(1): 31-141.

Funnell, W. and Wade, M. 2012. Negotiating the credibility of performance auditing. *Critical Perspectives on Accounting*. 23(6): 434–450.

Gendron, Y., Cooper, D.J. and Townley, B., 2007. 'The construction of auditing expertise in measuring government performance', *Accounting, Organisations and Society*, 32(1/2):101-129.

General Accounting Office (GAO) of the U.S.A. 1991. *Tax System Modernisation: Further Testing of IRS' Automated Taxpayer Service is Need*. Washington DC: Washington press.

Gomme, G.L. 1987. *Lectures on the principles of the local government*, delivered at London school of Economics, Lent term 1987, Westminster, whitall garden. 1-2.

Govender, I.G. 2011. *Monitoring and evaluation systems enhancing corporate governance in local government: a case study of Kwazulu-Natal*. Doctor of Administration. Kwa-Zulu Natal: University of KwaZulu-Natal.

Government Communication and Information System (GCIS). 2011. *Social Media Guidelines*. Pretoria.



Gratton, E. and Jones, Y. 2010. *Research methods for sports studies*. 2<sup>nd</sup> ed. New York. London: Routledge.

Gray, A., Jenkins, B. and Segsworth, R. 1993. *Budgeting, Auditing, and Evaluation: Functions and Integration in Seven Governments*. New Brunswick: NJ- Transaction.

Gray, D.E. 2009. *Doing research in the real world*. 2nd edition. London: Sage Publication.

Gregory, H.J. and Simms, E.M. 1999. Corporate Governance: What it is and Why it Matters. 9th International Anti-Corruption Conference, Durban, SA, 10-15 October. [http://9iacc.org/papers/day2/ws3/dnld/d2ws3\\_hjgregorymesimms.pdf](http://9iacc.org/papers/day2/ws3/dnld/d2ws3_hjgregorymesimms.pdf). Accessed 17 January 2018.

Guba, E.G., and Lincoln, Y.S. 1994. *Competing paradigms in qualitative research*. In N. K. Denzin and Y. S. Lincoln (Eds.), *Handbook of qualitative research*. Thousand Oaks, CA: Sage.

Gul, F., Teoh. H., Andrew, B. and Schelluch, P. 1994. *Theory and Practice of Australian Auditing*. 3<sup>rd</sup> ed. Australia: Nelson, an International Thomson Publishing Company.

Gunvaldsen, J.A. and Karlsen, R. 1999. The Auditor as an Evaluator: How to Remain an Influential Force in the Political Landscape. *Evaluation*. 5(4): 458–467.

Hasyudeen, N. 2009. Audit Profession-Global Development and Key Issues. <http://www.slideshare.net>. Accessed 30 June 2018.

Hatherly, D.J. and Parker, L.D. 1988. Performance Auditing Outcomes: A Comparative Study. *Financial Accountability & Management*. 4(1): 21-41.

Hayes, R. S, Schilder A, Dassen and R, Wallage. 1999. *Principles of Auditing: An International Perspective*. London: McGraw-Hill Publishing Company.

Hsiao, C. 2007. Panel Data Analysis: Advantages and Challenges. *Test*. 16(1): 1-22.

Hugo, I. 2013. Reviewing the Audit Process.

<http://www.businessmedialive.co.za/reviewing-the-audit-process/>. Accessed 15 November 2016.

Hutchings, B. 2014. Opening the Door, Internal Auditor. *Institute of Internal Auditors Journal*. 1(2): 76–86.

Ibrahim, M.O, Baker, T and Doyle, S. 2014. Grappling with Section 404, Internal Auditor, *Institute of Internal Auditors Journal*. 5(2): 57–200.

Ijeoma, E. 2013. *South Africa's Public Administration in Context*. 1<sup>st</sup> ed. Pretoria: Verity Publishers.

Independent Regulatory Board for Auditors (IRBA). 2012. Guidance for Auditing in the Public Sector.

[http://www.paab.co.za/index.php/component/docman/doc\\_download/1246](http://www.paab.co.za/index.php/component/docman/doc_download/1246).

Accessed 18 June 2018.

International Federation of Accountants (IFAC). 2014. A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality.

Irawan, A. B. and McIntyre-Mills, J. 2014. Application of Critical Systems Thinking to Performance Auditing Practice at the Indonesian Supreme Audit Institution: Issues and Challenges. *Systems Research and Behavioral Science*. 56-59.

