An examination of the factors contributing to adverse audit outcomes in the KwaZulu-Natal Liquor Authority

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DECLARATION

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ABSTRACT

The KwaZulu-Natal Liquor Authority (KZNLA) is a relatively new public entity of the Department of Economic Development and Tourism in the KwaZulu-Natal Province, established on 1 August 2012. The mandate of the entity is to control and regulate the retail sale and micro manufacturing of liquor in the province. In view of that, this study aimed at investigating the factors behind the increasing number of adverse financial audit outcomes in the KZNLA. The specific objectives of the study were to examine the availability of governance processes and their role on audit outcomes within KZNLA, to explore the relationship between internal audit units and governance units in the KZNLA, as well as to determine the management of financial records by the KZNLA. In order to achieve the objectives, the study employed the mixed method research design to gather data from a sample of 30 participants selected from a population of 90 employees, using purposive sampling, a non-probability sampling technique. The study employed a questionnaire which contained both quantitative and qualitative questions. The study findings indicated that the poor audit reports at KZNLA were caused by the ineffective management control systems and procedures. It was also noted that this apathy, as indicated by the findings, reflects poor management – poor working ethics. Based on these findings, the study recommended the need to change the organisational culture and values to be performance-based, increasing risk awareness to all the employees, enhancing and integrating the existing financial system (PASTEL) and that of the Liquor Management System, staff development through training, as well as awareness programmes on policies and procedures.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS iii
ABSTRACT iv
List of Figures ix
List of Acronyms x
1.1 Introduction 1
1.2 Background and context of the study 1
1.3 Statement of the problem 3
1.4 The aim of the study 3
1. 5 Specific objectives 3
1.6 Research questions 4
1.7 Summary of research methodology 4
1.8 Significance of the study 4
1.9 Study limitations 4
1.10 Organisation of chapters 5
1.10.1 Chapter One 5
1.10.2 Chapter Two: Literature review 5
1.10.3 Chapter Three: Research Methodology 5
1.10.4 Chapter Four: Data presentation and discussions 5
1.10.5 Chapter Five: Conclusion and recommendations. 5
1.11 Conclusion 5
CHAPTER TWO 7
LITERATURE REVIEW 7
2.1 Introduction 7
2.2 Defining key terms 7
2.2.1 Auditing in the Public Sector 7
2.2.2 Internal Audit 7
2.2.3 External Audit 8
2.2.4 Corporate Governance 9
2.3. Role of the Accounting Officer in the public sector 12

2.4 Factors affecting audit outcomes 15
2.4.1 Financial statements 15
2.4.2 Compliance with laws and regulations 16
2.4.3 Predetermined objectives 17
2.4.3.1 Strategic planning 20
2.4.3.2: Operational planning 20
2.4.3.3 Budget preparation 20
2.4.3.4 Audit and annual reporting 21
2.4.3.5 Budget implementation 21
2.5 Audit processes and their role in audit outcomes 27
2.6 The relationship between audit activity and governance processes 33
2.6.1 Audit activity and audit outcomes 36
2.6.2 Disclaimer of audit opinion 36
2.6.3 Adverse audit opinion 37
2.6.4 Qualified audit opinion 38
2.6.5 Unqualified audit opinion 39
2.6.6 The clean audit opinion 39
2.6.7 Clean audit opinion awareness 40
2.7 Theoretical framework 45
2.8 Conclusion 51
CHAPTER THREE 52
RESEACH DESIGN AND METHODOLOGY 52
3.1 Introduction 52
3.2 Research design 52
3.2.1 Participant location 54
3.2.2 Study Population and sampling strategy 54
3.3 Data Collection 56
3.3.1 The questionnaire 56
3.3.2 Secondary data 57
3.3.3 Pilot testing 57
3.4 Validity and Reliability 57

3.5 Ethical Considerations 59
3.6 Data Analysis 59
3.7 Conclusion 60
CHAPTER FOUR: 61
DATA PRESENTATION AND DISCUSSIONS 61
4.1 Introduction 61
4.2 Response rate 61
4.3 Section A: Biographical profile 62
4.3.1 Question 1: What is your gender? 62
4.3.2 Question 2: What is your age? 63
4.3.3 Question 3: Participant racial component 63
4.3.4 Question 4: 64
4.3.5 Question 5: 65
4.3.6 Question 6: 66
4.4 Results based on objective 1: 67
4.4.1 Question 7: 67
4.4.2 Question 8: 68
4.4.3 Question 9: 70
4.4.5 Question 10: 71
4.5 Results based on objective 2: 72
4.5.1 Question 11: 73
4.5.2 Question 13: 74
4.5.3 Question 13: 75
4.5.4 Question 14: 76
4.5.5 Question 15: 77
4.5.6 Question 16: 78
4.5.7 Question 17: 79
4.6 Analysis of qualitative data towards addressing all the three objectives 81
4.7 Conclusion 84
CHAPTER FIVE 85
CONCLUSION AND RECOMMENDATIONS 85

5.1 Introduction 85
5.2 Summary of the study 85
5.3 Conclusions based on objective 1: 85
5.4 Conclusions based on objective 2: 86
5.5 Recommendations towards addressing objective 3: 87
5.6 Areas for further research 87
5.7 Conclusion 88
REFERENCES.. 89
Appendix A: The Questionnaire... 100

List of Figures

Figure 4.1: Participants’ gender…………………………………………………………..28

Figure 4.2: Participants’ age…………………………………………………………….29

Figure 4.3: Racial component…………………………………………………………30

Figure 4.4: Participants’ level of education……………………………………………31

Figure 4.5: Status in the organisation…………………………………………………32

Figure 4.6: Number of years in the organisation………………………………………33

Figure 4.7: Frequency of internal audits……………………………………………..34

Figure 4.8: Effectiveness of the audit committee………………………………………35

Figure 4.9: Perceptions on audit reports………………………………………………35

Figure 4.10: Appropriateness of existing controls……………………………………..37

Figure 4.11: Quality of financial statements…………………………………………....38

Figure 4.12: Effectiveness of systems and procedures………………………………..39

Figure 4.13: Expenditure vs. budget…………………………………………………..40

Figure 4.14: Organisational performance vs. budget…………………………….….41

Figure 4.15: Relevance of the organisation’s information system……………………42

Figure 4.16: Employee motivation………………………………………………….….43

Figure 4.17: Effectiveness of communication within department……………………..44

Figure 4.18: Observation of rules and regulations……………………………………..…45

List of Acronyms

AC:	Audit Committee
AG:	Auditor General
IA:	Internal Auditor
KZN:	KwaZulu-Natal
KZNLA:	KwaZulu-Natal Liquor Authority
PFMA:	Public Finance Management Act
UNDP:	United Nation Development Program

CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Introduction

The South African public entities play a significant role in the economy, by providing basic services to the ordinary citizens, as well as playing a key regulatory role. In particular, the KZNLA has an oversight role of regulating the operations of the retail, sale and manufacture of liquor across the province. As a public entity, the liquor authority's operations are subject to public scrutiny, hence, the need for the entity to operate within the regulations towards fulfilling audit outcomes. For the past five years, the authority has received adverse audit reports, suggesting that all was not well in the entity's operations. The purpose of this study was therefore to examine the factors contributing to such adverse audit outcomes in KZNLA.

In view of the above, this chapter presents the background and context of the study, the problem statement, purpose of the study, objectives and research questions. In addition, the chapter provides the significance of the study and chapter organisation.

1.2 Background and context of the study

The KZNLA is a public entity of the Department of Economic Development and Tourism in the KwaZulu-Natal Province, established on 1 August 2012. The Liquor Authority is registered as a schedule 3C Public Entity, in terms of the Public Finance Management Act. The Liquor Authority was established in terms of the KwaZulu-Natal Liquor Licensing Act 2010 (Act. No. 06 of 2010). The mandate of the entity is to control and regulate the retail sale and micro manufacturing of liquor in the province.

The entity is accountable in line with Section 49 and 50 of the Public Finance Management Act. The entity is also required to discharge further obligations in terms of Sections 51; 53 to 62 of the ACT, which relate to reporting requirements and accounting processes.

The duties and functions, as listed by the KZN Liquor Licensing Act, include the consideration and processing of applications, refusing or granting liquor licence applications, advising the Member of the Executive Council (MEC) on any matter referred to the authority by the MEC, as well as investigating and making recommendations to the MEC, regarding any matters relating directing or indirectly to the liquor industry within the province. The duties and functions also include advising the MEC on the development of a social responsibility programme in respect of alcohol consumption and implementation thereof, assisting the MEC in formulating policy and establishing norms and standards concerning any matters in relation to the liquor industry in the province, participating in programmes aimed at promoting the development of a responsible and sustainable retail and micro-manufacturing liquor industry in the province, as well as initiating and participating in the programmes aimed at reducing the socio-economic and other effects of alcohol abuse.

Other functions and duties include assisting and advising the responsible MEC on the development of a programme in order to pursue the objects of the Act as detailed in Section 2, assisting and advising the MEC with regards to guiding local committees, the business unit within the Department responsible for small business development, stakeholders in the liquor industry, consumers and organisations or institutions whose activities or aims have an impact on, and relate to the liquor industry in the province and performing such other functions as may be assigned to it in terms of this Act.

The strategic goals of the KZNLA which give statutory mandate includes providing an effective regulatory environment, implementing effective corporate governance processes in the liquor authority, attracting, nurturing and retaining skills within the organisation, implementing sound financial management and effective and reliable information management systems, implementing an effective liquor licensing process, ensuring compliance with the liquor licensing legislation and advocating for an informed, efficient and seamless liquor regulatory environment. The researcher is employed by KZNLA as the Chief Financial Officer (CFO) who has over the years, dealt with various adverse audit reports, hence, the motivation to conduct this study, with the aim to minimise the negative effects of such reports. Adverse audit entails a negative audit outcome within the KZNLA.

1.3 Statement of the problem

The KZNLA, just like any other state entity, is expected to operate efficiently, demonstrating the value for money, from the government's point of view. The government provides funding to KZNLA to allow the entity to carry out its regulatory functions. The Public Finance Management Act (PFMA) of1999 empowers the authority to do so. The PFMA (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) envisages public entities to manage their finances. However, KZN Liquor Authority has had adverse audit reports over the last three years. Over this period, the Auditor General identified many areas of concern, hence, the need to identify the causes of the adverse financial audit reports in order to enhance PFMA compliance and to improve public confidence. In view of the above, the study had the following aims and objectives.

1.4 The aim of the study

The aim of the study was to examine the factors contributing to the adverse audit outcomes in KZNLA. The objective of the study was to identify the factors contributing to the audit outcomes for the KZNLA with a view to improve quality of the audit reports.

1. 5 Specific objectives

To achieve the aim of the study, the following specific objectives were developed:

- To identify the factors contributing to the adverse audit outcomes within KZNLA;
- To assess the relationship between governance processes and audit outcomes; and
- To propose improvements in the management of finances and governance processes.

1.6 Research questions

The primary question for the study was: “What factors contribute to the adverse audit reports in the KZN Liquor Authority?” The secondary research questions were:

- What are the factors contributing to adverse audit outcomes within KZNLA?
- What is the relationship between governance processes and audit outcomes?
- What improvements are needed at KZNLA, towards enhancing the quality of the audit report?

1.7 Summary of research methodology

The study used a mixed research method approach that incorporated both the positivist (quantitative) and the phenomenological (qualitative) approaches. Data were gathered from a target population of 90 employees, from which a sample size of 30 was selected. Both the questionnaire and the interview guide were used as data collection instruments. Quantitative data were captured into the excel spreadsheet, analysed by the SPSS and presented in graphs with percentages used as a measure of expression, while qualitative data were analysed through thematic analysis.

1.8 Significance of the study

The study is significant in many ways, which include improving study-sought explanations on the factors contributing to the poor financial audit reports of the KZN Liquor Authority, with a view of using the findings to help managers in the entity to understand the challenges it faces. Furthermore, the results of this study would help improve the processes at the KZN Liquor Authority and most importantly, improve governance and financial management practices.

1.9 Study limitations

Firstly, this study focused on the KwaZulu-Natal Liquor Authority, a relatively small entity, Secondly, the sample size was too small for a study of this nature. Thirdly, the period for the completion of this study was also limited to six months, which may have compelled the study to be finished within the limited period of six months. Because of the scope of the study, the results may not be generalised to other liquor authorities in the country.

1.10 Organisation of chapters

The study is presented in 5 chapters as detailed in the following section:

Chapter One: This chapter introduced the study by setting the stage of the study. In particular, the chapter covered the background to the study, the problem statement, aims of the study, research objectives and questions, the significance of the study, the brief research methodology, as well as the study limitations and organisation of chapters. **Chapter Two:** This chapter presents the literature aligned with the study. Thus, key terms are defined, followed by the specific literature on the factors affecting the audit outcomes, as well as the audit activities that affect governance matters within the audit circles in the public sector. The chapter also reviews the underpinning theoretical framework guiding the study. **Chapter Three:** Chapter three describes the research design and methodology for the study. Mindful of the fact that the study employed a mixed methodology, the chapter discusses the quantitative and qualitative methodology, as well as the relevant sampling techniques aligned with the methods. **Chapter Four:** This chapter describes the study results, in line with the objectives of the study, while addressing the corresponding questions on the research instrument. Effort was made to link the results to the literature, as reviewed in Chapter 2. **Chapter Five:** This is the final chapter which presents the conclusions and recommendations of the study. Effort was made to align the conclusions with the objectives as stated in Chapter 1. The chapter also describes the scope for further research.

1.11 Conclusion

The chapter attempted to set the study scene by documenting information on the study background, as well as contextualising the problem. The chapter developed the problem statement, as well as the objectives and questions underpinning the study. Based on the information presented in this chapter, it is clear that KZNLA faces serious adverse audit outcomes which need urgent attention going forward, thus compelling the need to conduct an empirical study of this nature. The next chapter presents the literature related to the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter one presented the background information that compelled the need for the study to conduct an examination of the factors that contribute to the adverse audit outcomes within the KZNLA. This chapter reviews the relevant literature on the study, with a view to understand and provide the context of the study's problem statement. The chapter describes both theoretical and empirical literature review.

2.2 Defining key terms

Waweru (2014:456) posits that key terms in research are crucial to dispelling misunderstanding in order to give contexts to the way they are used. It is worth mentioning that when examining the issue of governance, it is important to note that there is no single definition, which is universally accepted. The two key terms identified are combined assurance and corporate governance.

2.2.1 Auditing in the Public Sector

The Public Audit Act (25 of 2004) defines audit as "the examination or investigation of financial information, in accordance with any applicable audit standards". Audit reports are able to advance the dependability of fiscal information. Auditing unequivocally supports better company governance and undertakings. Waweru (2014:455) claims that the quality of audit is an indispensable part of the professional markets, since audit reports are able to advance the dependability of fiscal information (Waweru,2014:480). Furthermore, this Auditing unequivocally supports better company governance undertakings. There are two types of audits, namely internal and external audits.

2.2.2 Internal Audit

This is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. Internal auditors assist management in assessing the effectiveness of the organisation's internal controls and recommends strategies to improve where necessary (The Public Audit Act, 25 of 2004). The IAA must assess and make appropriate recommendations for improving the governance process in the accomplishment of its objectives which include promoting appropriate ethics and values within the organization; ensuring effective organisational performance management and accountability; communicating risk and control information to appropriate areas of the organisation; and coordinating the activities of and communicating information among the board, external and internal auditors and management (Waweru, 2014:460).

2.2.3 External Audit

An external auditor performs an audit in accordance with specific laws or rules, of the financial statement of the company, government entity, other legal entity or organisation and is independent of the entity being audited (Akyel & Kosi, 2013:201). External auditors normally address their reports to the shareholders of a corporation. External auditing is not an end in itself; it is ideally a component of a regulatory system of public finance and administration oversight that includes internal auditing, parliamentary reviews, public debate facilitated by the media, judicial prosecution and other mechanisms (Akyel & Kosi, 2013:201). The role of the IAA is to ascertain whether the institution's risk management network, controls and governance structures which are designed and embodied by management, sufficiently mitigate risks which might hinder the attainment of the strategic objectives at strategic and operational levels. This includes the risks which are related to expenditure, revenue, IT and many other areas in an organisation (Treasury, 2009).

Leeuw (1996:92) is of the opinion that performance reviews like fiscal audits result in a proficient and successful performance of the sector. He further emphasises the "economy, efficiency and effectiveness" of organs of the regime, strategy tools and programme guidelines. Therefore, the objective of auditing is to identify the risks of the organisation concerning fraud and to ensure that sufficient measures have been taken to avoid them (Flostoiu, 2012:111). The best way of preventing fraud in an organisation is by the internal control and the evaluation of its effectiveness is the fight against fraud. The organizations that have implemented the internal audit function are far better prepared to and more capable of detecting frauds than those which do not have it (Flostoiu, 2012:111).

Random audits serve as a type of control measure against which to compare selective audit results, as well as to identify any inappropriate patterns that would not necessarily have been flagged for review under the current selection parameters. However, because audit resources are limited, most audit cases are selected for a reason, rather than random (White, 2013:70). The best way of preventing fraud is by the internal control and the evaluation of its effectiveness is the fight against fraud. The organisations which would have implemented the internal audit function are far better prepared to and more capable of detecting frauds than those which do not have it (Flostoiu, 2012:112).

2.2.4 Corporate Governance

Corporate governance is defined in many ways. "Broadly defined, corporate governance generally refers to the processes by which organisations are directed, controlled, and held to account." (Australian National Audit Office, Corporate Governance in Commonwealth Authorities and Companies, 1999).

Corporate governance refers to the "methods and systems and/or the governance framework designed to efficiently manage the affairs of organisations of any kind (White, 2013:71). According to White (2013), corporate governance is the manner or style of governing. Flostoiu (2012) views it as the function for managing and structuring the relationships amongst the different spheres in the business, from supervisors to those entrusted with the oversight responsibility. All these definitions portray corporate governance as the manner in which the affairs of the company are planned, organised, implemented, controlled and evaluated. In the same way, Leeuw (1996:92) rates corporate governance as a life-saving corporate medicine to cure all the evil intentions of bad people or perpetrators, by way of establishing a cohesive corporate culture where senses of law and ethics would logistically work without compromise, and where there would be no rooms for turning a firm into a devil's workshop.

Corporate governance mechanisms present ways and processes by which managerial proceedings in a firm may be monitored and controlled (Fahami, Pordanjani & Mahmoudi, 2016:300). White (2013:11) posits that governance factors are key contributors to audit opinion in particular, internal controls and good leadership, quality and timeliness of financial statements, finance, availability of key officials, good records keeping and management, an efficient supply chain management, information technology, human resources and risk management

Corporate governance and financial performance are recognised to influence the quality of audit, therefore, the management of the organisation should strictly adhere to the codes of best practices of good corporate governance, as this would, to a large extent, help in enhancing corporate governance and the financial performance of firms and by extension, the quality of audit (Fahami *et al.,* 2016:300).