Isa, A.M. 2009. *Records management and the accountability of governance*. PhD Thesis. Johannesburg: University of Johannesburg.

Iuliana, L.P. 2012. The Evolution and the Perspectives of the Audit. *International Journal of Academic Research in Business and Social Sciences*. 2(4): 264-280.

Jensen, M.C. and Meckling, W.H. 1976. Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Finance and Economics*. 3(4): 305-360.

Jones, G. and Beattie, C. 2015. Local Government Internal Audit Compliance. *Australasian Accounting, Business and Finance Journal*. 9(3):59-71.

Justesen, L. and Skaerbaek, P. 2010. Performance Auditing and the Narrating of a New Auditee Identity. *Financial Accountability & Management*. 26(3): 325-343.

Kakumba, U. and Fourie, D. J., 2008. Enhancing Local Government Systems and Processes Towards Accountability: The Case for External Control Agencies in Uganda. *Journal of Public Administration*, 43(3.1):121-135.

Kalyebara, B. and Islam, S. 2014. *Corporate Governance, Capital Markets, and Capital Budgeting: An Integrated Approach*. Berlin: Springer.

Kanyane, M.H. 2006. Municipal skills challenges for accelerated service delivery in South Africa. *Journal of Public Administration*. 41(3): 112-118.

- Khumalo, M. 2007. *An investigation of the efficacy of the Office of the Auditor General in ensuring public financial accountability in the Gauteng Province*. Unpublished Masters Mini-thesis.
- Korje, B.G. 2016. Assessment of Implementation of Audit Recommendations in Public Sectors in Oromia Regional Government Public Institutions (2003-2006 E.C.). *The International Journal of Business & Management*. 4(2): 21-32.
- Krohmer, C. and Noel, C. 2010. Responsible leadership for audit quality how do the big four manage the personal ethics of their employees? [http://sets.univprovence.fr/ergolog/Bibliotheque/noel/responsible\\_leadership\\_for\\_corporate\\_responsability.pdf](http://sets.univprovence.fr/ergolog/Bibliotheque/noel/responsible_leadership_for_corporate_responsability.pdf). Accessed 18 April 2018.
- Kumar, R. 2005. *Research Methodology: A Step by Step Guide for Beginners*. London.
- Kumar. E.P and Mohan, B. 20185. Origin and Development of Auditing. *Research Paper*. 4(9): 43-46.
- Laegreid, P. 2013. New public management and public accountability. *Oxford Handbook of Public Accountability*. Oxford: Oxford University Press (Forthcoming).
- Lee, J. 1986. Government Auditing in China. *The Journal of Accountancy*. 62: 130-190.
- Lee, T. 1994. *Corporate audit theory*. London: Chapman & Hall.
- Lee, T. and Azham, M.A. 2008. The evolution of auditing: An analysis of the historical development. *Journal of Modern Accounting and Auditing*. 4(12): 665-75
- Leedy, P. D. and Ormond, J. E. 2005. *Practical research: planning and design* . 8th ed. New JerseyNew Jersey: Pearson Education.
- Leedy, P.D. 1997. *Practical research: planning and design*. 6th ed. London: Prentice-Hall.
- Leedy, P.D. and Ormrod, J.E. 2013. *Practical research*. 10<sup>th</sup> ed. New York: Pearson Education Inc.
- Leeuw, F. 1992. Performance Auditing and Policy Evaluation: Discussing Similarities and Dis-Similarities. *Canadian Journal of Program Evaluation*. 7(1): 53–68.
- Leeuw, F. 1996. Auditing and Evaluation: Bridging a Gap, Worlds to Meet? *New Directions for Evaluation*. 71(2): 351–60.