According to Waweru (2014:475), the company's performance is intrinsically connected to the prominence of good business governance. Waweru (2014:472) argues that there is a strong evidence that good corporate governance practices significantly contribute to the improvement of performance, as it represents a check and balance on the managers' conduct of non-optimization of the shareholders' goals of value creation. Corporate governance within developing countries remains an issue of major concern, leaving room for study and analysis. Considering the particular context of emerging countries, those companies that are preoccupied for implementing good corporate governance principles, require particular procedures, methods and unique instruments that are often different from the ones implemented by companies operating in developed countries.

As a system of government in which power is vested in the people who rule directly or indirectly, democracy can be put into practice through the active participation of citizens. Since there is an increasing global trend towards democratisation, governments are facing growing pressures to involve and engage citizens in political and managerial processes to be more accountable, transparent and effective (Akyel & Kosi, 2013).

In the pursuit for good governance, risk management is a fundamental part of corporate governance and despite it being largely a management responsibility, management anticipates the audit committee to provide oversight and expert advice on the organisation's risk management. The audit committee needs to satisfy itself that management has the adequate framework to manage risks; whether it has followed a sound and comprehensive approach in developing strategic risk management plans; the influence of the organisation's risk management charter on the control environment; and the organisation's fraud preclusion plan to be satisfied that the organisation has appropriate processes and systems in place to capture, monitor and effectively investigate fraudulent activities" (IAF, 2009).

The strengthening of internal controls should not only be restricted to the finance environment, but it should be applied across operational value chain. Consequently, it is about good organisational value, good practice and positive work ethics, which contribute to the effective and efficient running of the organisation. This should be complemented by suitable policies and procedures which should be strictly adhered to in order to achieve positive results for the organisation and the attainment of organisational strategic objectives (Treasury, 2014/15). Organisations should thus create awareness programmes in which employees learn the legal matters and ways to maintain ethics in order to uphold the motivation of legal compliance and ethical practices (Aguinis, 2009).

In recognition of the importance of corporate governance, Chapter 10, Section 195 (1) (2) of the Constitution of the Republic of South Africa states that:

> *Democratic values and principles that include, amongst others, a high standard of professional ethics; efficient, economic and effective use of resources; accountability and transparency must govern public administration. The principles apply to administration in every sphere of government, organs of state, as well as public enterprises*.

2.3. The role of the Accounting Officer in the public sector

The Accounting Officer (AO) is expected to conduct risk assessment, with the aim to ascertain the extent to which the organisation is exposed to risk, consequently design a risk strategic plan to mitigate risks which are above the organisational risk appetite. This assessment must be done on an annual basis in order to identify any emerging risks. A fraud prevention plan should be put in place. Internal audit operational plan must be informed by the risk strategy (PFMA Regulations).

According to Section 77 of the PFMA, the internal audit unit should play a role in assisting the AO to evaluate the effectiveness and efficiency of internal controls. IA should come up with recommendations to improve and strengthen weak controls. This should include areas in ICT environment, the dependability and integrity of financial and performance data, the efficacy of procedures, maintenance of assets; and compliance with applicable governing legislations and other regulations.

IAA is tasked with evaluating risk exposures involving the organisation's governance, operations and information systems and further provides assurance to management and the AC on the adequacy and effectiveness of the risk management process, since risk management is a key responsibility of the Accounting Officer and management. Therefore, the management should ensure that adequate risk management processes are in place and functioning as intended (Treasury, 2009).

According to the Treasury Internal Audit Framework (2009), channels of communication connecting IAA and AC must be maintained, given that the IAA is a basis of evidence to the Audit Committee on the performance of the organisation. Audit committee is prescribed by the Public Finance Management Act for all organs of State and its main functions are listed as follows;

- Acts as a medium of communication between executives and assurance providers, i.e. internal and external audit;
- To evaluate the Internal Audit Strategic and annual operational plan, to ensure cohesion with organisational risk plan

- Guides the Accounting Officer on the suitability of Internal Audit capacity to execute the auditing mandate;
- Provides oversight on the co-ordination of audit plans conducted by internal and external audit;
- Receives and evaluates the internal audit reports and ensures that all risks identified through internal audits are properly mitigated through an action plan
- Monitors the implementation of the IAA recommendations by management.
- Conducts an assessment of the Internal Audit Charter to ensure it remains relevant to the organisational structure.
- Occasionally assesses the performance of the Internal Audit function

Audit reports and other outputs of the Supreme Audit Institutions are the most relevant and trustworthy sources of information for stakeholders and are apparatus for both the distribution of and access to public information. Their roles are growing, corresponding with an increasing need for governments to be more effective, transparent and accountable (Akyel & Kosi, 2013:19). Supreme Audit Institutions above all, aim to guarantee a sound financial structure, which is the most significant basis for a strong public management and a sustainable democracy. Given that public resources are more and more under difficulty and ineffective management of these scarce resources is one of the most essential reasons of destructive global financial and economic crisis, growing focus is now being given to issues of quality of use of public resources and demands from SAIs are growing swiftly (Akyel & Kosi, 2013:19).

The main advantage of audit committees is that they afford not only snapshots of systems quality and capacities within their departments and agencies, but they also frequently meet to review the progress being made to these systems and to give deputy heads the required perspectives and recommendation on internal risks. Therefore, without a doubt, audit committees present a valuable support for deputy heads to focus attention on departmental accountability and control systems, particularly as this support serves deputies in their role as accounting officers (Shepherd, 2011).

“The perspectives provided by audit committees support departmental and agency efforts for understanding their management risks and create the fodder necessary to build and maintain coherent and rigorous corporate risk profiles” (Shepherd, 2011). According to the Internal Audit Framework (2009), the AC’s responsibilities in relation to external audit should be as follows:

- Provide input and feedback on the financial statements and audit coverage proposed by external audit and provide feedback on the audit services provided;
- Review all external audit plans and reports and monitor management’s implementation of audit recommendations;
- Provide advice to the AO on action taken on significant issues raised in external audit reports; and
- Review external audit costs

“The greatest threat to the continued acceptance and performance of committees is the appointment of qualified and suitable people, especially those external to government” (Shepherd, 2011). The theory underlying the institution of audit committees is that over time, management systems will improve and therefore reduce the need for rigorous external examination by the Office of the Auditor General or other agents, which might be potentially embarrassing. The challenge for these committees is that expectations of their effectiveness for gauging the quality of internal control systems, or indeed programs themselves through review of audits and other reports, may be higher than can be met (Shepherd, 2011).

The AC members need to have a good understanding of the control framework. This understanding will enable the AC to evaluate the adequacy of the organisation’s control environment and will be a basis from which reasonable assurance can be, provided that the organisation’s objectives and goals will be achieved efficiently and economically (Internal Audit Framework, 2009).

It is the obligation of the audit committee “to manage the internal and external audit functions and reviewing of periodical “financial statements” in an organisation (Waweru, 2014:484). According to Sections 76(4) (d) and 77 of the PFMA, the AC is expected to function in accordance with the audit framework, which must inform the audit methodology, its operational processes and which must dictate the rules to regulate the audit relationship. The audit framework must be evaluated on an annual basis to ensure it remains relevant. The AC must assess the following:

- Efficacy, efficiency and adequacy of the internal control environment;
- Efficacy and efficiency of the internal audit function;
- Risk register of the organisation and adequacy of the risk strategy to mitigate same;
- The adequacy and integrity of financial information, as well as its accuracy provided to management and other users of such information;
- Any salient concerns emanating from the internal and external audit reports; and
- The extent to which the organisation complies, which governs pieces of legislations and other important regulations.

2.4 Factors affecting audit outcomes

The Auditor General South Africa (AGSA)'s audit of public sector organisations takes place in three phases: the audit of financial statements; reporting on predetermined objectives; and compliance with laws and regulations (AGSA, 2011/12). The following sections provide some detail of each of the three elements of a public sector audit. Thus, the path to the achievement of a 'clean audit' includes the successful evaluation of an integrated set of financial statements, an assessment of the degree of compliance with laws and regulations the organisation has achieved, as well as an evaluation of information describing the performance against predetermined objectives. These elements are discussed next.

2.4.1 Financial statements

Financial statements include statements consisting of the balance sheet, income statements, a cash flow statement and any other statements that may be prescribed and any notes to those statements" (South African Institute of Chartered Accountants (SAICA), 2014). These statements are structured representations of historical financial information that include the assessment of the entity's financial position as shown in the balance sheet's presentation of assets, liabilities and equities, the financial performance as presented in the income statement's record of income and expenses and the statements of changes in financial position which are reflected in the income statements and in changes in the balance sheet (SAICA, 2013/14). An audit is conducted to determine whether the financial statement as a reflection of the financial position, financial performance and cash flow, and that the presentation and (statutory) disclosures have been stated in accordance with specific criteria (Arens, Elder & Beasley, 2014:33). In the South African local government financial arena, the "suitable criteria" determining the preparation of the financial statements (and thus the audit) are the Generally Recognized Accounting Practice (GRAP) Standards (IRBA, 2012).

These criteria are designed to provide users (such as Parliament, the provincial legislatures and public entities) with information on the basis used for the preparation of the financial statements, and to assist them to assess whether proper stewardship has been exercised; to assist the preparers of financial statements (such as accounting officers) to apply GRAP accurately and effectively; to assist the auditors in forming an opinion as to whether the financial statements conform with GRAP; to assist users of the financial statements to interpret the information contained in the financial statements; and to provide the executive authority with a conceptual basis for the formulation of refinements to the GRAP (National Treasury, 2010).

2.4.2 Compliance with laws and regulations

Compliance audit is conducted to determine whether the auditee has followed the specific procedures, rules and regulations set by the authorities (Arens *et al.,* 2014:33). In public entities, such compliance is measured against a number of laws and regulations applicable to the public sector entities. The key laws and regulations include the Public Municipal Finance Management Act (MFMA, 56 of 2003), and the Public Municipal Systems Act (MSA, 32 of 2000). Thus, it is imperative that the auditors are more than simply aware of these pieces of legislation and in fact have a working knowledge of the application of these laws and regulations to a local government entity, so that they are able to identify instances of non-compliance with these laws and regulations during their audits (IRBA, 2012).

The results of compliance audits are normally reported to the management of the entity, as they have the primary responsibility to correct any deviation from applicable laws and regulation (Arens *et al.,* 2014:34). However, in the South African public sector as a whole, the AGSA makes all findings, including instances of deviation from legislation, rules and regulations applicable to the public sector. Thus, once the compliance audit has been completed, the auditor can place reliance on the systems of internal controls and perform procedures based on the applicable rules and regulations.

2.4.3 Predetermined objectives

According to the IRBA (2012:9), the 'audit of predetermined objectives' is not unique to the South African public sector. Australia, Canada and New Zealand also audit public sector performance information. In the research literature and the operational reporting guidelines on this subject, the terms 'audit of performance information' and 'audit of predetermined objectives' are used interchangeably, as evidenced recently in the study by Van der Nest and Erasmus (2013:77), and in the AGSA's official documents (2009). An audit of performance information' is defined as the audit of reported actual performance against predetermined objectives of public institutions, to provide assurance to Parliament, legislators, members of the public and other interested parties that the actual performance reported is both useful and reliable (IRBA, 2012). Van der Nest and Erasmus (2013:77) argue that the audit of performance information is a cornerstone of performance reporting. According to the IRBA (2012), the audit of predetermined objectives requires the auditors to provide an opinion on whether the reported performance information accurately reflects the performance of the auditee against its predetermined objectives.

The audit of predetermined objectives has been mandatory since the start of the 2005/06 financial year (AGSA, 2011/12), and the first audit opinions were presented in the 2009/10 financial year (AGSA, 2011/12). This was used to conclude that the reported performance against predetermined objectives was useful and reliable (IRBA, 2012). Today, the audit of performance information has become an accepted part of the evaluation of public sector organisations and a prerequisite to obtaining a clean audit outcome (Van der Nest & Erasmus, 2013:78). In the South African public sector organisations, performance information follows the framework in which performance management and the reporting of the performance information is managed (AGSA, 2011/12). The auditing of performance information can be used to measure public sector entities' track records of service delivery against the SMART [as being specific, measurable, achievable, realistic and time related] way of doing things. Performance audits are performed in terms of Section 20(2) (c) and 28(1)(c) of the Public Audit Act (RSA, 2004) which requires that an audit report be generated to reflect an opinion or conclusion relating to the performance of the auditee against predetermined objectives. In support of the public's right and need to know how government money has been used, the audit of performance information serves to provide information that is complete, understandable, comparable, relevant, and reliable to the public and other users of audit reports (National Treasury, 2011), and should be made available in a timely manner. In public sector organisations, the audit is an important component of accountability that extends to non-financial information as well. Consequently, the auditors are expected to provide assurance on the reliability of non-financial information relative to the entity has predetermined strategies, and to provide appropriate assurance as to whether there are in fact clear frameworks against which to audit the information.

In the South African public sector organisations, the processes to be followed when auditing performance information are detailed in the National Treasury Performance

Information Handbook (National Treasury, 2011). The handbook indicates that the AGSA is expected to audit performance information against all relevant laws and regulations, while making use of the frameworks for managing performance information. In addition, the auditors are required to refer to the circulars and guidance issued by the National Treasury and the Presidency regarding planning, management, monitoring, evaluation and reporting in the conduct of their audits. The IRBA (2012:82) also provides guidance to the AGSA on how to audit performance information in the public sector.

Thus, when the audit of performance information is conducted, all relevant laws and regulations, together with official frameworks for the managing of programmes and their performance information, and frameworks for the preparation of strategic and annual performance plans should be considered (AGSA, 2011/12). In addition, the circulars and guidance issued by the National Treasury regarding planning, management, monitoring and reporting of performance information should be considered as useful tools for audit purposes (AGSA, 2011/12). According to the IRBA (2012), performance information is audited against the criteria of existence, timeliness, presentation, measurability, relevance, consistency, validity, accuracy and completeness.

Despite the number of performance information audit evaluation tools presented for use by individual entities and auditors, Section 85(2)(c) of the Constitution gives the Presidency of the Republic of South Africa an overall authority (together with other members of the Cabinet) to coordinate the functions of state entities and their administrations (RSA, 1996). The aim of the performance evaluation framework in public service institutions is to encourage public service institutions to evaluate their programmes regularly; to offer guidance on the approach to be adopted when conducting evaluations; to provide for the publication of the results of these evaluations (National Treasury, 2011) and thus, to enhance accountability in order to expedite the realisation of their service delivery targets. Specific factors critical for an unqualified audit report includes:

2.4.3.1 Strategic planning

Strategic planning is a process of defining an organisation's plan for achieving its mission (Gates, 2010). Thus, the strategic plan is concerned with an institution's policy priorities, and programme and project plans for the longer and shorter terms (Fourie & Visser, 2009:885). According to Pauw *et al.* (2009:130), the strategic plan must clearly set out and promote the managing processes of the institution; ensure that all citizens benefit from the rendering of these services; enhance accountability and provide greater transparency and value for the public.

2.4.3.2: Operational planning

Operational planning takes place at the organisational unit level (Hinton, 2012:51), where the presence of an operational plan helps auditors to evaluate performance against strategic objectives (National Treasury, 2011). At the operational plan level, public entities are required to focus on converting service delivery objectives into action (Pauw, *et al.,* 2009:131). Thus, the operational plan shows how outcomes such as improved service delivery, greater commitment on the part of the organisation's staff, and improving levels of customer satisfaction on the back of improved service delivery are to be achieved (National Treasury, 2011).

2.4.3.3 Budget preparation

Budget preparation helps the organisations to plan and control their operations and to support their managerial strategies (CIMA, 2009). This has to be viewed as a key policy document (Blöndal, 2003) which takes cognisance of all government revenue and expenditure constraints. Regardless of the context (whether national, provincial or local government), a budget is set out to determine what funds are available and how these are to be allocated to best deliver the agreed upon services (National Treasury, 2010). In South Africa's public sector, budget preparation is a long process which starts in August of every year when the public entity Chief Executive Officers table the schedule of key deadlines, and concludes in June or early July of the following year, when the public entity approves the Service Delivery and Budget Implementation Plan (SDBIP) and the associated annual performance agreements with senior managers (National

Treasury, 2012). Hence, the budget preparation process includes the Integrated Development Plan (IDP) review (where community inputs are encouraged through discussion) and efforts to promote a better understanding of community needs, by providing opportunities for community feedback. In short, it is the sum of all efforts intended to improve accountability and responsiveness to the needs of the local communities (National Treasury, 2012).

2.4.3.4 Audit and annual reporting

The AGSA (2011/12) performs and oversees the audit and annual reporting of the auditees (public entities, departments and state-owned enterprises, amongst others); testing their annual performance reports on their actual achievements against the performance objectives they had set at the beginning of the period. For audit purposes, the accounting officer should consider measurable performance objectives, which is another important aspect that is required to be aligned with the budgeted financial outcomes (National Treasury, 2012).

2.4.3.5 Budget implementation

According to Pauw, *et al.* (2009:130), budget implementation is the phase where the appropriate cash is used to purchase or pay for services contracted for, in terms of the government policies underpinning the budget. This is an internal process in which public entities are expected to implement service delivery projects defined by revenue source, as well as operating and capital expenditures by type (National Treasury, 2012). Budget implementation is dependent on good budget preparation. A good budget ensures direct expenditure management that avoids unauthorised, irregular, fruitless and wasteful expenditure. In the local government sphere, the budget implementation phase involves the fulfilment of plans outlined in the budget, through the approval of the SDBIP. This in turn requires accurate and binding performance agreements for public entity Chief Executive Officer and other senior managers for the coming financial year. These performance agreements must be concluded within 28 days of the approval of the budget (National Treasury, 2011).

The AGSA has a constitutional mandate and, as the supreme audit institution of South Africa, it exists to strengthen the country's democracy by exercising oversight, accountability and governance duties over the activities of the public sector through auditing. In so doing, it contributes to the nurturing of public confidence in government's ability to deliver on its promises. Recently, the AGSA expanded its range of services beyond the basic financial audits to include a wide range of audits of pre-determined objectives. Thus, the audit of performance information is becoming increasingly commonplace, and should be an automatic and integral part of an effective accountability audit in all public sector organisations. In South Africa's public entities, as in most national governments departments in the country, it is a legislative requirement for accounting officers to report on the performance of their organisations against their predetermined objectives. This is required in terms of financial management statutes such as the Public Finance Management Act (1 of 1999) and the Public Municipal Finance Management Act (56 of 2003). As part of the legislative accountability framework, performance reports are primarily used by legislatures, members of the public and other interested parties to assess the relative success of service delivery efforts, and whether funds approved by the national and provincial legislatures have been spent correctly. As a result, there is in fact no separate audit opinion available to public sector organisations for their financial statements only. For the auditor to express a 'clean audit opinion', all three elements of compliance must be considered: financial statements; compliance with policies, laws and regulations, while performance information must all be audited and all have an impact of the formulation of the audit opinion. According to AGSA (2011:16), "clean audit does not mean that all is perfect in government – it thus simply means that [the] control environment is sound enough to prevent and detect any imperfections early enough" to prevent serious impact on budgets and service delivery objectives. Thus, the achievement of clean audits across all entities would guarantee a clean administration (Makhura, 2014; AGSA, 2011/12). A clean administration is a prerequisite for effective service delivery and for ensuring the growth and continued strengthening of the South African democracy (Public Service Commission, 2013). According to China's then President Ma Ying-Jeou (2008), a clean administration is characterised by the demonstration of the core values of integrity, professionalism and efficiency by its public sector officials. The term “clean administration” became a catch phrase in the twentieth century. It is an ideal to which politicians, parliamentarians and government administrators claim to aspire, and is characterised by a government that is free from corruption, social ills, and management control weakness, and that adheres to the laws, rules and regulation of its country. “Administration” is another catch-all term, one that refers to “all the systems, procedures, codes, policy frameworks, accountability mechanisms and management controls that ensure the functioning of public administration” (Public Service Commission, 2013). From the perspective of South Africa’s Constitution (Section 195(1)), “Public administration must be governed by the democratic values and principles enshrined in the Constitution…” (RSA, 1996). The nine principles guiding the activities of a clean administration are then listed in this section. Thus, a clean administration is expected to: promote and maintain a high standard of professional ethics; promote efficient, economic and effective use of resources; be development-oriented; provide such services impartially, fairly, equitably and without bias; respond to people’s needs and encourage public participation in policymaking; be accountable to the public; foster transparency by providing the public with timely, accessible and accurate information; ensure good human resource management and career development practices to maximise human potential; and ensure broad representation of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation (RSA, 1996).

In the same vein, Madonsela (2013) states that a clean administration should also demonstrate the following: “capacity building through training, particularly policy inductions and regular briefings when policies change; provision of easily digestible materials such as pocket books and posters on key policy provisions and concepts; celebrating and rewarding compliance; consistent rejection of non-compliance; zero impunity for non-compliance; a cooperative rather than competitive paradigm among integrity institutions, including internal ones; strengthening synergies in oversight value chain; learning and growing together; overseers walking the talk on good governance; better protection of whistle-blowers; and adherence to a rule of law paradigm".

Clean audits reflect clean government, and a clean government depends on a clean control environment. In order to understand the correlation between clean government and a clean control environment, Makhura (2014) considers the elements of a good control environment that are prerequisite to the enhancement of the integrity of all local government institutions. As previously stated, a clean control environment depends on clean government. From an accounting perspective, the control environment is a key element of internal control (COSO, 2013), and embodies integrity and ethical values; commitment to competencies, and the participation of those charged with the responsibility of governance. In addition, it requires a supportive management philosophy and operating style; organisational structure; appropriate assigning of authority and responsibility, and human resource policies and practices based primarily on competence (COSO, 2013).

Clean administration emerges when the governance of the control environment is effective. Some of the authors reviewed observed that implementing a 'clean administration' has proved effective in improving the functioning of local government (Soomro & Chandio, 2013:22). Where a clean control environment exists in local government, the attitudes, awareness and actions of local officials and management are in line with those identified by best practice and regulations (COSO, 2013), and this will provide the impetus to achieve clean audit outcomes. Within the context of this study, the control environment shapes the attitudes of the stewards, encouraging them to commit themselves to high standards of integrity and ethical values, and clear and effective communication, while appointing the people with appropriate qualifications, competencies and work ethics (Deloitte, 2012).

Hence, a clean administration is built by the strengthening of anti-corruption measures; upholding public-sector ethics; promoting corporate credibility; expanding [the availability of] public guidance; increasing efficiency and transparency; enhancing the openness of government procurement; ensuring fair participation in politics and participating in international cooperative efforts. In addition, a clean administration enhances the number and ease of transnational exchanges, prevents money laundering, and provides effective mutual assistance in law enforcement (Ma, 2008). Therefore, a well-controlled administrative environment effectively guarantees a clean local government administration and assures the welfare of the entity's citizens. Thus, a clean government administration is one that puts the principles of the Constitution into daily use, ensuring there is no element of corruption or abuse of power, and that it is responsive to the needs of its citizens.

A quality audit depends on good internal control. The AGSA identifies three key drivers to be paramount for effective internal control and hence, the audits of the public entities are focused on determining the strengths of these three drivers (AGSA, 2013). The key internal control drivers are leadership, financial management and governance (AGSA, 2013). These are described in detail:

Leadership: Public entity leadership is required to establish a culture of honesty, ethical business practices and good governance; to exercise oversight responsibility; to ensure effective human resource practices; to implement appropriate policies and procedures; to approve and monitor the implementation of action plans; to address internal control deficiencies, and to approve an appropriate information technology governance framework (AGSA, 2011/12). Missioura (2015) agrees that leadership has a critical role to play in monitoring the internal controls environment, to ensure that it contributes to the implementation of effective and efficient management systems. Efficient, ethical leadership is essential to safeguard and maintain the integrity of internal control systems because they influence accounting systems (Arel, Beaudoin & Cianci, 2012:75). Leadership quality is thus an important determinant of the success of the organisation. Similarly, Simons (2013:18) regards leadership to be a lever of control that drives the organisation's strategic direction and ensures proper processes in policy formulation and implementation. In addition, Ho, Li, Tam and

Zhang (2015:81), in their study of the relationships between the Chief Executive Officer, gender, ethical leadership and accounting conservatism, revealed a positive association and suggest that ethical leadership should contribute to the greater integrity of financial internal control reporting. Leadership is at the top of management's decision-making pyramid (Ho *et al.,* 2015:99). Weak leadership may therefore result in poor decisions that will affect the audit outcome (Skaife, Veenman & Wangerin, 2013:21).

- **Financial management:** requires the use of a recognised record-keeping system for all transactions; the maintenance of effective controls over daily and monthly processing and reconciling of transactions; the production of regular, accurate and complete financial and performance (service delivery) reports; the review and monitoring of compliance with applicable legislation, and the design and implementation of formal controls to mitigate information technology risks (AGSA (2011/12). Skaife *et al.* (2013) view effective financial management in the public sector and non-profit organisations as an important component of the enhancement of timely reporting and quality of audit outcomes. Of course, financial managers also have a primary responsibility to prepare financial statements for audit. Therefore, by fine-tuning their internal controls over financial reporting organisations can improve their audit outcomes (Skaife *et al.,* 2013). On the other hand, when the financial management environment is effectively operated, in accordance with accepted standards and processes, the auditors are also better able to evaluate the financial statements, financial risks and reporting lines (Skaife *et al.,* 2013).

- **Governance**: Those entrusted with responsibility for governance should ensure that risks are identified, assessed and effectively mitigated; should ensure the maintenance of an adequately resourced and functioning internal audit unit, and should require that the audit committee performs its legislated duties competently. In addition, they should promote accountability and service delivery (AGSA, 2011/12). Effective governance optimises the use of resources to ensure proper internal control systems (Skaife *et al.,* 2013). In addition, Lisic, Neal, Zhang and Zhang (2015) emphasise that the audit committee has the power to ensure that internal controls are effective and support the financial reporting processes. Hence, the whole governance structure has as its prime focus as the optimisation of internal controls and improving the quality of audit reports (Cao *et al.,* 2015).

2.5 Audit processes and their role in audit outcomes

Auditing provides authority to governance and management control reporting systems (Griffin & Wright, 2015:42). This arises from the auditing function, having examined the final product of the accounting systems, then being able, based on the credible evidence they have assembled, to provide an opinion or audit outcome (Kumar & Sharma, 2015:17). Auditing is an essential tool of governance, and its formal origins can be traced at least to the Middle Ages. The emergence of recognisably modern auditing practices can be traced to the European Industrial Revolution (roughly 1800 to 1900 AD) during which period large scale industrial production techniques took over manufacturing (Leung, Coram, Cooper & Richardson, 2009; Kołosowska & Voss, 2014:9). According to the literature and archaeological evidence, accountancy and auditing were already in evidence in Greece, as early as 500 BC (Leung *et al.,* 2009:140) and even earlier in the ancient Near Eastern countries of Mesopotamia. Of course, both accounting and auditing took on additional responsibilities during the industrial revolution, when companies needed to raise capital from parties other than the original owners of the businesses, to finance their expansions. The word "audit" comes from the Latin word "auditere", which means to hear, and as Kołosowska and Voss (2014;122) explain, the word includes the actions of listening, interrogating and examining. Describing how auditing has continued to enhance the accounting process, Kołosowska and Voss (2014) observes that:

"*auditing in its simplest form originated from almost the development of organised systems of accounting. As it became necessary to entrust one man with the property of another, the need for a check on the fidelity of the former arose. Hence,* *Mesopotamian relics of commercial transactions pertaining to the period 3600-3200 BC reveal tiny marks, dots, ticks and circles at the side of figures indicating that those figures had been checked. The ancient Egyptians got their fiscal receipts recorded separately by two officials while another official conducted their audit. The Greeks appointed checking clerks to scrutinise the accounts of public officials at the expiry of their terms of office, whereas the Romans who designed an effective system of financial administration, distinguished between the person authorising expenditure and the person responsible for actual receipts and payments.”*

Kołosowska and Voss (2014) argue that the practice of auditing has been at the centre of every cycle of business activity for millennia. Today, auditing is a prominent component of the accounting profession, and is conducted in terms of internationally recognised standards. A well-recognised career discipline owes its high profile and respect to its status as a profession. Philosophers such as Mautz and Sharaf (1961), 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; 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 to ensure 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.

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”. The philosophy of auditing continues to attract academic attention (Mautz &

Sharaf, 1961:73), ensuring that audit practice remains pertinent to the businesses it serves (Cadotte, 2015:187).

The development of the auditing profession, measured by its practitioners joining together to form national professional regulatory and representative bodies, occurred as the industrial revolution embedded itself as the dominant force in the world's economies. It is perhaps worth noting that the trend appears to have been initiated in Anglophone countries: Scotland started the process, with the United Kingdom taking up the challenge some time later. This corresponds to the relative strengths and global reaches of the national economies at the time (Cadotte, 2015:187).

The auditing of South African public sector organisations (including State Owned Entities (SOEs)) is compulsory. It is a requirement in terms of the Companies Act (71 of 2008), Auditing Profession Act (26 of 2005) and the Public Audit Act (25 of 2004). In addition, the South African government put measures in place to regulate the auditing within government institutions, most notably the Public Audit Act (25 of 2004). According to Kołosowska and Voss (2014), auditing has recently undergone significant changes in response, not only to changing business models, but also to the sometimes-spectacular failures of major businesses, because of fraud and corruption. Until recently, auditing has been closely associated with the accounting process and preparation of financial statements. However, the risks associated with this relationship began to take centre stage in the 1970s, and by the early 2000s there were strong moves globally to limit the provision of advisory services to audit firms' own audit clients (Cadotte, 2015:187).

In the South African context, public sector organisations are audited by the Auditor-General, which has a Constitutional mandate to do so, and to report publicly on the accounts, financial statements, financial management and performance of the public sector organisations. The office of the Auditor-General was established over hundred years ago in 1911, in an effort to support the growing professionalism of the audit profession and to increase public confidence in the state's accounts (AGSA, 2011). The Auditor-General remains the only body of independent external auditors empowered by the Constitution to audit government departments and entities, and to report on any irregularities in the use of state resources.

The emergence of public sector auditing as a set of processes and verification approaches distinct from those in use in private sector auditing, can be traced to the establishment of the Australian National Audit Office in 1979 (Kołosowska & Voss 2014). This institution was viewed as a vehicle to enhance the efficiency of government systems, and with the ability to influence agendas and activities at individual, organizational, institutional, socio-political and socioeconomic levels in the Australian public sector (Kołosowska and Voss, 2014). According to Humphrey Miller and Scapens (2016), public sector auditing as a governance type, emerged in the United Kingdom as a means to promote accountable management in public sector organizations. The military structures mimicked by the British government in the nineteenth century have been shown to have significantly influenced the emergence of the public sector auditing and accounting functions in Britain (Leung, 2009). The need for enhanced accountability had been at the centre of the establishment of a public sector auditing capacity as controls over spending levels were proving inadequate in all government departments (Funnell, 1997). Public sector auditing is thus tasked with strengthening governance's effectiveness and increasing the public's confidence in the public sector.

Public sector auditors play an important role in achieving effective public sector governance (IIA, 2012). The AGSA is a member of the International Organisation of Supreme Audit Institutions (INTOSAI), which oversees the setting of global audit standards for all external audit communities in public sector organisations. INTOSAI provides the local Supreme Audit Institution (SAI), commonly recognised as the Auditor-General South Africa (AGSA), a framework within which public sector audit organisations focus on accountability and transparency in the use of public funds.

The AGSA is thus uniquely placed to contribute to building and sustaining stronger and more effective accountability mechanisms for the government and its citizens. The AGSA is a member of INTOSAI, which is an autonomous global organisation of government external audit institutions, and has special consultative status with the Economic and Social Council (ECOSOC) of the United Nations (AGSA, 2011). South Africa's Auditor-General (as the government's external auditors) has been recognised for the role it is playing in promoting good governance processes in the country's public sector. Its approach to auditing has been seen as conforming to global best practices and continues to promote accountability in efforts to meet the public's expectations (Humphrey *et al.,* 2016:77).

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). The currently applicable accounting standards are the Generally recognized Accounting Standards (GRAP) (National Treasury, 2005), which replaced the International Financial Reporting Standards (IFRS) (IFAC, 2014) as the prescribed standard for South African public entities in 2009.

South African public sector audits thus now assess public entity 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, 2011).

Fakie (1999) 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 Auditor General (2011/12), 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). 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 public entities; and any other institution or accounting entity required by other national or by provincial legislation to be audited by the AGSA"* (RSA, 2004).

Given the development of auditing as reviewed in section 3.2, the term "audit" is described in terms of Section 1 of the Auditing Profession Act as

> *"the examination of, in accordance with prescribed or applicable auditing standards, financial statements with the objective of expressing an opinion as to their fairness or compliance with an identified financial reporting framework and any applicable statutory requirements; or financial and other information prepared in accordance with suitable criteria with the objective of expressing an opinion on the financial and other information"* (RSA, 2005).

Thus, as Soltani (2007:7) observes:

> *"The need for emergence of auditing as with any other discipline is associated with the willingness of the interested parties (citizens, accounting officers, executive authorities and so on) to form a solid basis for making financial decisions. Each of these parties is considered as an economic actor seeking to maximise its wealth and in doing so, they want to know all the possible ways to achieve this goal. To acquire the necessary knowledge about these options requires a thorough understanding of the economic variables and of the relationship between them. This can only be done through the use of a theoretical framework, which provides sufficient explanation and reasoning of the variables, their association with each other and the environment in which the economic action is taking place."*

As with the performance of an audit of any organisation, the AGSA's audits increase the confidence of the public in the audited institutions that the stewards are being held accountable for their use 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). 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). Hence, auditing in the local government arena provides a unified view of how public entities are fulfilling their public accountability responsibilities (Nyman, Nilsson & Rapp 2015). From the AGSA's point of view, they are accountable for providing assurance that the financial statements are free from material misstatements that could negatively affect the users of these financial statements; for reporting on the usefulness and reliability of the information in the annual performance reports; for reporting on the discovery of any material non-compliance with key legislation; and for identifying any deficiencies in key internal controls that should then be addressed in order to achieve a clean audit in the following financial year (AGSA, 2011/12).

2.6 The relationship between audit activity and governance processes

Auditing is one of the cornerstones of good public sector governance (IOD, 2009; IIA, 2012). The Supreme Audit Institutions play a guardianship role over public resources (Nyman *et al.,* 2015:17) and are also important promoters of governance to ensure each operational entity demonstrates full accountability. In South Africa, the AGSA fills this role, and its duties and independence are set out in and guaranteed by the Constitution (RSA, 1996). Through its audits the AGSA ensures transparency and accountability in all government institutions including public sector' service delivery efforts. That South Africa is a democratic state and manages its affairs within the principles and requirements of its Constitution (RSA, 1996) is shown by the South

African Constitution’s repeated emphasis of the establishment of independent institutions such as the Auditor-General (RSA, 1996, Section 181(e)).

The AGSA thus performs the audits of local government entities and is accountable to the National Assembly for the accuracy and completeness of its reports on the audited information. As a result, the Parliament and the provincial legislatures are dependent on the AGSA’s evaluation of the financial statements and assessments of service delivery performances and whether the local government resources are being used effectively. To be specific, the AGSA ‘s role in auditing and reporting on government institutions’ accounts, financial statements and financial management, including all public entities, is an essential component of efforts to ensure good governance (RSA, 1996). South Africa appears to be enjoying its democracy by giving institutions such as the Auditor-General a constitutionally defined and protected status to enforce accountability in government.

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 public entities (AGSA, 2012/13). The AGSA’s authority to audit local government entities is derived from its own 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 Office of the Auditor-General in South Africa audits and reports on the accounts, financial statements and financial management of the public institutions (RSA, 1996). 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.

The AGSA’s role is given greater specificity in the body of the Public Audit Act (PAA) (RSA, 2004). 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 public entity 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, 2012/13). The AGSA plays an important role in the public entity by issuing reports on audit quality. In South African public entities, it is frequently argued that it is inadequate and incompetent leadership that leads to non-compliance 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 (Aobdia, 2015).

In the South African public sector, the AGSA conducts three categories of audit – mandatory audits, discretionary audits and special audits (AGSA, 2011/12). According to the AGSA (2011/12), Mandatory audits: (means regularity audits), which includes report 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". Special audits, which includes "report on factual findings, for example, donor funding certificates for legislative compliance; performance audits (including environmental audits); economic, efficient and effective utilisation of scarce resources; and effect of policy implementation, excluding policy evaluation". Ittonen (2010:8) identifies the role of the audit as one intended to improve the quality of the input data by finding errors and by making process owners more aware of potential errors when preparing their records. This view concurs with the definition of a clean audit outcome. Achieving a clean audit opinion indicates that the financial statements are presented fairly, are free from material misstatements, and that there are no adverse findings in the performance report, nor material findings of non-compliance

(AGSA, 2011/12). The IRBA (2012:12-13) outlines the benefits accruing to the performance of public sector audits. These may include the following:

- improved responsiveness to changing environments and stakeholder expectations;
- ensuring that the government is held accountable for using resources legally, for the purposes intended, and responsibly, economically, efficiently and effectively;
- verification that those charged with governance discharge their different responsibilities appropriately and respond to audit findings and recommendations by taking appropriate corrective action, thus enhancing transparency and accountability.

According to the SAICA (2013/14), auditing increases the public's confidence in the entity that has achieved a clean audit. Public sector auditors use the same basic principles, general standards and field standards as private sector auditors in their evaluation of public sector financial statements, achievement of predetermined objectives and compliance with relevant laws and regulations (Aobdia, 2015).

2.6.1 Audit activity and audit outcomes

An audit outcome is the auditor has published statement of his opinion of the state of the financial statements Aobdia, 2015. 2015). An audit outcome is the last product or service in the accounting chain and is the independent auditor's expression of an opinion about the state of financial reporting, compliance with laws and regulations and performance information. Such reporting relies on a considerable set of processes and procedures that enable the auditor to arrive at the published conclusion. The next subsection discusses the various standard audit outcomes.