- Lesolang, N.J. 2015. *Compliance with Audit Procedures by Local Municipalities within Ngaka Modiri Molema District*. Master of Business Administration Dissertation. North West: North-West University.,
- Li, D., Chen, J. and Gao, J. 2011. Nonparametric Time-Varying Coefficient Panel Data Models with Fixed Effects. *Econometrics Journal*. 14: 387-408.
- Lichtman, M. 2013. *Qualitative Research in Education: A User's Guide*. (3<sup>rd</sup> ed.). London: Sage Publications Ltd.
- Ling, T. 2003. Ex ante evaluation and the changing public audit function: The scenario planning approach. *Evaluation*. 9(4): 437–452.
- Lonsdale, J. 2001. *Auditing in a changing world: Developments in the work of the National Audit Office 1997–2001*. Paper presented at a conference on Advances in the Public Management of Information and Control: Auditing, Evaluation and Inspection in the EU Member States and the European Union. Maastricht: European Institute of Public Administration.,
- Lowensohn, S., Johnson, L.E., Elder, R.J. and Davies, S.P. 2007. Auditor Specialization, Perceived Audit Quality, and Audit Fees in the Local Government Audit Market. *Journal of Accounting and Public Policy*. 26(6): 705-732.
- MacRaue, E. and Gills, P.O. 2014. A Framework for AUDIT Evolution. *The Internal Auditor*. 6(15): 67-69-70.
- Maloba, D.M. 2015. *Monitoring Good Governance in South African Local Government and its Implications for Institutional Development and Service Delivery. A Case Study of the Sub-Councils' and Councillor Support Department*. Master of Public Administration Dissertation. Western Cape: University of the Western Cape.
- Mamogale, M.J. 2014. Financial Performance of Local Government in Limpopo Province, 2010-2012. *African Studies Quarterly*. 15(1):72-92.
- Manal, N. 2011. *History of Auditing*. [http://www.ehow.com/about\\_4681905\\_history-of-auditing.html](http://www.ehow.com/about_4681905_history-of-auditing.html). Accessed 12 May 2011.
- Mapanda, BR. 2018. The Role of the Board of Directors in Corporate Governance in Zimbabwe National Water Authority (ZINWA). MA Dissertation submitted to the University of Johannesburg.
- Maphalla, S.T. 2015. *Financial performance of local government: Evidence from South Africa. Unpublished Masters Dissertation*. Stellenbosch. Stellenbosch University.

Marnet, O. 2008. *Behaviour and Rationality in Corporate Governance*. Abingdon, United Kingdom: Routledge (Taylor and Francis Group).

Mautz, R.K. and Sharaf, H.A. 1961. The philosophy of auditing: American Accounting Association. *Monograph No. 6*. Sarasota, FL: American Accounting Association.

McGee, D. B. 2002. *The Overseers: Public Accounts Committees and Public Spending*. Pluto Press: London.

McNamee, D. and McNamee, T. 1995. The Transformation of Internal Auditing. *Managerial Auditing Journal*. 10(2): 34-37.

Merriam, S.B. 2009. *Qualitative Research: A Guide to Design and Implementation*. San Francisco: Jossey-Bass Publishers.

*Merriam-Webster's collegiate dictionary* (10th ed.). 1999. Springfield, MA: Merriam-Webster Incorporated.

Mertens, D.M. and Ginsberg, P.E. 2009. *The Handbook of Social Research Ethics*. Los Angeles: SAGE Publications Ltd.

Mitchell, R. and Meacham, D. 2011. Knowledge Worker Control: Understanding via Principal and Agency Theory. *The Learning Organisation*. 18(2): 149-160.

Morin, D. 2008. The Influence on Value for Money Audit on Public Administration: Looking Beyond Appearances. *Financial Accountability & Management*. 17(2): 99-117.

Motubatse, K.N. 2014. *An Evaluation of Factors Affecting the Progression to Clean Audit Outcomes in South African Municipalities*. Unpublished Masters Dissertation. Pretoria: University of Limpopo.

Mouton, J. 1996. *Understanding Social Research*. Pretoria: Van Schaik Publishers.

Mouton, J. 2001. *How to Succeed in your Masters and Doctoral Studies. S.A Guide and Resource Book*. Pretoria. Van Schaik Publishers.

Mouton, J. 2012. *How to Succeed in your Masters and Doctoral Studies – a South African Guide and Resource Book*. Pretoria: Van Schaik Publishers.

Muhiuddin, M., D. and Karbhari, Y. 2010. Audit committee effectiveness: a critical literature review. *AUIB Journal of business of economics.*, 9 (10): 937 – 125.

Municipal Demarcation Board. 2012. State Municipal Capacity Assessment 2010/2011 National Trends in Municipal Capacity.

[http://led.co.za/sites/default/files/cabinet/orgname-raw/document/2012/state\\_of\\_municipal\\_capacity\\_assessment\\_2010\\_11\\_national\\_trends\\_report.pdf](http://led.co.za/sites/default/files/cabinet/orgname-raw/document/2012/state_of_municipal_capacity_assessment_2010_11_national_trends_report.pdf). Accessed: 23 June 2018.

Nash, M. 2013. Lower town releases results of transportation audit. Ottawa: East EMC.

Nath, N. D. (2010). Public Sector Performance Auditing in Fiji: A Hermeneutical Understanding of the Emergence Phase. Fiji.

National Audit Office (NAO). 2015. *Financial sustainability of local authorities*. London: Department for Communities and Local Government.

National Treasury. 2005. Guidelines on Implementation of Approved Standards of Generally Recognised Accounting Practice: Local Government.

<http://mfma.treasury.gov.za/MFMA/Circulars/Circular%2018/Accounting%20Standards%20Implementation%20Guide%20June%202005.pdf>. Accessed 16 April 2018.

National Treasury. 2015. *The State of Local Government Finances and Financial Management*. Pretoria.

Ndlovu, M. 2008. South African Journalism and Mass Communication Research on Youth and News Media: A Reflection. *Ecquid Novi: AJS*. 29(1): 64-78.

Neuman, L. 2003. *Social Research Methods*. Boston: Allyn and Bacon.

Ngoepe, M.S. 2008. *An Exploration of Records Management Trends in the South African Public Sector: A Case Study of the Department of Provincial and Local Government*. MINF Dissertation. Pretoria: University of South Africa.

Nyalunga, D. 2006. The Revitalisation of Local Government in South Africa. *International NGO Journal*. 1(2):15-20.

Nye, F. I. and F. M. Berardo. F. M. 1966. *Emerging Conceptual Frameworks in Family Analysis*. The Macmillan Company,,: New York, USA.

Office of the Auditor General of Canada (OAGA). 2015–16. *Performance Report*. [http://www.oag-bvg.gc.ca/internet/English/acc\\_rpt\\_e\\_41740.html](http://www.oag-bvg.gc.ca/internet/English/acc_rpt_e_41740.html). Accessed 12 June 2018.

Ogoro, G.O. and Simiyu, C.N. 2015. Effectiveness of Audit Committees in the Public Sector: A Case of Parastatals in Kenya. *Research Journal of Finance and Accounting*. 6(4): 56-65.

Organisations for Economic Co-operation and Development (OECD). 2002. *Glossary of Key Terms in Evaluation and Results-Based Management*. Paris: OECD/DAC.

Ottawa, J.M. 2006. Audit and Evaluation in Public Management: Challenges, Reforms, and Different Roles. *The Canadian Journal of Program Evaluation*. 21(1): 11–45.

Patton, M.Q. 2002. *Qualitative Research and Evaluation Methods*. Thousand Oaks,

Pech, R.J. and Durden, G. 2004. Where The Decisions-Makers Went Wrong: From Capital to Cannibalism. *Corporate Governance, the International Journal of Business in Society*. 22(5): 65-75.

Pehe, J. 2012. Society: A Streetcar Named Graft. *Transitions Online*. 08: 28-95.

Philip, M. 1997. *Defining political corruption*. In Heywood, P. (ed.), *Political corruption*. Oxford: Blackwell.

Porter, B., Simon, J. and Hatherly, D. 2005. *Principles of external auditing*. New Jersey: John Wiley & Sons, Ltd.

Powell, D. 2012. *Imperfect transition: Local government reform in South Africa 1994-2012*. Bellville: University of the Western Cape.

Presidency. 2008. *The role of premiers' Offices in government wide monitoring and evaluation: A good practice guide*. Presidency. Pretoria.

Public Sector Audit Committees., 2011.: *Independent Assurance and Advice for the Chief Executives and Boards*. Australia: Commonwealth of Australia.

Public Service Commission. 2008. *Basic Concepts in Monitoring and Evaluation*.

Republic of South Africa. Available

at:<http://www.psc.gov.za/documents/docs/guidelines/PSC%206%20in%20one.pdf>

(Accessed : 11 January 2018).

Rabie, B. 2011. *Improving the systematic evaluation of local economic development results in South African local government*. Dissertation – unpublished.

Rahimi, G. and Amini, S.M. 2015. The survey of the relationship between auditing quality and the profitability in the companies accepted in Tehran's Exchange Market.