2.6.2 Disclaimer of audit opinion

The most common description of a 'disclaimer of audit' opinion is explained in Paragraph 2 of the International Standards on Auditing (ISA) in which it states that "the auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive" (SAICA, 2013/14). The AGSA (2011/12) has simplified the ISA's definition, requiring that the auditor gives a disclaimer of audit opinion where "the auditee has provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements" (AGSA, 2011/12:5). According to AGSA (2011/12), any information provided by the auditee and not supported by relevant documents, is classes as lacking in evidence and the auditor is compelled to provide an inferior opinion, so as to avoid compromising the authority of the better (less suspect) audit outcomes.

According to Abbott Daugherty, Parker and Peters (2015), auditors are allowed to issue a disclaimer of opinion for entities where the financial statements present the auditors with substantial doubt about the organisation's going concern status. In their study, Abbott *et al.* (2015:87) ran a logistic regression model on audit opinions regarding going concern uncertainties and disclaimers of opinion. The results of their study indicated that entities receiving a disclaimer are more likely to have more bad news, less good news and weaker internal controls than the entities receiving unqualified audit opinions. In addition, Aobdia (2015:701) conducted a study of the validity of publicly available measures of audit quality and found that audit deficiencies are consistent with the issuance of the disclaimer of audit opinion. The disclaimer of audit opinion is therefore an acceptable indication that there are uncertainties in the integrity of the financial reporting that are serious impediments to the audit outcome (Abbott *et al.,* 2015:87)

2.6.3 Adverse audit opinion

According to AGSA (2011/12:5), an 'adverse audit opinion' is to be given when auditors have obtained sufficient appropriate audit evidence, and have concluded that "misstatements, individually or in the aggregate, are both material and pervasive to the financial statements". This explanation has also been derived from the International Standards on Auditing's definition of an adverse of audit opinion of the financial statements of a company where the financial statements have been found to be materially misstated (SAICA, 2013/14). Aobdia (2015:701) also investigated the effect of auditor designation on the audit opinion in Korea and found that companies with designated auditors are likely to have greater possibilities of receiving an adverse audit opinion, as compared to companies without a designated auditor. The study further showed that the lower quality of financial statements may result in an adverse audit opinion (Aobdia, 2015:702)   Thus, the lower quality of audit outcome results from a change in the audit partner (Aobdia, 2015:701).

2.6.4 Qualified audit opinion

According to the (SAICA, 2013/14), the audit opinion should be qualified when the auditor, having "obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive" (SAICA, 2013/14). The AGSA (2011/12:5) also requires its auditors to issue a qualified audit opinion when the financial statements contain material misstatements in specific amounts, and where there is insufficient evidence for them to conclude that the specific amounts included in the financial statements are not themselves materially misstated. Furthermore, a qualified audit opinion is issued when the auditor encounters one or two types of financial statements, which do not comply with the official frameworks for the presentation of the financial statements. Should management refuse to accept the auditor has proposed adjustments, and then a qualified audit opinion is likely to be issued (Aobdia, 2015:701). The going concern issue also presents the grounds for the auditor to issue qualified audit opinion (Ittonen, 2012:300). Although the qualified audit opinion is one of the modified audit opinions available to auditors (disclaimer and adverse opinions being two others), it is not entirely a "bad" report as it draws management's attention to the organisation's strengths and (sometimes) significant weaknesses that need to be acknowledged and addressed by management (Ittonen, 2012:300) in order to improve the audit outcome.

Omid (2015:82) conducted a study in which he investigated the relationship between the qualified audit opinion and accounting earnings management using a multiple regression model. The model was run using data from a sample of 2818 firms in Iran. The study found a positive correlation between qualified audit opinions and accounting earnings management, but not with real earnings management. This would suggest that the International Standards on Auditing should also require that auditors assess two categories of the definition of qualified audit opinion, as discussed in the preceding paragraph.

2.6.5 Unqualified audit opinion

The ‘unqualified audit opinion’ is the most desirable audit opinion in which the auditor communicates information about the quality of financial reporting (Omid, 2015). Just as in the private sector where the auditor reports on the quality of financial statements, the AGSA (2011/12:4-5) issues an ‘unqualified audit opinion’ when the financial statements contain no material misstatements and there are no findings raised on either the reporting on predetermined objectives or non-compliance with legislation aspects of government business. The International Standards on Auditing indicate that unqualified audit opinions or unmodified opinions indicate that financial statements are free from material misstatements (SAICA, 2014/15). The unqualified audit opinion gives investor confidence in the financial statements (Omid, 2015:82) and guarantees that the company is going concern status (Ittonen, 2012). In addition, Ittonen (2012:17) hypothesised that unqualified audit opinions can influence the relationship between earnings management and stock returns. Their results indicate that a positive relationship between earnings management and unqualified opinions exists, and this can influence the stock market to change. However, in their study of auditor management alignment and audit opinion. Omid (201:855) shows that there is no relationship between the achievement of an unqualified audit opinion and auditor management alignment, debt ratio, ownership percentage, firm size and/or auditor change.

2.6.6 The clean audit opinion

The AGSA (2011/12) defines the ‘clean audit opinion’ as an indication that the “financial statements of the auditee (which may refer to an organisation being audited or a person and client requesting an audit or being audited) are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations” (AGSA, 2011/12:28). A clean audit opinion is thus only obtainable when the audits of financial statements, predetermined objectives and compliance with relevant laws and regulations are completely free from material misstatements. The AGSA considers the ‘clean audit opinion’ to be a fifth type of audit opinion, concluding (or leading) the conventionally accepted progression which includes the ‘unmodified audit opinion’ (also known as unqualified audit opinion), and descends through the modified audit opinions which include the ‘qualified audit opinion’, the ‘adverse opinion’ and the ‘disclaimer of audit opinion’ (SAICA, 2014/15). The terms “clean audit” and “unmodified” or “unqualified audit opinion” are thus effectively synonymous (Aobdia (2015:700) acknowledges that the audited financial statements are free from any misstatements. This type of audit opinion therefore becomes the highest outcome available from the audit process. Aobdia (2015:700) formally acknowledges that the unqualified audit opinion is the same as a ‘clean audit opinion’. Thus, the use of the term ‘clean audit opinion’ should only be used when, in the private sector, the auditors find no omissions or misstatements in management’s presentation of the financial statements (Aobdia, 2015:701). In the context of South African public sector audits however, for an auditor to express a ‘clean audit opinion’, there should be no misstatements in any of the three audit areas - financial statements, predetermined objectives, and compliance with relevant laws and regulations. Thus, in the South African public sector audits, the clean audit opinion is the equivalent of the private sector’s unqualified opinion with no adverse findings (AGSA, 2011/12).

2.6.7 Clean audit opinion awareness

The Collins English Dictionary (2003) defines the word “clean” as “without anything in it or on it”. In a discussion the researcher held with the AGSA on 12 May 2015, the AGSA laid out the elements that typically describe the clean audit opinion in public sector audit. These include the unqualified audit opinion on the financial statements, compliance with laws and regulations with no material misstatements, and the achievement of predetermined objectives with no misstatements. Thus, the clean audit opinion indicates that the organisation has achieved “full marks” in all three elements of the audit, and that all three sections are without any misstatements. The American Institute of Certified Public Accountants (AICPA) (2014) describes the ‘clean audit opinion’ as unqualified opinion or unmodified opinion, to prevent confusion when compared with the term used by the International Standards on Auditing (ISA). In South African public sector organisations, the use of the term ‘clean audit opinion’ has been reported as being different from the generally understood ‘unqualified audit opinion’. In its local government briefing on public entity finance audits, the South African Local Government Associations (SALGA,2012a) reported that the concept of the ‘clean audit opinion’ is a South African “national government initiative and not an international accounting standard”.

The fact is that the definition and meaning of the ‘clean audit opinion’ has been difficult to trace in the Pronouncements of the Auditing Standards; it simply does not form part of the globally accepted types of audit opinions as recognised by the International Auditing and Assurance Standards Board of the International Federation of Accountants (SAICA, 2014/15). As a result, the AGSA, as the country’s Supreme Audit Institution and the most important party responsible for audits of public sector organisations in South Africa, has had to develop a formal definition to provide clarity when the term appears in their annual reporting on public sector audits and associated publications (see section 3.4). Despite this, a search through auditing literature shows that the use of the phrase ‘clean audit opinion’ is not a new phenomenon: it has been used since the 1970s (LEU, 2009) to mean that the financial statements fairly represent the financial position of the organisation, and are consistent in their presentation and in accordance with a recognised accounting frameworks. Thus, the clean audit opinion is only used to describe situations where financial statements are free from any misstatements, while in the South African public sector auditing the term is used to describe the situation where the unmodified audit of financial statements are ‘clean’, and there is full compliance with the applicable laws and regulations (with no material misstatements), and the audit of predetermined objectives is without material misstatements. The then Minister of Cooperative Governance and Traditional Affairs (COGTA) Mr Siqecha (2009), launched the “Operation Clean Audit” in his Foreword to the ministry is Business Plan 2010-2011. This was one of the thirteen local government priorities announced at the time, with the specific expectation that by 2014 “all provinces and public entities should have clean audits” (COGTA, 2009).

It is apparent now, with perfect hindsight, that achieving a national clean audit opinion, as the sum of the unmodified audit of financial statements, plus compliance with laws and regulations with no material misstatements, plus the audit of performance information, was a task that needed more than the five years initially allocated, possibly because there was only superficial understanding of the depths of the problems faced by public entities in particular.

Despite the fact that awareness of the clean audit goal is relatively good, as is the recognition that to achieve this, it calls for effective governance and an acceptance of accountability, there are still deep-rooted problems in the public entities. Of these problems, the main ones are political factors; lack of understanding and the will to implement policy and legislative directives; weaknesses in accountability systems; shortages of capacity and skills, as well as weak financial management systems (AGSA, 2014). In the period leading up to the launch of the initiative, the public entity had been increasingly failing to report efficiently and effectively on its financial statements. The depth of the problems was becoming obvious to the entire country as the service delivery protests across the country became an almost continuous feature of news broadcasts. Concurrently with these outbreaks of protest, the public entities consistently received poor audit outcomes, with those of the 2007/08 financial year being sufficiently bad to result in the initiation of “operation clean audit” in 2009 (AGSA, 2007/08).

As a result, the COGTA initiated the campaign to turn around the management and operations of public sector in South Africa, by responding to the challenges faced by the public entities. The AGSA (2007/08) identified the major challenges facing all the public entities in the country. In this regard, as the AGSA's report revealed that only one (1) public entity received a clean audit opinion in financial year 2007/08. The main challenge identified by the AGSA was that the Chief Financial Officers (CFOs) were not fully involved in the preparation of their public entity's financial statements, relying instead on outside consultants to prepare the financial statements for them. In some cases, the poor management of financial records was also a major problem, resulting in disclaimer audit opinions for 99% (for 2006/07) and 86% (for 2007/08) of the public entities (AGSA, 2007/08). This also indicates that the accounting officers were not demonstrating accountability in the management of records of the public entities' assets. These shortcomings were being perpetuated by the failure of the AOs to implement audit recommendations and instructions; this effectively identified the root cause as poor administrative and political leadership in local government structures. In practical terms, this resulted in the collapse of administrative and political functions. All these weaknesses and failures in the administration and operations of the public entities were repeatedly highlighted by the AGSA in its annual reporting of audit outcomes to Parliament.

With this initiative, the COGTA (as the ministry responsible for local government) took the initiative and identified the parties they believed were able to take responsibility for effecting a turnaround in the functioning of public sector. The initiative included the preparation of a comprehensive turnaround strategy document (COGTA, 2009) which provided guidelines for achieving effective service delivery.

Arising from this initiative was the formal development and implementation of "operation clean audit 2014". The parties identified as key to the initiative's success included the executive authorities (political leadership) at local government levels, public entities and provincial accounting officers, provincial treasuries, national treasury and the Auditor-General. In addition, it was intended that all public entity employees and office-bearers should be made aware of the clean audit objective, to enhance the support given to the effort.

Despite the widespread use of the term ‘clean audit opinion’ by users of the public sector financial statements and by the AGSA, the term still confuses the public. When a public entity receives an ‘unqualified audit’ (as opposed to a ‘clean audit opinion’, and this is more commonly achieved than the latter), the community and the public at large begins to perceive the public entity as one of the examples of good management, and assume that they are successfully responding to the service delivery needs of their communities. In other words, it is assumed that an unqualified audit opinion also means that there are no service delivery problems in such a public entity. The point is that an ‘unqualified audit’ simply means that the public entity has generated a reasonably accurate story of what happened to the money and resources. The difference between a ‘clean audit opinion’ and an ‘unqualified audit opinion’ is deceptively simple: a public entity achieving a ‘clean audit’ report knows where the money came from, knows where it went, and knows that it went to pre-approved projects and allocations, and that the processes followed were legal. Sikka (2009) indicates that the clean audit opinion is used as an indication that financial statements are of substantial value to the users and the citizens. In other words, the clean audit opinion confirms that the public entity is running its financial affairs in an orderly manner and meeting its service delivery targets, and that this is being done in full compliance with relevant laws and regulations.

While the clean audit concept may be considered as different from the unqualified audit outcome by a majority of users of financial statements in South Africa, and by the recipients of the services delivered by the public sector, the concepts have been used synonymously in the United States of America for some decades (Ittonen, 2010). The Auditor-General South Africa is an enthusiastic user of the expanded ‘clean audit’ concept (far more so than is common amongst the private sector audit firms), especially when attempting to recognise the most favourable and desirable of audit opinions in the South African public sector context.

Ittonen (2010) asserts that the audit opinion is intended to provide useful information to the users of financial statements. The ‘clean audit’ outcome is the most desirable audit opinion available to the South African government’s external auditors. Its acceptance seems to have finally been assured in that it is now in regular use in mainstream print media (Ittonen, 2010) and especially in their business reports. While Van der Waldt and Erasmus (2012) and Mazibuko and Fourie (2013:884) posit that achieving a ‘clean audit’ opinion is an indicator of a clean administration, the unqualified or unmodified audit opinion is a close second, in that the financial statements are presented fairly and are free from material misstatements (Arens *et al.,* 2014:35). These two terms have historically been used interchangeably (SAICA Handbook, 2014/15) in the private sector audit world, but the term “clean audit opinion” does not include the reviews assurances and other services engagements by the International Auditing and Assurance Standards Board (SAICA Handbook, 2014/15)

According to Mazibuko and Fourie (2013:883), an unmodified audit report is the “most common type of opinion issued”, and it contains an assurance that the financial statements present fairly, in all material respects, the financial position of the entity, and reflect the results of operations and cash flows of the entity in accordance with applicable accounting standards, other mandatory professional reporting requirements and relevant statutory and other regulations. This conclusion indicates that the auditor has formed an opinion that is based on the outcome of an audit performed in accordance with recognised, generally accepted auditing standards (IFAC, 2014). Leung *et al.* (2009) recognise the auditor’s report, when issued in compliance with the ISA – 700, as a general-purpose financial report, and thus, not entirely fit for government audit purposes.

2.7 Theoretical framework

According to Sekaran *et al.* (2013: 77), theoretical framework is the foundation for the entire research project. The theoretical framework that underpins this study is the institutional theory. Suddaby (2014) defines the institutional theory as “an approach to understanding organisations and management practices as the product of social, rather than economic pressures, while Thornton and Ocasio (1999: 804) define institutional theory as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to their social reality”. Institutional theory structures the world and make it meaningful and give rise to particular types of organisation by defining their appropriate objectives, designs and governance structures (e.g. the corporation as the typical organizational form in the market logic, and the administrative-bureaucratic unit as the typical form in the state logic) (Meyer *et al.* 2014:44). The institutional theory was deemed applicable for this study since public entities in South Africa are guided by rules and regulations, and have to comply with the provisions of the PFMA in the execution of their responsibilities and in the management of finances.

Reliable financial information is essential for investors and other stakeholders. If the auditor is not competent and independent from the management, the audit of the financial statements loses credibility. A mandatory rotation of auditors and their level of education add to the credibility of the auditors (Schelker, 2013). In the case of South Africa, the AG is employed for a specific term of office and the deployment of auditors to government departments and public entities changes every financial year to maintain credibility and avoid possible influence from the management of the audited institutions. On that note, the Board of directors is entrusted with the task of monitoring and controlling the actions of management. Board size is an important element of governance. The board deals with the capital that the shareholders have provided, as well as any profits that it produces (Keay & Loughrey, 2015:16).

Globally, organisations are desirable of a governance system that will promote reliability, timeliness and relevance of financial reporting (Fahami *et al.,* 2016:299). If there are strong grounds to believe that an official has committed financial misconduct, the accounting officer of the organisation concern is required to investigate the matter and institute disciplinary measures in line with applicable policies (PFMA guidelines). Upholding the values and ethics of correct behaviour in the executive is a significant feature of community service moral code (UNDP, 2007). Ethical behaviour is one of the key ways through which accountability is attained, since political plus managerial accountability relies on the loyalty to moral principles and principled relationships by individuals or organisations (Keay & Loughrey, 2015:15)

There are two methods to prosperous ethics management to advance moral code in the public service, i.e., “compliance-based ethics management”, as well as “integrity-based ethics management.” The “compliance-based ethics management approach depends on a set of rules and enforcement and it is suitable to situations where unprincipled conduct is extensive”, whereas the “integrity based ethics management approach is based on inducement plus support’ (UNDP, 2007).

The increasing number of business failures, coupled with cases of financial scandals across the globe, the need for the institution of viable corporate governance practices alongside with efficient and transparent financial reporting/auditing procedures within the corporate world, cannot be over-emphasised (Fahami *et al.,* 2016:300). However, accountability is required to guarantee that directors act appropriately and it is essential to introduce into the governance system, some mechanisms that will make certain that the interests of the agents are aligned with those of the principals (Keay & Loughrey, 2015:16) since “accountability in corporate governance is something that is required as an exchange for the grant of authority” (Keay & Loughrey, 2015:16). Henceforth, the accountability of a company does not extend only to its shareholders, but to a wider audience in pursuit of achieving the strategic objectives of the organisation (White 2013:70).

Underpinning the institutional theory is the issue of organisational strategic objectives as the driver for the organisation. In the context of the study, the strategic objectives include providing a regulation of the micro-manufacturing and retail sale of liquor, reducing the socio-economic and other costs of alcohol abuse, providing for public participation in the consideration of applications for registration, promoting the development of a responsible and sustainable retail and micro-manufacturing liquor industry in a manner that facilitates entry of new participants into the industry, diversity of ownership in the industry. The objectives also include creating an ethos of social responsibility in the industry, implementing an effective, efficient and measurable license application process, providing effective and efficient administrative support to local committees and the Board, providing support in the licensing application process, implementing an effective and efficient compliance and monitoring process, implementing strategies to engage stakeholders on issues of non-compliance, providing regulatory support for all liquor stakeholders and have a fully regulated liquor industry, providing for empirical research into the liquor industry and its impact on society, as well as educating and informing all liquor regulatory stakeholders.

The main source of revenue for the KZNLA is the licensing fees. Thus, the income streams in terms of revenue collection are based on projected licenses to be granted. Granted licenses attract fees in relation to application fees, activation fees and renewal fees. The license fees used in the UKZLA financial model are based on the benchmarked license fee structure used by other provinces, which have already implemented their provincial liquor legislation. Currently, the liquor licensing system reflects that there are 8192 licences. Table 2.1 represents a summary of the revenue projections in the financial years 2014-2016, as part of the institutional asserts which are a function of the strategic objective.