*International Journal of Academic Research in Accounting, Finance and Management Sciences*. 5(2): 100-115.

Ramkumar, V. and Krafchik, W., 2005., ' *The Role of Civil Society Organizations in Auditing and Public Finance Management*,'. The International Budget Project.

Ramutsheli, M.P. and Janse van Rensburg, J.O. 2015. The Root Causes for Local Government's Failure to Achieve Objectives. *Southern African Journal of Accountability and Auditing Research*. 17(2): 107-118.

Reichborn-Kjennerud, K. 2014. Auditee Strategies: An Investigation of Auditees' Reactions to the Norwegian State Audit Institution's Performance Audits. *International Journal of Public Administration*. 37: 685–694.

Republic of South Africa (RSA). 1996. *The Constitution of the Republic of South Africa as Updated Including the Constitution Twelfth Amendment Act, 2005*. Pretoria: Government Printer.

Republic of South Africa (RSA). 2004. *Public Audit Act 25 of 2004*. *Government Gazette, 27121:474*. Pretoria: Government Printer.

Republic of South Africa (RSA). 2014. *Public Audit Act 24 of 2014*. *Government Gazette, 27121:474*. Pretoria: Government Printer.

Republic of South Africa National Treasury. 2009. *Internal Audit Framework*. 2<sup>nd</sup> ed. Pretoria: National Treasury.

Republic of South Africa. 1998. *White Paper on Local Government of 1998*. Pretoria: Government Printers.

Republic of South Africa. 2003. The Constitution of the Republic of South Africa. *Government Gazette*.

Rist, R. 1989. Management accountability: The signals sent by auditing and evaluation. *Journal of Public Policy*. 9(3): 3556–3691.

Roberts, S. and Pollitt, C. 1994. Audit or evaluation? A National Audit Office VFM study. *Public Administration*. 72(1): 527–549.

Roe, C.E. 2014. *Implementation of curriculum audit recommendations in Texas school districts from 2005-2011*. PhD Dissertation. Retrieved from UMI. (3620545).

Rossi, P. and Howard, F. 1993. *Evaluation: A Systematic Approach*. Thousand Oaks, CA: Sage Publications.



Salehi, M. 2008. Audit Expectation Gap: Concept, Nature and Trace. *African Journal of Business Management*. 5(21): 8376-8392.

Salem, M.S.M. 2012. An Overview of Research on Auditor's Responsibility to Detect Fraud on Financial Statements. *The Journal of Global Business Management*. 8(2): 218-229.

Salisu, A. 2011. Advancement of Accountancy Profession in Nigeria: A Collaborative Effort of Practicing Accountants and the Academia. Nigeria.

Santucci, F.M. 2005. Strategic communication for rural development. <http://siteresources.worldbank.org/EXTDEVCOMMENG/Resources/Strategiccommruralfinal.pdf>. Accessed 12 July 2018.

Sarafidis, V. and Wansbeek, T. 2012. Cross-Sectional Dependence in Panel Data Analysis. *Econometric Reviews*. 31(5): 483-531.

Sawyer, L.B., Dittenhofer, M.A. and Scheiner, J.H. 2005. *Sawyer's Internal Auditing: The Practice of Modern Internal Auditing*. 5<sup>th</sup> ed. Florida: The Institute of Internal Auditors.

Schwartz, R. and Mayne, J. 2005b. *Does quality matter? Who cares about the quality of evaluative information? Quality matters: Seeking confidence in evaluation, auditing and performance reporting (pp. 301–322)*. New Brunswick, NJ: Transaction.

Siegel, D. 2010. The leadership role of the municipal chief administrative officer. *Canadian Public Administration*. 53(2): 139-161.

Sigidi, M. 2012. Operation clean audit for 2014. Paper presented at the Auditor-General of South Africa's records management seminar. Kempton Park: South Africa. 20 April.

Sikhakane, B.H. 2008. Public participation: a case study of ward committees in the Buffalo City Municipality. *Journal of Public Administration*. 7 (1): 680 – 697.

Sikka, P. 2009. Financial crisis and the silence of the auditors. *Accounting, Organizations and Society*. 34(6-7):868-873.

Snape, D. and Spencer, L. 2003. The Foundations of Qualitative Research. In: Ritchie J and Lewis J (Eds.) *Qualitative Research Practice*. London: Sage.