Table: 2.1 KZNLA Revenue Projections

	2014/15	**2015/16**	**2015/16**
Total licences	8008	8308	8608
Renewal fee	22,266,100.00	23,087,100.00	23,908,100.00
New licence fees	783,000.00	821,000.00	859,000.00
Application fees	1,890,000.00	1,965,000.00	2,040,000.00
	24,939,100.00	25,873,100.00	26,807,100.00

Source: KZNLA Five Year Annual Reports (2017)

Since public entities receive funding for their programmes from the national treasury, it is mandatory for such entities to comply with the Public Finance Management Act by ensuring that generally accepted accounting practices are observed. The treasury relies on the Auditor General's annual audit reports in determining the financial state of public Entities. The institutional theory subscribes to the notion that an intuition’s resources are a result of its functions within the environmental complexities. Notwithstanding the existing legal framework governing management of public finances as established by the Government of South Africa, many of the government institutions continue to obtain unclean audit reports (Ngocpe & Ngulube, 2014:137). Similarly, since the establishment of KZNLA, the regulatory body has been receiving adverse financial audit reports. An adverse opinion is given when the misstatements in the financial report is material individually or in the aggregate. According to the Auditor General’s Technical Guide (24 of 2011-2012), there are three types of audit opinions namely: a qualified opinion, an adverse opinion and a disclaimer of opinion. The conclusion regarding which type of opinion is correct depends on whether the financial statements are materially misstated; or whether there is an inability to obtain sufficient and appropriate audit evidence.

In this context, the emergence of an audit to strengthen the institution should be a welcome development. A qualified opinion is when the auditor’s report indicates the inability to acquire sufficient data for auditing, which is crucial on basing the opinion and the possible effects on the financial statements as a result of that inability are material, but not pervasive. A disclaimer of opinion is issued when the auditee fails to supply sufficient evidence, where such evidence is crucial in the formulation of opinion and the possible effects are both material and pervasive on the financial statements.

Annual financial audit reports have the advantage of providing stakeholders with assurance, reliability and credibility of the financial statements. Hence, auditing of the public sector entities increases efficiency in governance processes and helps in combating administrative frauds (Deloitte, 2012). In South Africa, the government introduced the Public Finance Management Act (No. 1 of 1999) (as amended by Act No. 29 of 1999), which governs the way public funds are managed. This includes ensuring the effective management of revenue, expenditure, assets and liabilities in the public sector. This piece of legislation further provides for the accountability of those vested with the powers to manage public funds.

Thus, most public entities are formally required to produce general purpose financial reports. To that end, usually the public finance management legislation requires that the information in general purpose financial reports must comply with generally accepted accounting practice (also known as GAAP). GAAP is the overall body of accounting standards and other guidance that sets out how an entity should prepare general purpose financial reports. Importantly, GAAP is a set of objective principles and requirements that are not subject to the preparer's individual preference.

The PFMA requires accounting officers to prepare financial statements based on the GAAP. The financial statements prepared by these officers comprise a balance sheet, an income statement, a cash flow statement and other information. The PFMA makes it mandatory for the Accounting officers to submit these statements within 2 months after the closure of the financial year to the Auditor-General for auditing and to the national Treasury for the preparation of consolidated financial statements. In turn, the Auditor-General is required by the Act to submit an audit report to the accounting officer within 2 months of receiving the financial statements. The audit reports could either be qualified, adverse or a disclaimer of opinion, as explained earlier.

In the public sector, the Auditor-General provides assurance to users that the information a public entity reports materially complies with GAAP and fairly presents the performance of the entity for the period that the financial report covers.

In conclusion, auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organisations to achieve accountability and integrity, improve operations and instill confidence among citizens and stakeholders. In the context of the institutional theory, auditing, intertwined with good corporate governance, enhances public governance (OECD, 2005). Thus, the principles of good governance that includes transparency and accountability, fairness and equity; efficiency and effectiveness; respect for the rule of law; and high standards of ethical behaviour, represent the basis upon which to build open public entity.

2.8 Conclusion

This chapter discussed the literature relevant to the study. To achieve this, focus was on the factors that affect audit outcomes, audit processes and their role in audit outcomes and the relationship between audit activities and governance process. The chapter described the key terms underpinning the study and these include auditing(internal and external) and corporate governance. The role of the accounting officer in the audit process was also clarified. The chapter concluded by providing the theoretical framework guiding the study, while applying it to the study to demonstrate its relevance. The next chapter describes the research design and methodology for the study.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The purpose of this chapter is to outline the approach, design and process followed in conducting this research study. The research methodology adopted in this study was aimed at gaining an enhanced understanding of the factors contributing to adverse audit outcomes within public entities of South Africa, through answering the research questions outlined in Chapter 1, supported by the literature review discussed in Chapter 2, and the research results discussed in Chapter 4. This chapter thus describes the data gathering tools, the population of the study, the sampling techniques, as well as the analytical tools and research limitations.

3.2 Research design

Collis and Hussey (2003:237) define research design as the science and art of planning procedures for conducting research studies in order to get the most valid results. The end-product of research design is a plan or blueprint for conducting the intended research (Babbie & Mouton, 2009:288). According to Wiid and Diggnes (2010:100), such a blueprint or plan for the intended research study is used to guide data collection and analysis. In essence, the research design focuses on the kind of study being planned, the kind of results being anticipated, and the evidence required in adequately addressing the research questions. As discussed in the subsections below, the study is both exploratory and descriptive, approached from a mixed method paradigm, with the purpose of identifying the factors that contribute to the adverse audit outcomes within KZNLA.

The mixed methods approach entailed the use of both quantitative and qualitative research methods. Saunders *et al.* (2016:390) highlighted the rationale for employing the mixed methods approach.

> *Both approaches can be combined because they share the goal of understanding the world in which we live. They share a unified logic and the same rules of inference apply to both. A combination of both approaches provides a variety of perspectives from which a particular phenomenon can be studied, and they share a common commitment to understanding and improving the human condition, a common goal of disseminating knowledge for practical use. Both approaches provide for cross-validation of data to study the same phenomena in order to gain a more complete understanding of that phenomenon (interdependence of research methods) and they also provide for the achievement of complementary results by using the strengths of one method to enhance the other (independence of research methods)* (Sale, Lohfeld & Brazil (2002:80).

Quantitative research refers to the "empirical research in which the researcher explores relationships using numeric data" (Sale *et al.,* 2002:81). The main purpose of quantitative research is the detection of causal relationships between variables (Creswell, 2013:66). This approach was found relevant for this study, since the study sought to describe the factors contributing to the continuous poor audit reports at the KZN Liquor Authority. Quantitative research makes use of questionnaires that allow data to be statistically analysed (Wiid & Diggines, 2010:138). In identifying the factors, the quantitative approach was used, while the relationship between audit activities and governance process was qualitatively assessed. Thus, the questionnaire and interviews were used respectively.

On the other hand, qualitative research is concerned with why phenomena occur and the forces and influences that drive their occurrence. Wiid and Diggines (2010:138) assert that qualitative research involves an approach that uses a naturalistic approach which seeks to understand phenomena in context-specific settings, such as real-world settings, where the researcher does not attempt to manipulate the phenomena of interest, it entails any kind of research that produces findings not arrived at by means of statistical procedures, or other means of quantification, but instead, the kind of research that produces findings derived from the real-world settings where the phenomena of interest unfold naturally.

Because of its ability to examine subjects in depth, qualitative research allows associations that occur in people's thinking or acting - and the meaning these have for people - to be identified. These in turn may indicate some explanatory - even causal - link. This makes it possible to identify the factors or influences that underlie a particular attitude, belief or perception, the motivations that lead to decisions, actions or non-actions, as well as the origins or formation of events, experiences or occurrences; and the contexts in which phenomena occur.

In this study, participants' understanding of the factors that affect the audit process, as well as their experience with the relationship between audit activity and the governance process, was critical.

3.2.1 Participant location

This study was conducted at the KZN Liquor Authority in Durban. This was because the researcher is an employee in the Authority and developed interest in understanding the causes of poor audit reports within the entity.

3.2.2 Study Population and sampling strategy

A research population is defined as an aggregation of study elements (such as individuals, artefacts, events or organisations) from which data will be collected to provide the basis of analysis (Babbie & Mouton, 2009:288). For the purpose of this study, the population consisted of employees who were experts within the KZNLA's audit division, as well as selected managers. According to Burns and Grove (2004), not all members of the population necessarily formed part of the target population for the study; hence, eligibility criteria had to be defined for specifying what was required for the membership in the target population. For example, a mere employee may not qualify, unless he/she had experience in auditing. Therefore, audit experts and senior managers who undertood or played a role in auditing within KZNLA were included in the sample. This was because a phenomenological qualitative research like this study emphasises reliance on experience, insight and inter-subjectivity of parties involved with the research (Collis & Hussey, 2003:238). In this study, the target population was drawn from KZN Liquor Authority.

Collis and Hussey (2003:238) define sampling as the process of selecting a sample from the target population, for participating in the study. The sampling methods are mainly divided into two broad types referred to as probability and non-probability methods. Probability methods are anchored in statistical probability theory aligned with positivistic and quantitative paradigms (Wiid & Diggines, 2010:138). In the probability sampling technique, the focus is to deduce a representative sample from the population to allow objective and generalizability of the findings to the entire population. On the other hand, non-probability sampling techniques are anchored in subjective judgment with an uncertain selection of elements into the study (Wiid & Diggines, 2010:140). Contrary to the probability technique, non-probability sampling techniques, while subjective, do not allow for generalisability to elements outside the sample units. In this study, it was important to make generalisations, as well as collecting data of high quality to the population, hence, both techniques were considered for this study. Thus, the study employed non-probability technique for the qualitative sample, and probability technique for the quantitative sample.

There are numerous non-probability sampling techniques that include convenience, snowball, quota and purposive sampling (Babbie & Mouton, 209:225). In convenience sampling, researchers select participants on a willing and available basis. Snowball sampling entails the selection of the first participant towards matching the participant profile and let the selected participant to refer other participants with traits. In purposive sampling, this entails the selection of participants who can answer the purpose of the study. Thus, a deliberate selection processes are done by the researcher to select participants who meet certain preferred requirements. According to Wiid and Diggines

(2010:138), mixed qualitative studies such as this one can only be effective if suitable participants are chosen for the qualitative and quantitative part respectively. In pursuit of this desired objective, this study employed purposive sampling technique for the qualitative sample, with the aim of taping into information from well-experienced personnel in auditing matters within KZNLA. The participants were selected based on:

- The length of service working with KZNLA; and;
- Tenure of contract – whether permanent or temporary employee

For qualitative data, purposive sampling was used. Bougie (2013: 252) posit that purposive sampling "is confined to specific types of people who can provide the desired information, either because they are the only ones who have it, or they conform to some criteria set by the researcher". According to Wiid and Diggines (2010:188), in purposive sampling, the "researchers rely on the experience of a specific types of people, or previous research findings to deliberately obtain units of analysis.

3.3 Data Collection

Data were collected using secondary and primary sources as follows:

3.3.1 The questionnaire

Primary data were generated from a self-administered questionnaire with both closed and open-ended questions, distributed to 30 respondents who were employees of the KZN Liquor Authority. The questionnaire had sections that covered: demographic information, in the first part, followed by questions regarding financial reporting and performance management in the organisation. The last part of the questionnaire contained two qualitative questions which sought the respondents' views about financial reporting and performance management in the organisation. Upon distribution of the questionnaire, respondents were given time to complete it at their own convenient time and place, and were required to return it to the researcher when they had completed it. The researcher constantly reminded the respondents to complete the questionnaires and return them. Within two weeks, all 30 respondents returned the questionnaires as attached on Appendix A.

3.3.2 Secondary data

Data from secondary sources were drawn from relevant books, audit reports, academic journals and dissertations. The information gathered from these sources is mainly reported in the literature review chapter.

3.3.3 Pilot testing

According to Silverman (2011:28), a pilot study refers to a data collection phase meant to test the readiness of the draft research instrument. This is done to ensure the correction of errors before the actual study, since discovering the weaknesses on the draft instrument during the study might be too late and disastrous in terms of costs. Silverman (2011:28) highlights the importance of the pilot study as including the following:

- Detecting flaws in terms of what the research instruments intends to measure;
- Identification of unclear or ambiguous items in questionnaire and;
- Ascertaining participant reactions capable of negatively affecting the study.

For this study, 2 participants who did not form part of the main study were interviewed as part of the pilot study. The research instrument was reworked to improve effeteness before the actual study.

3.4 Validity and Reliability

All research requires validity and reliability in order to obtain trustworthiness. Validity refers to extent to which the research findings accurately and adequately reflect real meaning of the concept under consideration (Babbie & Mouton, 2009:255). Research reliability refers to the ability to obtain the same results if the research were to be repeated or undertaken by any researcher (Collis & Hussey, 2003:237). Instead of depending on validity and reliability as defined above, since the study was approached from a mixed method, trustworthiness in qualitative research was ascertained based on credibility, transferability, dependability, and conformability (Collis & Hussey, 2003:238).

Credibility refers to the degree to which a study's findings represent the meanings of the research participants (Lietz & Zayas, 2010:188). For the qualitative part of the study, credibility was obtained through ensuring that data collected and findings from the study tightly link back to participants' own experiences, insights and evidence in auditing and their understanding of audit factors and how they affect audit outcomes, with particular emphasis on minimising adverse audit outcomes. To ascertain this, only experienced and knowledgeable participants in auditing participated in the study. The researcher also persistently pursued interpretations of the various aspects of factors that affect audit outcomes in different ways from participants. Moreover, for referential integrity, the researcher made extensive notes on participants' comments on performance management, enhancement of controls and accountability.

According to Lietz and Zayas (2010:189), transferability is the extent to which the results of the research apply to other contexts, settings or respondents. The findings of this study and recommendations made thereafter focused on identifying and reducing the factors that cause adverse audit outcomes, as well as providing the means of reducing the adverse audit reports within the KZNLA.

According to Lietz and Zayas (2010:190), dependability is about reflecting evidence that if the same study is repeated - in the same context, methods and participants - then similar results should be obtained. For this purpose, the researcher provided a full description of participants (in terms of experience, education, and background, as well and a full description of data collection and analysis methods.

Confirmability refers to the extent to which the findings of a study are the results of the experiences, insights and ideas of research participants, rather than the researcher's own characteristics and preferences (Lietz & Zayas, 2010:191). In this study, confirmability was achieved through keeping record of, and linking various sets of data on which the findings were based. These included raw data of interview notes and researcher's personal notes; data reduction and analysis notes; compilations of themes that emerged from the data; electronic copies business rescue plans analysed and interview guide used. Moreover, to reduce the researcher's bias, data collected from interviews was triangulated with literature review. For quantitative data, triangulation of the methods helped in ensuring validity in this study, while pre-testing guaranteed the reliability of the instruments. Collis and Hussey (2003:237) opine that triangulation entails "corroborating evidence from different sources". Therefore, converging data from primary and secondary sources enhanced the validity and reliability of study findings.

3.5 Ethical Considerations

Protecting the interests of research participants in the research process is paramount, the researcher must adhere to research ethical principles. Creswell (2014:154) advises that "regardless of the approach to inquiry", permissions should be obtained to do away with potential harmful impact and risk to the participants. In so doing, letters requesting for gatekeeper's permission and clearances from the university ethics committee were obtained. Informed consent was first sought from the participants, while participation in this study was voluntary. It means that the study participants were free to withdraw any time they wanted, without any repercussions. Anonymity, as well as the confidentiality of the participants, was also maintained. In addition, ethical values like integrity, honesty, trustworthy were observed, because they are paramount in obtaining good quality research information.

3.6 Data Analysis

Quantitative data were compiled and recorded using the excel spreadsheet, before constructing graphs to illustrate the data. Qualitative data collected through the same questionnaire were coded and categorised to arrive at the findings and draw conclusions against the respective research objectives. The process of qualitative analysis was aimed at bringing meaning to the data collected, while quantitative analysis of the data was about focusing on the search for truth (Flick, 2015). Qualitative data analysis ideally occurred concurrently with data collection so that the researcher could develop an understanding about research questions, which in turn informs both the sampling and the questions being asked. The analysis and interpretation of the collected data from both key informants and questionnaires involved O'Leary's (2010) step-by-step process as listed below:

- Identifying biases and noting impressions;
- Reducing the data and coding them into themes;
- Looking for patterns and interconnections;
- Mapping and building themes;
- Developing theory; and
- Drawing conclusions.

3.7 Conclusion

This chapter delineated the methodology employed to answer the research questions. On that note, the following issues were addressed: the research design, the methodological approach, population and sampling, data collection, as well as data analysis procedures. In addition, it was important to deliberate on the ethical issues related to the research, together with the validity and reliability issues. The next chapter presents the results of the study.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSIONS

4.1 Introduction

The previous chapter described the methodology that was used to gather data for answering the research questions. This chapter provides the study's findings in relation to the research objectives and questions. The chapter thus presents the quantitative data in form of pie charts and graphs, followed by the qualitative data, which are in form of direct quotes from the participants. The results are also concurrently discussed.

4.2 Response rate

Table 4.1: Response rate

	Questionnaires Administered	Questionnaires filled and Returned	Percentage
Respondents	30	30	100

Source: Primary data/survey data (2017)

The sample size was 30 participants from KZNLA. All the 30 participants returned the questionnaire giving a response rate of 100%. According to Creswell (2014:154), a response rate of 50% is adequate, a rate of 60% is good, and a response rate of 70% and over is very good. Hence, the response rate from this study was very good.

4.3 Section A: Biographical profile

This section presents biographical data that include the participants' gender, age and racial component, as well as their level of education, experience and position in the KZNLA. The data gathered on each of the question are presented and analysed in the sections that follow.

4.3.1 Question 1: What is your gender?

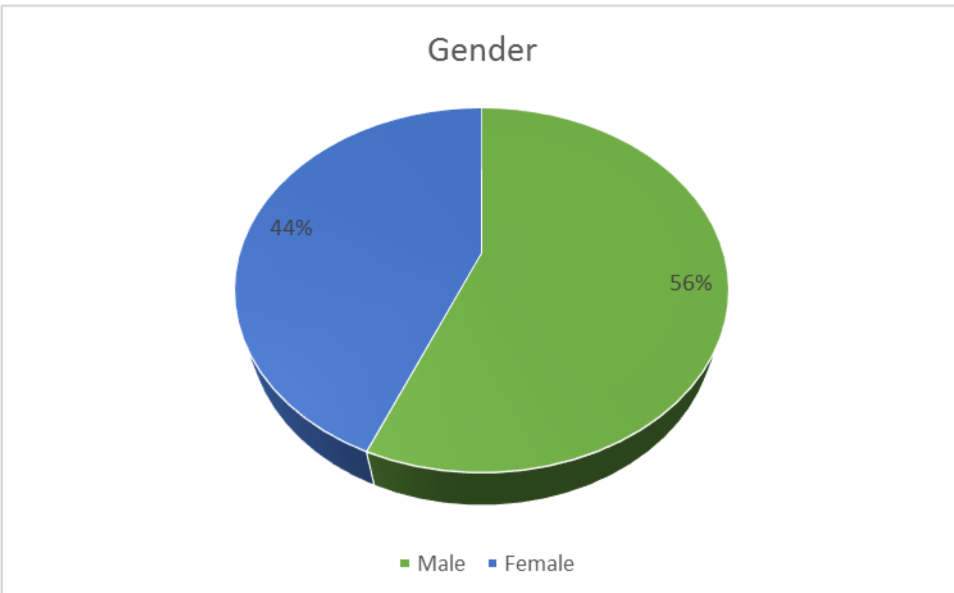

Figure 4.1: Participants' gender

The study's respondents included both male and female employees of the institution. This was aimed at getting views from both sexes, towards understanding the problem under investigation, as well as to avoid gender bias. Figure 4.1, indicates that most of the participants were female 16 (56%), as compared to males 14 (44%).

4.3.2 Question 2: What is your age?

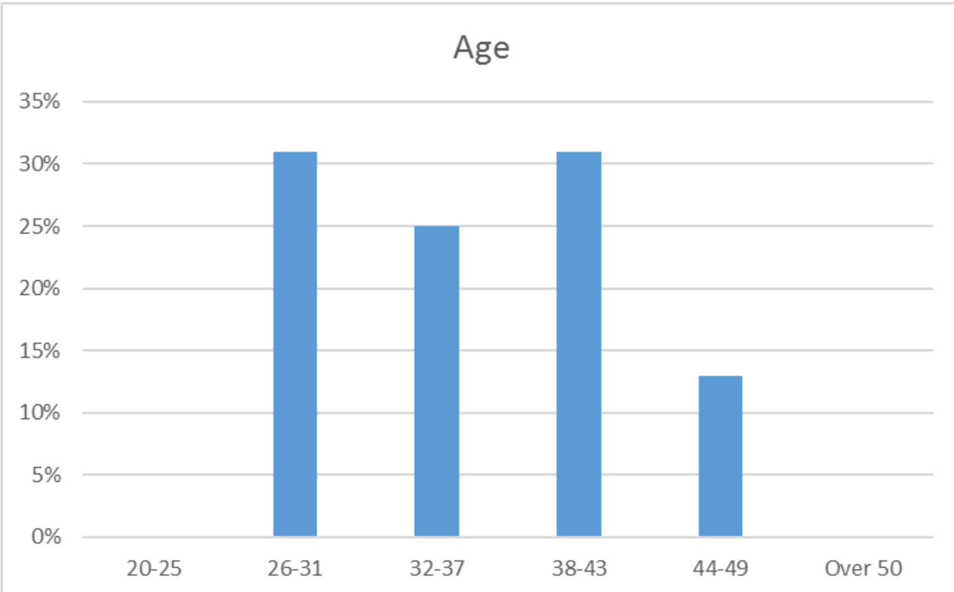

Figure 4.2: Participants' age

Figure 4.2 shows that the majority of the participants for the study were aged between 26 to 43 years. Less than 15% of the participants were aged between 44 to 49 years. None of the participants was aged over 50 years. This implies that the organisation comprises of youthful staff, which is still energetic enough to drive the agenda of the organization. On the other hand, a youthful staff establishment may lack the requisite experience, despite reducing the problem of South Africa's unemployed youth.

4.3.3 Question 3: Participant racial component

Out of all the 30 participants, 89% were Black while 11% were Asian. Given these findings, the researcher was concerned about racial representation in the entity. This might be a concern, considering the importance of diversity in the workplace and in the country. However, this was not the focus of the study.

4.3.4 Question 4: What is your highest level of education?

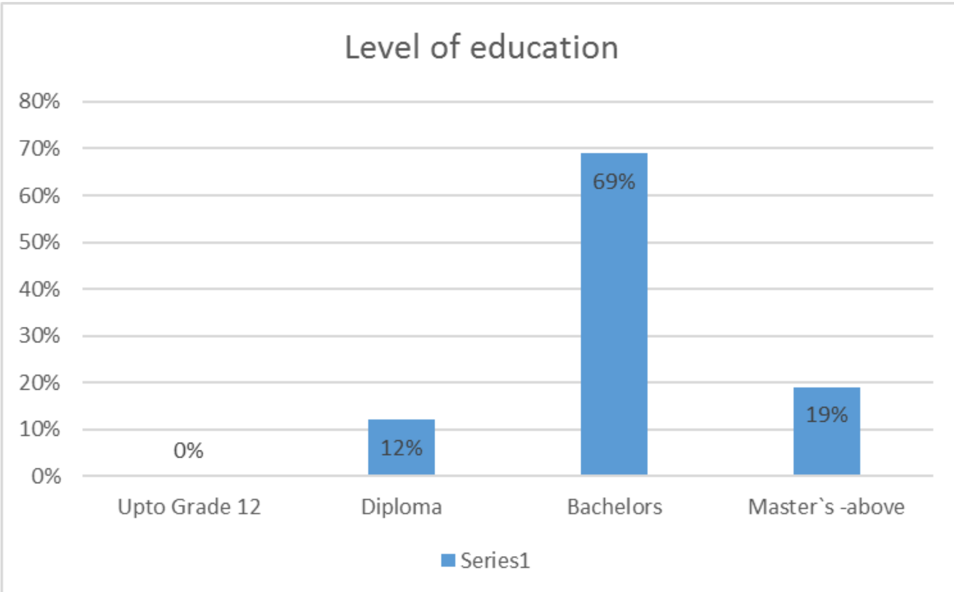

Figure 4.3: Participants' level of education

One's qualification is often regarded as a measure of the extent to which the person is knowledgeable in his or her particular field of work. Figure 4.4 shows that 69% of the participants had an undergraduate Bachelor's degree, with a few of them (12%) being holders of a Diploma, while (19%) had a Master's degree.

The fact that a large number of the participants had university qualifications should put the organisation in a good position to carry out its business. However, from the researcher's perspective, it would be essential for the respective departments to encourage its employees to further their studies. This could be done by granting them bursaries for postgraduate studies. The fact is that the work environment is very turbulent and constantly changing, meaning that one's knowledge and skills might become obsolete and needs constant upgrading.

However, sometimes it is not about one's qualification that counts, but rather the experience that the employee possesses. Again, it was the researcher's feeling that to improve the effectiveness of, especially the management team, it is essential to encourage them to pursue management studies at postgraduate level.

4.3.5 Question 5: What is your position in the organisation?

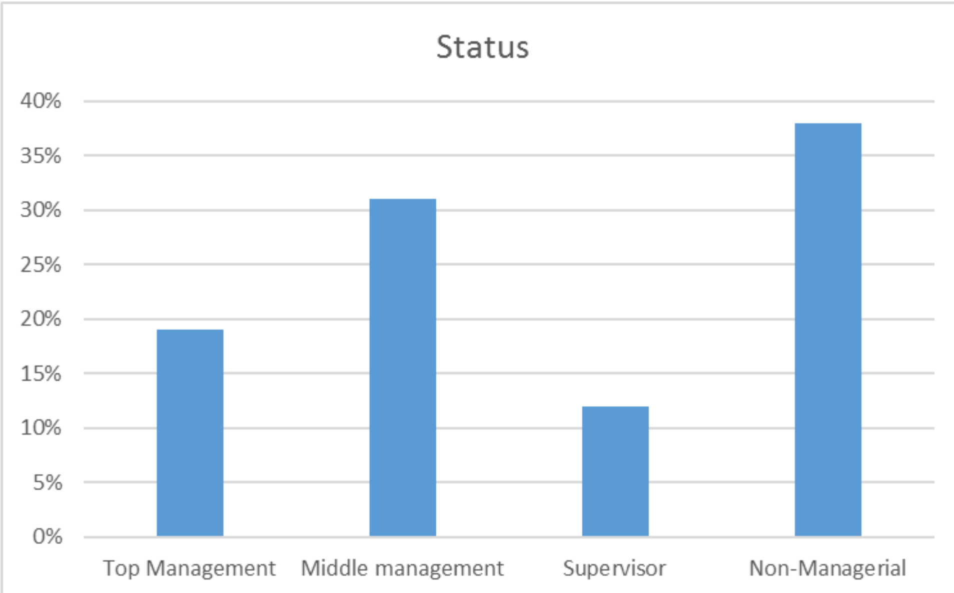

Figure 4.4 position of the employee in the organisation

The company had 19% of its employees in the top management, 31% in the middle management, while 35% of the participants were non-managerial staff. Supervisors made 15%. The figures have been rounded up to the nearest whole number.

4.3.6 Question 6: How long have you been working for the organisation?

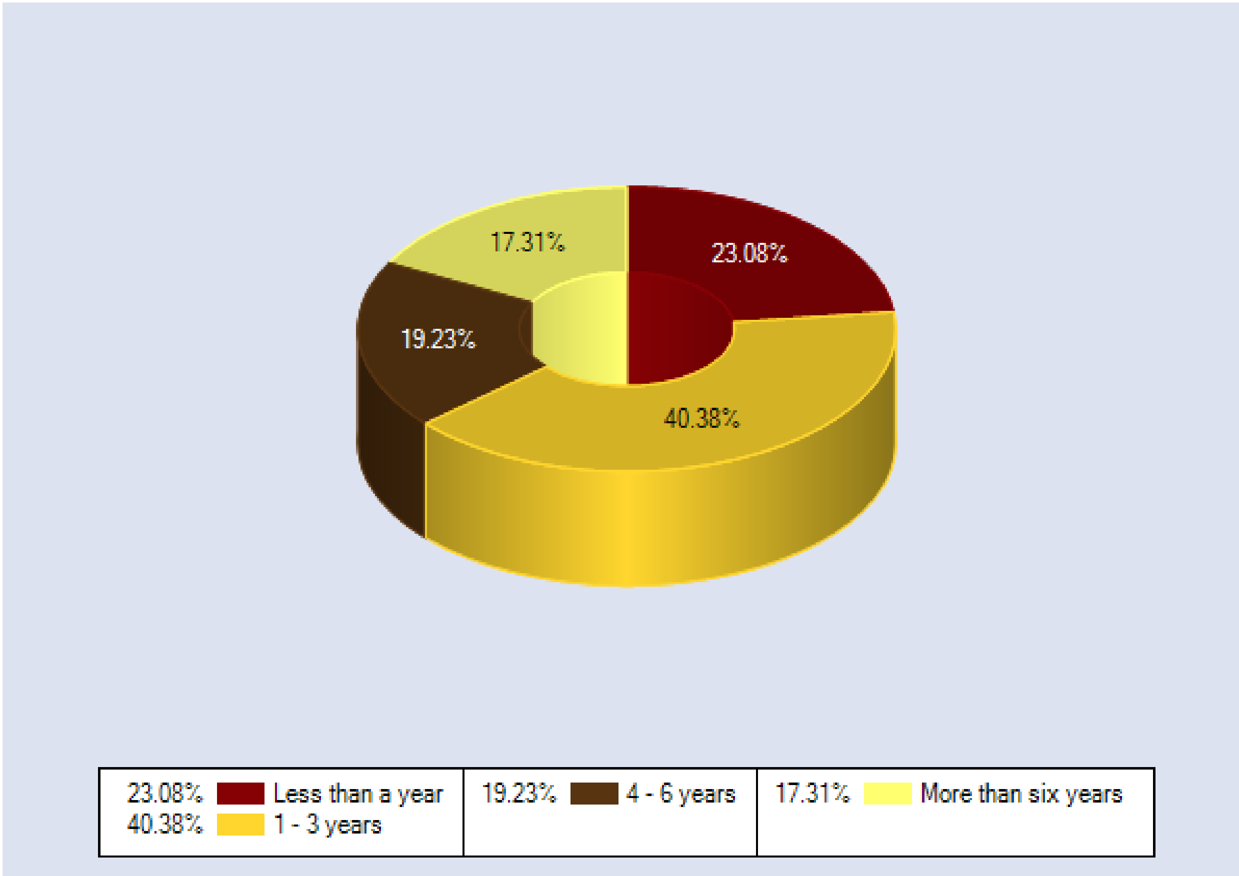

Figure 4.5: Participant's experience

Figure 4.5 illustrates that 23.08% of the respondents has been working for the KZNLA for less than a year, while 40.38 % of the participants has been with the same regional branch for 1-3 years. The fact that more than 60% of the respondents has been with the KZNLA for less than 3 years is a clear indication that the organisation has less experienced employees. For example, in the year 2016, 2016 and 2017, the KZNLA had negative reports against a background of employees with few years of experience. Surely, this is not a good sign for the entity. About 19.23% of those who participated in this study indicated 4-6 years of service in the department, while 17.31% of the respondents indicated more than 6 years of service.

4.4 Results based on objective 1: To identify the factors contributing to the adverse audit outcomes within the KZNLA

Objective 1 sought to identify the factors that contribute to the adverse audit outcomes. To address the objective, four questions which covered aspects of the quarterly audits, audit committee effectiveness, appropriateness of controls and quality of financial statements, were paused to the participants. The data on each of the question are analysed in the sections that follow.

4.4.1 Question 7: Internal audits are conducted quarterly in my organisation

The first question under objective one sought to establish if internal audits were conducted quarterly or not. According Arens *et al.* (2014:34), audits should be conducted quarterly in order to effectively serve their purpose, otherwise if conducted in periods far apart, there is likely to be procedures and systems which could go astray without being checked. The data gathered on this question are explained below

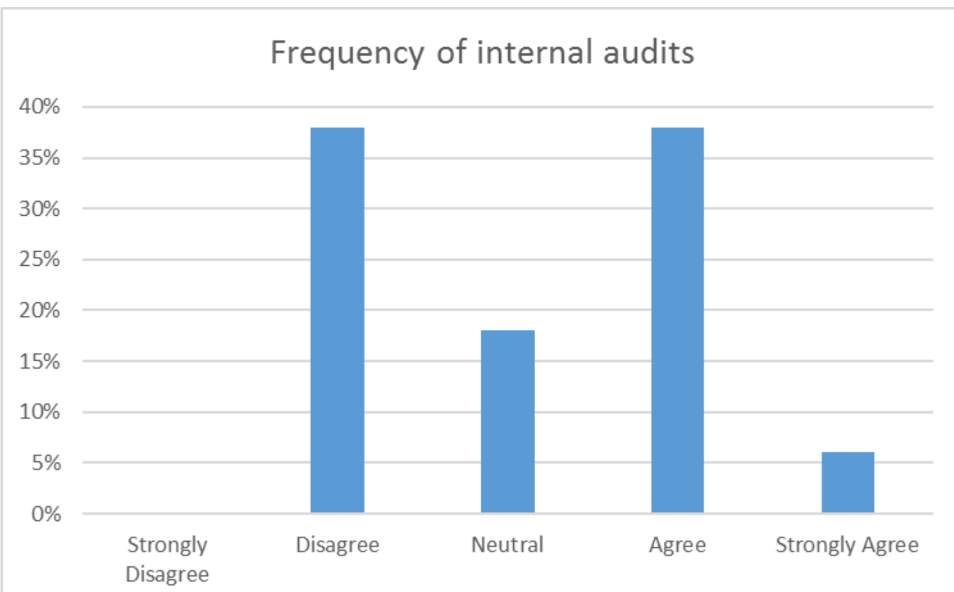

Figure 4.6 Frequency of internal audit

The data presented in Figure 4.6 show that a total of 44% of the respondents agreed with the statement that internal audits at the UKZNLA were conducted quarterly, followed by 38% of the participants who disagreed with the statement, while 18%

provided a neutral response. There is no outright winner under this finding, as all responses are below 50%. A total of 38% that disagreed, plus the 17% that gave a neutral response, is such a huge percentage. The findings however align with AGSA (2013), which stipulates that all state entities should ensure that quarterly audits are performed. The fact that a large number of the participants pointed that auditing does not occur quarterly fosters doubt, as it affects the credibility of the organisation's financial statements. Perhaps in this view, it is important for the management of the organisation to contract external auditors to verify the organisation's accounting information. The researcher is the Chief Financial Officer of the organisation, and his duties include ensuring that the entity improves its audit outcomes, hence, the concern about the negative audit reports. As a government entity, it is very important to do auditing, to ensure that government officials are monitored and held accountable. As a control mechanism to ensure accountability and stewardship, auditing helps in communicating the organisation's financial position to all the relevant stakeholders, thereby reducing information asymmetry between the stakeholders. An adequate functioning of internal audit in compliance with management policies and procedures is of great concern in the public sector, and this can only be effective if quarterly audits are performed (Ozuomba, Nwadialor & Ifureze, 2016:37). The frequency by which an audit is performed is a critical factor that affects the credibility of an audit outcome. According to Ozuomba *et al.* (2016:92), audit cycles that are far apart negatively affect the audit outcome

4.4.2 Question 8: The organisation's audit committee is effective

This question sought to establish if the KZNLA's audit committee was effective or not. Thus, the effectiveness of the audit committee is a critical factor that affects audit outcomes in any public entity. The audit committee is an independent oversight body reporting to the relevant governing body. The audit committee's responsibilities vary, depending on the entity's complexity, size and requirements.

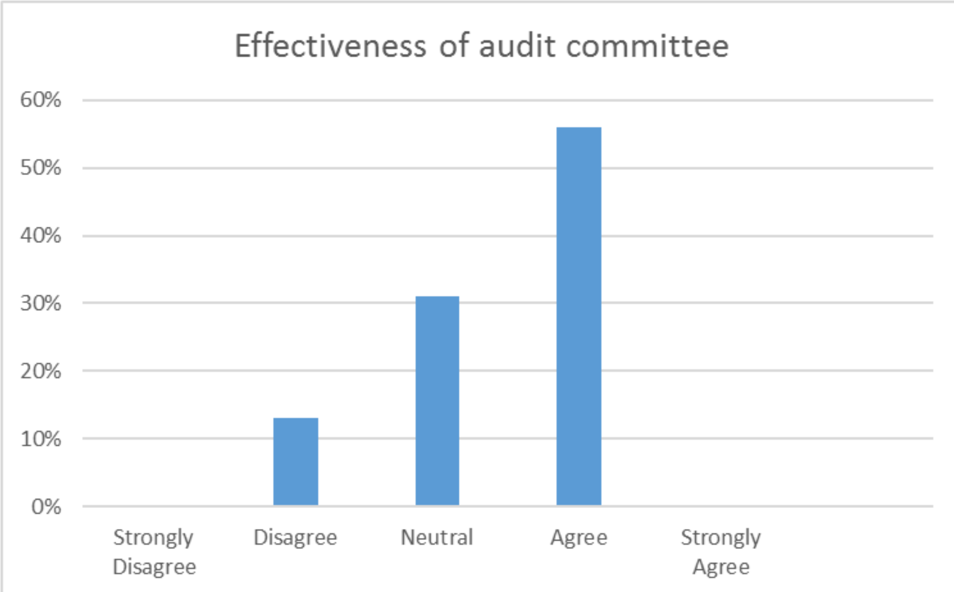

Figure 4.7: Effectiveness of the audit committee

In response to the question, Figure 4.7 shows that 58% of the participants agreed with the statement that the audit committee was effective, 12% disagreed, while 30% of the participants was neutral. It is concerning to note that there was such a high percentage of 30% neutrality. This suggests that maybe the participants lacked a clear understanding of what audit effectiveness meant, or the participants were not given the entity's reports on audit committee effectiveness, hence, they would not know if the committee was effective or not. However, Waweru (2014:466) backs the overall findings under this question. It is the obligation of the audit committee "to manage the internal and external audit functions, and reviewing of periodical "financial statements" in an organization (Waweru, 2014:470). According to Waweru (2014:470), an audit committee should thrive to be as effective as possible, in order to achieve the desired results. Typically, the responsibilities of a public sector audit committee include overseeing matters related to financial management and performance management, with specific focus on external audit, internal audit, risk management, internal control, IT governance combined assurance, appropriateness of the finance function and compliance with laws and other regulatory requirements. In this regard, audit committees make valuable contributions towards improving the governance, performance and accountability of public sector organisations. An effective audit committee has numerous benefits for the public sector entities and that includes giving guidance on sound corporate governance practices, monitoring the adequate and effective functioning of the system of internal controls, ensuring that fraud and corruption are effectively dealt with, improving the quality of financial and performance reporting, facilitating an efficient audit process and improving risk management. The effectiveness of the audit committees affects the audit outcomes (Ng & Tan, 2003).