Solomon, J. 2013. *Corporate governance and accountability*. 4th edition. UK: John Wiley & Sons.

- Soltani, B. 2000. Some Empirical Evidence to Support the Relationship Between Audit Reports and Stock Prices – the French case. *International Journal of Auditing*. 4(3): 10269–29.
- South Africa. 1996. *Constitution of the Republic of South Africa*. Pretoria: Government Printer.
- South Africa. 1996. *The Constitution of the Republic of South Africa. Act No. 108*. Government of South Africa.
- South Africa. 1998. *Local Government: Municipal Structures Act. Act No. 117*. Government of South Africa.
- South Africa. 1998a. *White Paper on Local Government*. Pretoria: Government Printer.
- South Africa. 1998b. *Local Government: Municipal Structures Act, no. 117 of 1998*. Pretoria: Government Printer.
- South Africa. 2000. *Local Government: Municipal Systems Act, no. 32 of 2000*. Pretoria: Government Printer.
- South Africa. 2000. *Local Government: Municipal Systems Act. Act No. 32*. Government of South Africa.
- South Africa. 2003. *Local Government: Municipal Finance Management Act. Act No. 56*. Government of South Africa.
- South Africa. 2003. Local Government: Municipal Finance Management Act, No. 56 of 2003. Government Gazette. <http://www.info.gov.za/-/acts/2003/a56-03/index.html>. Accessed 15 June 2018.
- South Africa. 2011. *Local Government: Municipal Systems Amendment Act*. Government of South Africa.
- South African Institute of Race Relations (SAIRR). 2010. *Municipal protests in numbers*. SAIRR: Johannesburg. Issue No. 4. April.
- South African Institute of Race Relations (SAIRR). 2012. *Fast Facts for Local Government: Too Big to Succeed*. SAIRR: Johannesburg. Issue No. 7. July.
- South African Institute of Race Relations (SAIRR). 2013. *The 80/20 Report: Local Government in 80 Indicators after 20 Years of Democracy*. SAIRR: Johannesburg.

South African Local Government Association (SALGA). 2010. Local Government Leading the Fight Against Corruption, Paper Presented at the SALGA National Conference, South Africa, 29 August to 01 September 2011. <http://salga.org.za/app/webroot/assets/files/Presentations/Local%20Government%20Leading%20the%20Fight%20Against%20Corruption.pdf>. Accessed 22 June 2018.

South African Local Government Association (SALGA). 2012a. *A local government perspective on the municipal finance audits*. SALGA: Pretoria.

Sternberg, R. 2011. *The Theory of Successful Intelligence*. In *the Cambridge Handbook of Intelligence*. Manhattan, NY: Cambridge University Press.

Steward, J. and Subranium, N. 2010. Internal Audit Independence and Objectivity: Emerging Research Opportunities.

Strauss, A. and Corbin, J. 1998. *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory (2nd Edition)*. Thousand Oaks, CA: Sage

Tanko, M. 2011. *Audit Expectation Gap: The Trend to Close the Gap in the 21st Century*. Research commissioned by The Institute of Chartered Accountants of Nigeria (ICAN).

Tesch, R. 1990. *Qualitative Research: Analytic Types and Software Tools*, Lewes: Falmer Press.

The Institute of Internal Auditors Standards and Guidance. 2016. *The Role of Internal Audit in Enterprise-wide Risk*. Management Position Statement. The Institute of Internal Auditors.

The Institute of Internal Auditors. 2006. *The Role of Auditing in Public Sector Governance Practice Guide*. Altamonte Springs. Management Position Statement. The Institute of Internal Auditors.

The Institute of Internal Auditors. 2012. *Leading Practice: Transparency of the Internal Audit Report in the Public Sector*. Management Position Statement. The Institute of Internal Auditors.

The Local Government.: *Municipal Systems Amendment Act*. 2011. *Municipal Systems Amendment Act*. Pretoria.

- Thompson, L.M. 2013. *A quantitative comparative study of organizational culture and leadership accountability within public and private organizations*. Unpublished (Doctoral dissertation): University of Phoenix.
- Thornhill, C. 2008. The Transformed Local Government System: Some Lessons. *Journal of Public Administration*. 43(3): 492-511.
- Thukur, S. and Singh, S. 2012. A study of some e-government activities in South Africa. Sustainable E-Government and E-Business Innovations (E-LEADERSHIP), 2012 E-leadership Conference On 1-11. *National Journal of Accounting and Financial Reporting*. 2(2): 18-37.
- Van Acker, W., Bouckaert, G., Frees, W., Nemec, J., Lawson, C., Matel, A., Savulescu, C., Monthubert, E., Nederhand, J. and Flemig, S. 2015. Mapping and Analysing the Recommendations of Ombudsmen, Audit Offices and Emerging Accountability Mechanisms. *European Union's Seventh Framework Programme*. 1-224.
- Van der Waldt, G, Van Niekerk, D, Doyle, M, Knipe, A, and du Toit, D. 2002. *Managing for Results in Government*. Sandown: Heinemann Publishers.
- Van der Waldt, G. 2006. Managing Local Government Performance: Key Considerations and Challenges. *Journal of Public Administration*. 41(2): 144-160.
- Van des Nest, D.P. 2006. The perceived effectiveness of audit committees in the South African public sector. *Meditari Accountancy Research* 16(2): 175-188.
- Van des Nest, D.P., Thornhill, C. and De Jager, J. 2008. Audit committees and accountability in the South African public sector. *Journal of Public Administration*, 43(4):545-558.
- Van Gansberghe, C.N. 2005. Internal auditing in the public sector: a consultative forum in Nairobi, Kenya, shores up best practices for government audit professionals in developing nations. *Internal Auditor*. 2(1): 62.
- Vedung, E. 1997. *Public policy and program evaluation*. New Brunswick, NJ: Transaction.
- Velampy, T., Sivathaasan, N., Tharanika, R. and Sinthuja, M. 2014. Board leadership structure, audit committee and audit quality: Evidence from manufacturing companies in Sri Lanka. *International Journal of Business and Management*. 9(4): 76-84.

- Venkateswaran, R.K. 2014. *Municipal financial management*. In: Farvacque-Vitkovic, C. and Mihaly, K. eds. *Municipal Finances: A Handbook for Local Governments*. Washington, DC: World Bank.
- Venter, L. 2008. *Is records management a profession?* Paper presented at the SARMAF seminar,. Pretoria (South Africa), June.
- Wallis, J. and Dollery, B. 2001. Government failure, social capital and the appropriateness of the New Zealand model for public sector reform in developing countries. *World Development*. 29(2): 245-263.
- Walsh, F.J. 1963. *Internal Auditing: Business Policy Study No. 111* (New York: National Industrial Conference Board.
- Wamajji, R. 2015. Ugandan Parliament Watch: Parliamentary oversight in accountability affects service delivery in public institutions. 30 March 2015.
- Waters, R.D. 2013. The Role of Stewardship in Leadership: Applying the Contingency Theory of Leadership to Relationship Cultivation Practices of Public Relations Practitioners. *Journal of Communication Management*. 17(4): 324-340.
- Webb, W. and Auriacombe, C.J. 2006. Research design in Public Administration: Critical considerations. *Journal of Public Administration*. 41(3.1):588-602.
- Wisker, G. 2008. *The postgraduate research handbook*. 2<sup>nd</sup> ed. UK: Palgrave MacMillan.
- Wisler, C. (Ed.). 1996. *Evaluation and auditing: Prospects for convergence (New Directions for Evaluation, No. 71)*. San Francisco: Jossey- Bass.
- Woods, G. and Mantzaris, E. 2012. *Anti-corruption reader*. ACCERUS, Stellenbosch: University of Stellenbosch.
- World Health Organisation. 2012. *Knowledge translation framework for ageing and health*. Geneva, Switzerland: World Health Organisation.
- World Wide Worx. 2013. South African social media landscape 2016. <http://www.worldwideworx.com/wpcontent/uploads/2016/02/SA-Social-MediaLandscape-2016-Executive-summary.pdf> Accessed 24 May 2018.
- Yaffee, R. 2003. *A Primer for Panel Data Analysis*. [http://web.pdx.edu/~crkl/ec510/pda\\_yaffee.pdf](http://web.pdx.edu/~crkl/ec510/pda_yaffee.pdf). Accessed 11 May 2018.

Yin, R.K. 2014. *Case study research: Design and methods*. 7<sup>th</sup> ed. Newbury Park, CA: SAGE.