4.4.3 Question 9: The existing controls in my organisation are appropriate

The purpose of the question was to establish whether the participants' views were appropriate to the needs of the KZNLA financial systems and procedures. The data on the question are shown in Figure 4.7.

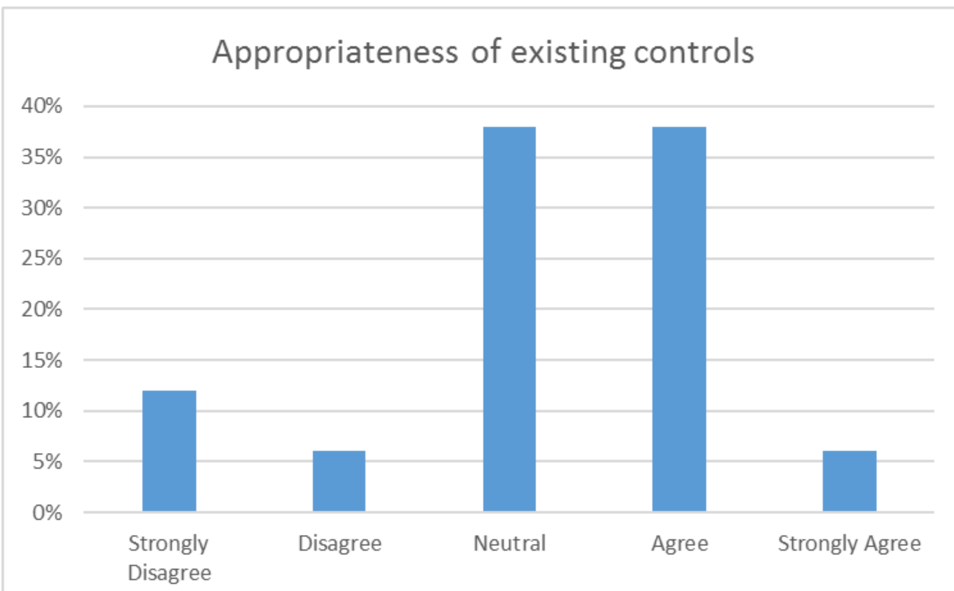

Figure 4.7 Appropriateness of existing controls

The data represented in Figure 4.7 indicate that 43% agreed with the statement that existing controls were appropriate, followed by 37% who gave a neutral response, while 20% disagreed that the existing control measures were appropriate. The appropriateness of existing controls is a key factor in determining audit outcomes. The researcher probed the participants on whether the existing controls were appropriate and whether risks were mitigated.

Lisic *et al.* (2015:19) emphasise that the audit committee has the power to ensure that internal controls are effective and support the financial reporting processes. Hence, the whole governance structure has as its prime focus as the optimisation of internal controls and improving the quality of audit reports (Cao *et al.,* 2015:7). Despite the participants' responses, it is essential to note that the control measures in question also determine the quality of the audit output and hence, the relevance of auditing. As indicated earlier, the reason for auditing is to ensure the monitoring of the organisation's activities, of which failure to monitor these might result in some few members of the organisation benefiting from the decisions that they make in terms of accounting. As a public entity, the KZN Liquor Authority is subject to public interest, meaning that the auditing information should be publicised and disclosed. If this happens, it helps in restricting some opportunistic behaviours from some members of the management.

4.4.5 Question 10: The organisational financial controls are of high quality

This question sought to ascertain if organisational financial controls were of high quality. The quality of financial statements is a critical factor that affect audit outcomes, as noted by Hayes *et al.* (2005: 51), when they argued that financial controls play a key role in defining the audit outcome. The audit quality is thus a function of the possibility of the auditor finding financial misstatements, as well as the decisions that the auditor takes after discovering such misstatements. This indicates the competence of the auditor in terms of his or her knowledge, effort and experience in auditing.

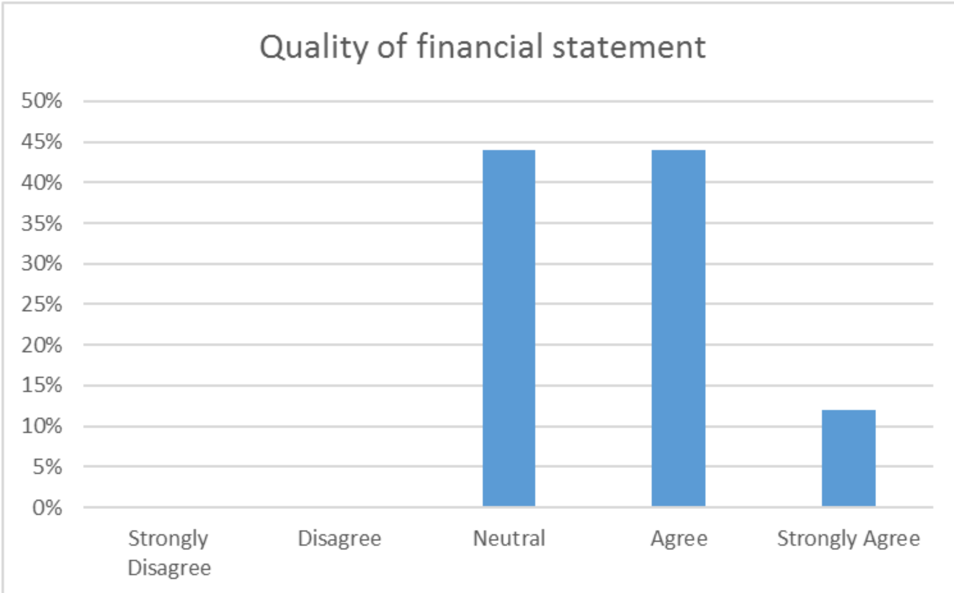

Figure 4.8: Quality of financial statements

Figure 4.8 shows that a total of 56% agreed with the statement that the financial statements submitted to the Auditor General were of high quality, followed by a relatively huge percentage of 44%, who were neutral to the statement.

It is a fact that financial statements are an important part of every organisation, and the quality of the given information indicates whether the information has been produced. The usefulness of the information further affects decision-making processes. The informational role of auditing suggests that audit reports should fulfil their purposes of improving the quality of financial information. In this view, audit reports serve as sources of information for different interested parties, for instance, investors.

4.5 Results based on objective 2: To assess the relationship between governance processes and audit outcomes

The second objective sought to assess the relationship between governance processes and the audit outcomes. The objective was motivated by the fact that governance processes play a key role in influencing the audit outcomes. To address this question, seven questions which covered aspects on effective systems, spending and the budget, organisational performance and budget, the organisational information systems, employee motivation, internal and external communication, and the rules and regulations, were asked. The data on each of the question are explained in the sections that follow.

4.5.1 Question 11: The organisation has effective systems and procedures

The question sought to establish if the KZNLA had effective systems and procedures. According to Akyel and Kosi (2013:19), the systems and procedures in place within an organisation resemble governance issue. Thus, the participants were asked if the systems and procedures were effective. The analysis of the findings shows that the systems and procedures in place were not effective and neither efficient enough in terms of keeping and producing good reports.

Table 4.1 Effectiveness of Systems and procedures

	Frequency	Percentage
Strongly Disagree	20	66.67%
Disagree	2	6.67%
Unsure	1	3.33%
Agree	1	1.33%
Strongly agree	6	20%
Total	30	100%

A total of 73.34% of the participants disagreed with the statement that the organisation had effective systems and procedures, followed by a total 21.33% which agreed with the statement, while 1.33% provided a neutral response. This is in line with AGSA (2013) report which revealed that most of the state entities in the Republic of South Africa suffered weaker systems and procedures, which could hinder efficiency and effectiveness of operations. This result implies that the accuracy, timeliness and relevance of the information to the managers might be stalled by the organisation's poor information system. From this angle, if the internal control systems and procedures are weak, this increases information risk, because of the inferior or poor quality of the auditing information.

4.5.2 Question 13: Spending is done according to the budget

This question aimed to ascertain if spending at the UKZNLA was done according to the budget. According to Pauw *et al.* (2009:130), budgeting and spending are part of the governance process within the organisation. The data on the question are reflected in Figure 4.10.

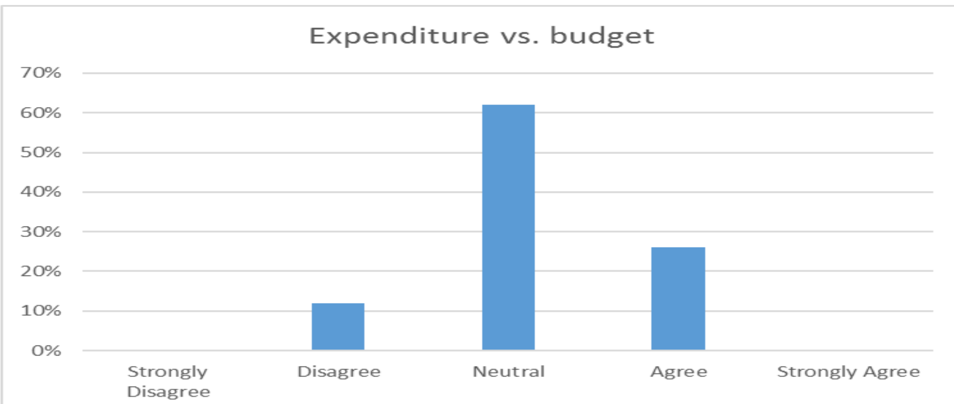

Figure 4.10: Expenditure vs. budget

A budget is a critical activity in the context of auditing. The participants were asked if the organisation's expenditure is done according to the budget. In answering this question, data in Figure 4.10 shows that 61% of the participants gave a neutral response, followed by 27% which agreed with the statement, while 12% disagreed that expenditure was done according to the budget. The findings reflect that spending was not aligned with the budget, since only 27% out of 100% agreed that spending was done according to the budget. The huge percentage of neutrality suggests the lack of knowledge or interest by those who are supposed to play a meaningful role in the governance matters of the KZNLA. According to Pauw *et al.* (2009:130), budget implementation is the phase where the appropriate cash is used to pay for services contracted for, in terms of the government policies underpinning the budget. This is an internal process in which public entities, including the KZNLA, are expected to spend as defined by revenue source, and operating and capital expenditures by type (National

Treasury, 2012). Budget spending is dependent on good budget preparation. A good budget ensures direct expenditure management that avoids unauthorised, irregular, fruitless and wasteful expenditure. In the local government sphere, the budget implementation phase involves the fulfilment of plans outlined in the budget, through the approval of the SDBIP. This in turn requires accurate and binding performance agreements for the public entity's chief executive officer and other senior managers for the coming financial year. These performance agreements must be concluded within 28 days of the approval of the budget (National Treasury, 2011).

4.5.3 Question 13: Monthly reports assist managers in assessing performance against budget

The reason for asking the issue of performance versus budget was to establish if the managers were using monthly reports to assess performance against the budget.

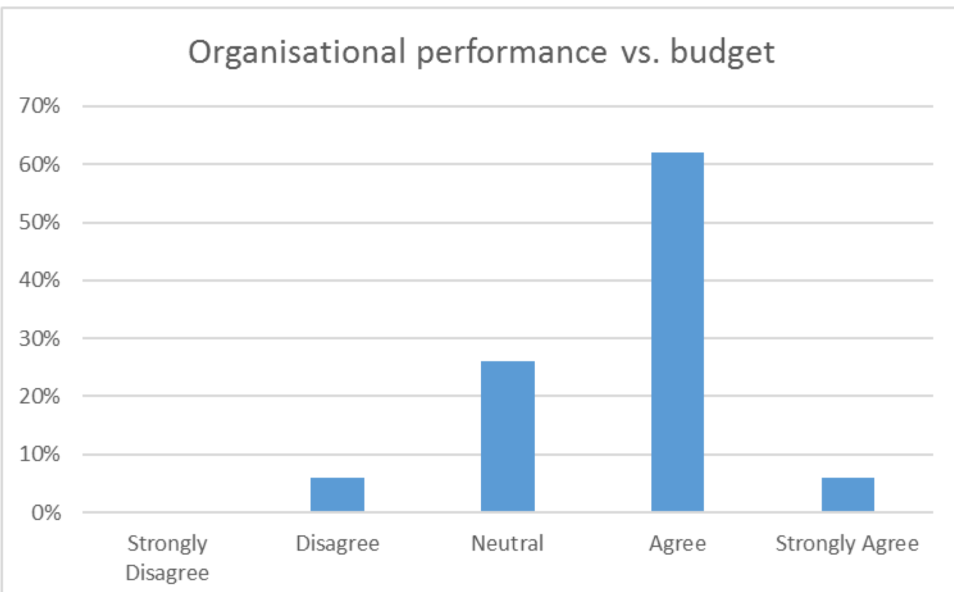

Figure 4.11: Monthly reports and the budget

Figure 4.11 shows that 61% of the respondents agreed that monthly reports assisted managers in assessing the budget, 26% was neutral, 7% disagreed, while 6% strongly agreed. Mazibuko and Fourie (2013:883) state that managers within the audit environment should be in a position to interpret the monthly reports towards improving the budgets. In this study, and in particular, under this question, there was acknowledgement by the majority of the respondents that the monthly financial reports produced by departments were effectively used to assist the management in assessing performance against budget. It was also noted that the existing controls in the organisation were not effective and thus, unable to mitigate any risks to the organisation.

4.5.4 Question 14: The organisation's information systems is reliable

This question sought to establish whether the organisation's information system ensured accuracy, timeliness and relevant information being available to the manager.

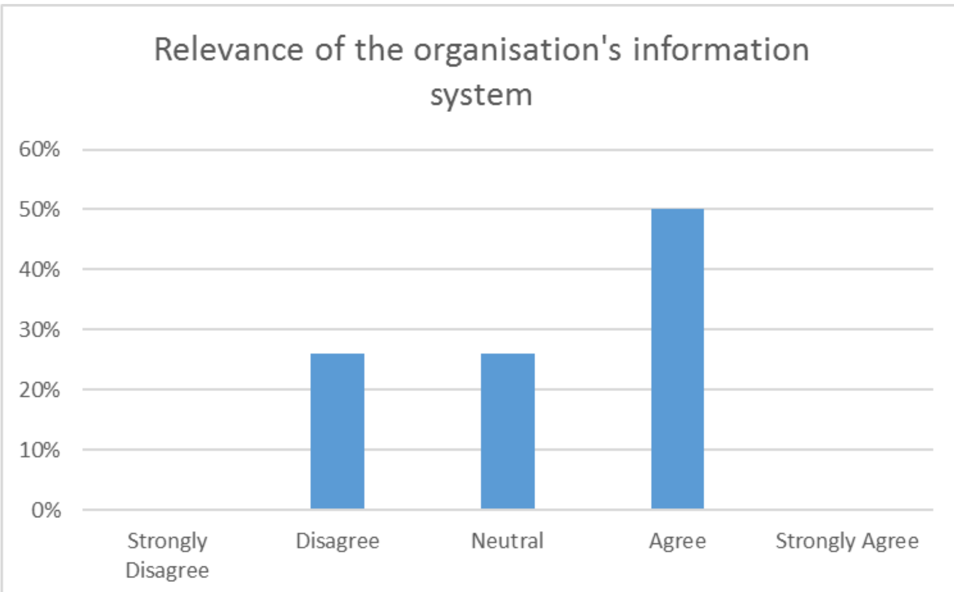

Figure 4.12: Relevance of the organisation's information system

To this end, the data reflected in Figure 12 shows that 50% agreed, 25% disagreed and the other 25% remained neutral on the matter. As argued earlier, financial reports are essential for monitoring purposes, as they enable managers to improve financial data, thereby improving their performance, while for investors, financial information allows them to make economic decisions (Higson, 2003). For instance, the investment decision models indicate that a firm is valued by measuring its current net value of future cash flows, which highly correlates with financial statement information. Thus, auditing is a way of improving financial information quality (Wallace, 2004). In addition, financial information is also essential in determining market values, which are also ways of making rational decisions on investment.

4.5.5 Question 15: I am motivated to improve my past performance as my performance is frequently reviewed.

The purpose of the question was to establish if employees were motivated to improve their performance due to their performance, which was frequently reviewed. The data on the question are shown in Figure …...

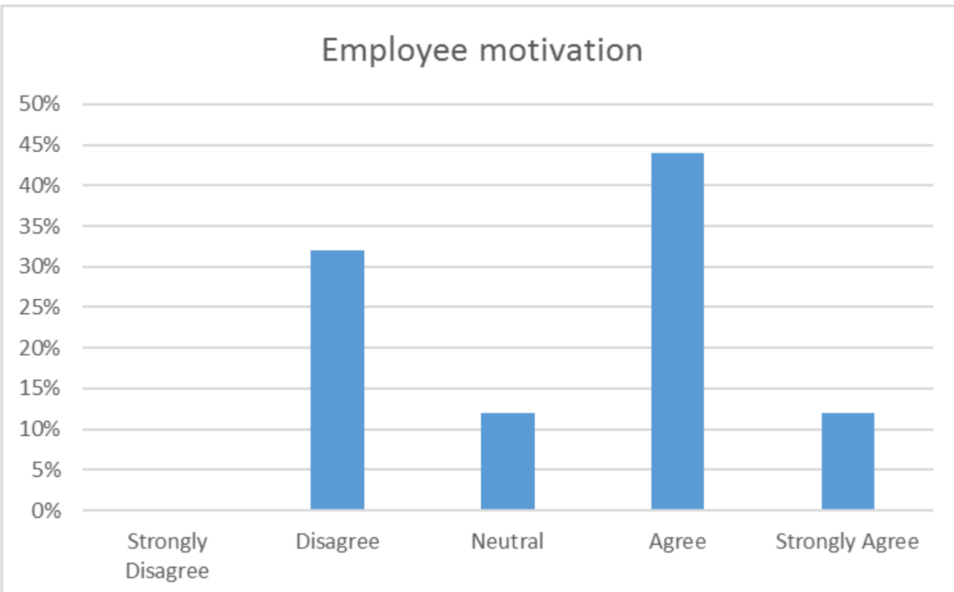

Figure 4.13: Employee motivation

The data reflected in Figure 14.13 show that a total of 56% agreed, 32% disagreed, while 12% was neutral. It is a fact that employee motivation is an important aspect of organisational performance. A motivated employee strives to achieve the objective of the organisation, while an unhappy employee affects organisational productivity. Organisations should thus create awareness programmes in which employees learn the legal matters and ways to maintain ethics in order to uphold the motivation of legal compliance and ethical practices (Aguinis, 2009).