Young, S. and Thyil, V. 2008. A Holistic Model of Corporate Governance: A New Research Framework. *Corporate Governance*. 8(1): 94-108.

Yusuf, Z.M. and Chell, R.W. 2005. *Issues in records management*. Bangi: Penerbit University.

Zahran, M., Chulkov, V., and Inomata, T. 2010. *The Audit function in the United Nations System*. USA: Joint Inspection Unit Geneva.

Zhang, Y. 2014. The City Manager's Role in Policy-Making A Perspective Beyond Substitution and Collaboration Models. *The American Review of Public Administration*. 44(3): 358-372.

Zhou, G. and Zinyama, T. 2012. Auditing Government Institutions in Zimbabwe: Frameworks, Processes and Practices. *International Journal of Accounting and Financial Reporting*. 2(2): 18-237.



## APPENDIX I: Recurring audit recommendations over a period of 7-years

Recommendation Categories	2010 - 2011	2011 - 2012	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	Recurrence between 2010/11-2016/17	Recurrence % compared to total no. of recurrences
<b>1. Leadership</b>									<b>35.0 %</b>
Effectively and ethically apply the leadership skills.	✓	✓	✓	✓	✓	✓		6	8.3 %
Stand firm in the pursuit of the knowledge and skills		✓	✓					2	2.8 %
Policies and procedures should be applied fully.	✓				✓	✓	✓	4	5.6 %
Leadership should set the tone for accountability.	✓		✓		✓	✓	✓	5	6.9 %
Municipal officials should ensure that non-compliance findings are investigated and has consequences.	✓	✓	✓			✓		4	5.6 %
Executives should support the adoption of the IT governance.		✓						1	1.4%
Leaders should insist about findings on usefulness and reliability of annual overall reports.	✓					✓	✓	3	4.2 %
<b>2. Financial and performance management</b>									<b>47.0 %</b>
All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated		✓	✓	✓	✓	✓	✓	6	8.3 %
Sharing and reviewing regular and credible information on the status of the finances and	✓	✓	✓	✓				4	5.6 %



activities in municipalities								
Funding, skilling and/or hiring for the IT sector	✓	✓				2	2.8 %	
Proper record keeping in a timely manner of financial and performance reports			✓	✓	✓	3	4.2 %	
Create a professional, high-performance environment that will attract and retain the right people	✓	✓		✓		3	4.2 %	
Review and monitor compliance with applicable laws and regulation	✓			✓	✓	✓	4	5.6 %
Underperformance must have consequences.	✓	✓	✓			✓	4	5.6 %
Internal audit units and audit committees should play a more effective role.	✓	✓		✓		✓	4	5.6 %
Strategies to ensure that skills are transferred.		✓	✓				2	2.8 %
Instability or vacancies should be in key positions		✓				✓	2	2.8 %
<b>3. Governance</b>							<b>18.0 %</b>	
Implement appropriate risk management activities.	✓				✓	✓	3	4.2 %
Monitor auditing process and management		✓	✓			✓	3	4.2 %
Any deficiencies identified should be communicated to the relevant parties	✓			✓			2	2.8 %
Governance structures can jointly make significant	✓		✓	✓	✓	✓	5	6.9 %





contributions to the  
audit.

Total

100 %



UNIVERSITY  
OF  
JOHANNESBURG



**LINGOBIZ**

www.lingobiz.co.za

To whom it may concern

This document certifies that the manuscript below was edited for correct use of the English language, grammar, punctuation, spelling and overall style by Gillian Newton, certified language practitioner.

**TITLE:**

FACTORS INFLUENCING THE IMPLEMENTATION OF THE  
AUDITOR-GENERAL'S RECOMMENDATIONS IN SOUTH  
AFRICAN MUNICIPALITIES

UNIVERSITY  
OF

JOHANNESBURG

**AUTHOR:**

LESEDI SENAMELE MATLALA

**Date issued:**

30 October 2018

ProQuest Number:28284264

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent on the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



ProQuest 28284264

Published by ProQuest LLC (2021). Copyright of the Dissertation is held by the Author.

All Rights Reserved.

This work is protected against unauthorized copying under Title 17, United States Code  
Microform Edition © ProQuest LLC.

ProQuest LLC  
789 East Eisenhower Parkway  
P.O. Box 1346  
Ann Arbor, MI 48106 - 1346