In recognition of the importance of corporate governance, Chapter 10, Section 195(1)(2) of the Constitution of the Republic of South Africa emphasises on democratic values and principles that focus towards employees' motivation should be embraced by all state entities. The principles apply to effective motivation in every sphere of government, organs of state, as well as public enterprises. The fact that the majority of the participants revealed that they were motivated implies that the organisation was in the right track, in terms of its human resources management strategies, which could be a source of motivation towards implementing effective audit activities, processes, procedures that could enhance the governance processes within the KZNLA.

4.5.6 Question 16: Internal and external communication is effective

It was also important to establish if the department's internal and external communication was effective. The effectiveness of the communication system is part of the governance processes that may have an influence on audit outcomes. The data on the question are reflected in Figure 4.17.

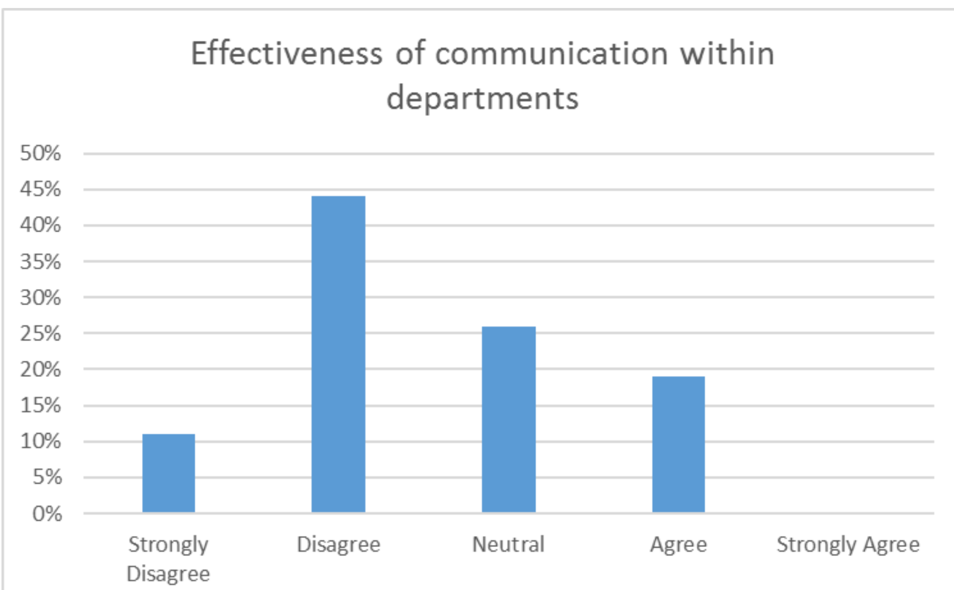

Figure 4.17: Effectiveness of communication within department

The findings of the study showed that the organisation was lacking in this regard, as a total of 55% of the participants disagreed, 26% was neutral and 19% agreed. From the researcher's experience within the organisation, the departments are supposed to collaborate, in order to have a fair audit report. Unfortunately, there are factors that hinder the smooth operations between them – such as poor information sharing, which created parallel units within the organisation. The poor coordination between the units seems to have significantly contributed to poor audit outcomes. According to the Treasury Internal Audit Framework (2009), channels of communication connecting IAA and AC must be maintained, given that the IAA is a basis of evidence to the Audit Committee on the performance of the organisation. Within the context of this study, the control environment shapes the attitudes of the stewards, encouraging them to commit themselves to high standards of integrity and ethical values, as well as clear and effective communication, while appointing the people with the appropriate qualifications, competencies and work ethics (Deloitte, 2012).

The analysis of the findings also shows that the internal units and governance units of the institution share a common objective of improving the reliability of fiscal information. However, the study findings revealed a growing concern from the participants' responses, in relation to a disconnection between the two units in working towards a common goal, that is. having a clean audit report. The findings indicate a widening gap between the two units as they operate as competing forces within the KZN Liquor Authority. The study also revealed poor cooperation between departments, and a lack of effective communication – both internally and externally.

4.5.7 Question 17: I disregard rules and regulations that hamper my personal freedom

The purpose of the question was to establish if the participants disregarded rules and regulations that hampered their personal freedom. Matters of rules and regulations are purely a governance issue, which may largely affect the audit outcomes. The data gathered on this question are reflected below.

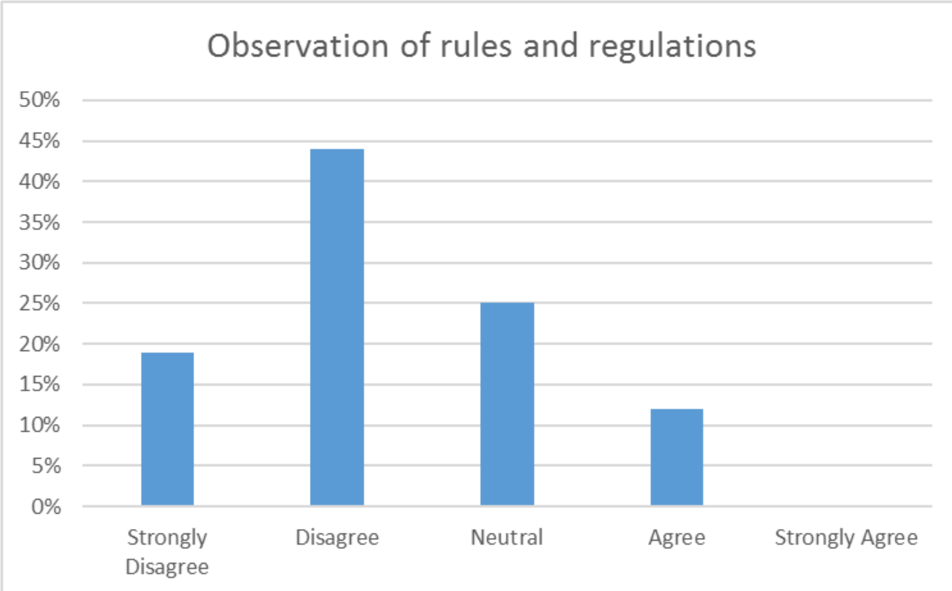

Figure 4.18: Observation of rules and regulations

The findings represented in Figure 4.18 showed that the majority of the participants agreed that they disregarded the regulations that hampered their personal freedoms, as reflected by 55% who disagreed to the statement followed by 25% who gave a neutral response while 18% agreed to the statement. The fact that some participants were neutral indicate that the rules and regulations were not known to everyone in the organisation, or the participants were not sure if they respected or disregarded the rules. This is not a good indication, as far as organisational operations are concerned. Every member of the organisation should be familiar with the rules and regulations of the company. The "compliance-based ethics management approach depends on a set of rules and enforcement and it is suitable to situations where unprincipled conduct is extensive", whereas, the "integrity-based ethics management approach is based on inducement plus support' (UNDP, 2007). An external auditor performs an audit in accordance with specific laws or rules, of the financial statement of the company, government entity, other legal entity, or organisation, and is independent of the entity being audited. External auditors normally address their reports to the shareholders of a corporation. External auditing is not an end in itself; it is ideally a component of a regulatory system of public finance and administration oversight that includes internal auditing, parliamentary reviews, public debate facilitated by the media, judicial prosecution, and other mechanisms (Akyel & Kosi, 2013:10).

4.6 Analysis of qualitative data towards addressing all the three objectives

The last part of the questionnaire sought the employees' comments on performance management and financial reporting within the organisation. A variety of responses emerged, including the following:

> **[Partcipant1]…***The organisation seems to care more about compliance and meeting deadlines, than the quality of reports or performance. Such a practice is very demoralising and does not motivate the staff into improving their performance. Performance management is not really a priority at times, but getting feedback on such can be very helpful to the organisation and also growth for the employees. There is also a lot of improvements that need to be done on the accounting system which produces financial information.*

> **[Participant 5]….***Performance management is well-managed and is effective, it is done timeously and provides feedback to employees on their performance. The performance management is done by managers/ supervisors and then the moderating committee finalises the process. The aim is to develop and raise standards, e.g. offering training courses. Financial reporting is done according to GAAP and accounting methods.*

> **[Participant 2]**…*Performance management is effective. Financial reporting is also effective and constant trainings are conducted to ensure that employees remain relevant.*

Controls are in place in terms of financial reporting, whilst performance management controls are not so effective.

The enhancement of the existing financial system (pastel), integration between pastel, VIP and liquor management system should be done. This, coupled with ensuring that there are linkages with the final reporting system, advanced training to staff members, is needed. More than anything, monitoring and evaluation from top management is essential. This will create a culture of creating value in reports that are being submitted weekly and monthly, building up to annually.

> **[Participant 3]..***The foundation for both performance management and financial reporting has been established. The effectiveness of such is still questionable. The organisation needs to put efforts in ensuring that there is alignment between performance and financial performance, as currently, there is clearly a visible gap. The problem starts from the point that when planning for performance, budget is not considered. These two processes currently exist in isolation, which is presenting the existing problems to the organisation.*

> **[Participant 9]…** *I strongly believe the institution is improving and there is room for improvement, considering that the institution is only five years in existence. My only worry is the wasteful and unfruitful expenditure.*

Some of the responses given above clearly give a picture of what is happening within the organisation. The responses also confirm the quantitative results presented earlier in this chapter, where the majority of the respondents argued that expenditure is not being done according to budget, where they also indicated the poor performance management in the organisation, as well as ineffectiveness in terms of performance management and financial reporting. It was also interesting to note that some of the respondents were positive by indicating that there is still more room for improvement, especially considering that the organisation is still in its infancy stage, at only five years old. On that note, the respondents were asked to indicate some of the factors which they thought should be implemented in order to improve financial management, financial reporting, risk management, internal control systems, as well as compliance within the organisation. Below were some of their suggestions:

> ……*The executives must take accountability on all their activities. Harmonisation of the entity policies to avoid contradictions, monthly monitoring and evaluation of cash flow, assets and financial compliance.*

…..*Fully automated system, meaningful internal risk control and reporting engagements on a monthly basis, transparency and inclusive management of the processes, better communication and feedback processes and adherence thereto.*

[Participant 5]…*Awareness programmes on policies, treasury regulations and procedures, accountability, efficiency and enforcement of policies is required.*

…….*Accountability, efficiency, economic stability and ensuring that resources are matched with objectives.*

The suggestions indicated above point to some of the issues that were indicated to be lacking and ineffective in the quantitative data presented earlier. These results therefore complement the quantitative results. These results further confirm the notion of corporate governance being at the centre stage. Some of the responses revealed that there were corporate governance mechanisms in place, which articulate the systems, policies and processes which guide how managerial proceedings in a firm may be monitored and controlled. From these results, it is indicative that corporate governance and financial performance do influence the quality of audit of the institution, which suggests that the management of the KZN Liquor Authority should strictly adhere to the codes of best practices of good corporate governance, as this would largely help in enhancing the quality of the audit reports.

To confirm the above, it has been indicated that weak corporate governance is directly related to fraudulent financial reporting, which in turn negatively affects the economy (Dechow *et al.,* 1996). Considering the important link between the quality of corporate governance and the reliability of financial reporting, it is undoubtedly important to ensure a strong corporate governance for the smooth flow of institutions. Corporate governance thus provides the framework through which corporate goals are determined together with the ways of achieving those goals. In this way, the ways in which managers and the board of directors govern an organisation’s affairs should be transparent and trusted by all the relevant stakeholders. This would create a conducive atmosphere for ensuring effective corporate governance. The presence of a strong and effective corporate governance ensures that organisations minimise chances of poor financial reports, thereby ensuring investors' confidence. In view of that, as indicated by participants in the qualitative data presented above, the right policies should be put in place, the internal controls should be appropriate, so as to monitor compliance, as well as to ensure that the behaviour of the employees is aligned with the organisation's regulations and stakeholders' expectations.

4.7 Conclusion

This chapter discussed the study findings based on the study objectives. It has highlighted the major factors that contribute to poor audit reports within the KZN Liquor Authority, such as lack of harmony between the units that operate as parallel entities. The lack of cooperation and poor communication, both internally and externally, have also been suggested as some of those factors. The findings indicated some of the challenges facing the KZN Liquor Authority and which could be part of the factors contributing to the poor audit reports. The next chapter draws conclusions and recommendations, based on the findings presented in this chapter.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The previous chapter documented the study findings. The purpose of this study was to identify the factors that contribute to the adverse financial audit reports at the KZN Liquor Authority. This chapter concludes the study and presents the summary of the key results, conclusions based on the results, limitations of the study and recommendations for action and for future research.

5.2 Summary of the study

The purpose of the study was to examine the critical factors that contribute to adverse audit reports within the KZNLA. The study alsoassessed the relationship between governance processes and audit outcomes, with the aim of proposing improvements in the management of finances and governance processes at the KZNLA. The study was approached from both the positivist and phenomenological philosophy, using both the closed ended questionnaire and an open-ended qualitative questionnaire. Therefore, the study employed the mixed method approach using the descriptive design.

5.3 Conclusions based on objective 1: to identify the factors that contribute to adverse audit outcomes within KZNLA.

Aligned with this objective, the study concluded that;

- The existing controls were not effective, thus unable to mitigate any type of risks to the organisation, as reflected by the majority of 44% who disagreed with the statement;
- The existing audit committee was effective, as reflected by 58% who agreed with the statement;
- The existing financial control were deemed appropriate, as reflected by the majority (43%) who agreed with the statement
- The current organisational financial statements were of high quality, as shown by 56% who agreed with the statement.

5.4 Conclusions based on objective 2: To assess the relationship between governance processes and audit outcomes

Aligned with objective 2, the study concluded that;

- Systems and procedures within the KZNLA were ineffective, as supported by 73% of the participants, who suggested that the governance processes negatively impact on audit outcomes;
- The majority of the employees lacked knowledge of alignment of spending with the organisational budget, as supported by the majority of the participants (61%) who suggested that the governance processes within the KZNLA were weak, to the extent of negatively influencing audit outcomes;
- Monthly reports assisted managers in assessing the budget, as backed by 61%, an indication that governance processes influenced audit outcomes within the KZNLA;
- The information systems within the KZNLA proved to be reliable, as backed by 50%, suggesting that the governance processes managed to create an effective information system capable of positively impacting on audit outcomes;
- Employees were motivated to an extent, as backed by 56%, suggesting that the governance processes may have motivated the workforce, which could positively affect audit outcomes;
- The internal and external communication was viewed as ineffective, as indicated by 55% which suggested that the governance processes within the KZNLA lacked in providing an effective communication system, which could negatively affect audit outcomes;
- The KZNLA employees did not observe rules and regulations that are against their pleasure as backed by 55%, suggesting that governance processes were not tight enough to ensure employee discipline, which could have an effect on audit outcomes.

5.5 Recommendations towards addressing objective 3: To propose improvements in the management of finances and governance processes

This study recommends the creation of an effective communication structure that would cater for both internal and external stakeholders. This would promote transparency and enhance good working relations, not only among the stakeholders, but also among the departments. It is also recommended that the implementation of a performance-based working environment be undertaken so as to motivate members of staff, and that staff appraisal should include all levels of staff. KZN Liquor Authority should also do the following:

- Change the organisation’s culture and values to that of performance-based
- Increase risk awareness to all the employees
- Enhance and integrate the existing financial; system (PASTEL) and that of the Liquor Management System
- Staff development through training
- Introduce awareness programmes on policies and procedures
- Obtain internal audit services
- Ensure senior management staff take responsibility for the organisation’s performance

5.6 Areas for further research

Further research is recommended in other liquor authorities in other provinces, since this study was only limited to Kwa-Zulu Natal Province. In addition, a study to investigate the competencies of the personnel responsible for auditing within the liquor authority may be worth conducting.

5.7 Conclusion

The purpose of the study was to conduct an examination of the factors contributing to adverse audit outcomes within KZNLA. Chapter One of the study introduced the study by describing and discussing the background, thereby stating the objectives of the study. Chapter Two presented literature aligned with the study, while Chapter Three discussed the research design and methodology for the study. The study was approached from mixed method design, using a closed ended questionnaire to gather quantitative data, as well as the interview to gather qualitative data. Chapter Four presented the results under the study objectives and provided literature to support the findings. Chapter Five presented the conclusions and recommendations of the study, attempting to align the conclusions with the objectives of the study. Thus, the findings can contribute to efforts to enhance existing controls in order to mitigate potential risks to the organisation and improve communication for both internal and external stakeholders, as hallmarks of good governance. The study concluded by suggesting that a similar study be conducted in other provinces, while another study that investigates employees' competencies within the audit unit may be useful. Based on the conclusions and recommendations made, it is clear that the study has achieved its intended purposes of identifying the critical factors that affect audit outcomes, as well as recommending the way forward.

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Appendix A: The Questionnaire

Section A: Biographical data

1. **What is your gender?**

(Please tick the most appropriate answer)

Male

Female

---

2. **What is your ager?**

(Please tick the most appropriate answer

20 - 25

26 – 31

32 - 37

38 – 43

44 - 49

50 or more

---

3. **What is your race?**

(Please tick the most appropriate answer)

Asian

Black

Coloured

White

Other

4. **What is your highest level of education?**

(Please tick the most appropriate answer)

Grade 12 or below

Diploma

Bachelors

Masters or above

5. **What is your position in the organisation?**

(Please tick the most appropriate answer)

Top management

Middle management

Supervisor

Non-managerial

---

6. **How long have you been employed by the organisation?**

(Please tick the most appropriate answer)

1 – 2

3 – 5

6 – 10

Over 10

SECTION B: Questions aligned to objective 1: To identify the factors contributing to adverse audit outcomes within KZNLA

7. **In my organisation, internal audits are conducted quarterly**

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

8. The organization's Audit Committee is effective

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

9. The existing controls in my organisation are appropriate

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

Section B: Questions aligned to objective 2: To assess the relationship between governance processes and audit outcomes

10. The organisational financial statements are of high quality

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

11. The organisation has effective systems and procedures

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

12. **Spending is done according to the budget.**

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

13. **Monthly reports assists managers in assessing performance against budget** (Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

14. The organisation's information systems is reliable

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

15. I am motivated to improve my past performance because of my frequently reviewed performance.

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

16. Internal and external communication is effective

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

---

17. I disregard rules and regulations that hamper my personal freedom.

(Please tick the most appropriate answer)

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

SECTION C: Questions to gather qualitative data

18. Can you please explain and comment on performance management aswell as the financial reporting within KZNLA?

(Please provide answers on the spaces provided)

____

____

____

____

____

____

19. **List and explain five factors that you think when implemented can improve financial management, financial reporting, risk management, internal control systems and compliance within your organisation?**

(Please provide answers on the spaces provided)