UNIVERSITY OF THE WITWATERSRAND

WITS SCHOOL OF GOVERNANCE

THE ANNUAL FINANCIAL STATEMENTS PROCESS AND ACCOUNTABILITY IN PROVINCIAL GOVERNMENT EXPENDITURE: GAUTENG PROVINCE

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DECLARATION

I, Andiswa Oyama Jass, declare that this report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management (in the field of Governance) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

Andiswa Oyama Jass
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ABSTRACT

Concerns about accountability in government continue to pose a serious challenge for the South African government, resulting in poor service delivery and the mismanagement of public resources. This study sought to examine the preparation and review process of the Annual Financial Statements and fiduciary accountability in provincial government expenditure which articulates the annual objectives of departments and how the citizens were serviced by the government fiscus in a particular financial year.

The research presents an analysis of the three selected departments in the Gauteng Province; with a specific focus on the Gauteng Department of Education, Human Settlements and the Provincial Treasury. The study aimed to examine financial accountability in relation to the technical processes underlying the gathering of the data for the preparation of the Annual Financial Statements in the selected government departments in the Gauteng Province. Furthermore, the study aimed to understand the financial governance processes and structures and how these processes are institutionalised by the Gauteng Provincial Government to effect financial accountability.

The main objectives of the study were to analyse whether there are sufficient processes and procedures in the preparation of Annual Financial Statements in these selected government departments in the Gauteng Province through the examination of the role of the Accounting Officers and the institutional arrangements in the government departments. The study critically focused on the technical process underlying the gathering of the data for the preparation of the Annual Financial Statements and analysed the reasons for the different audit outcomes as expressed by the office of the Auditor-General of South Africa.

The study adopted a qualitative methodology, using a case study to investigate how financial governance and accountability are prioritized in an institutional environment such as a government department. The sample size for the study comprised fifteen (15) participants who are in strategic roles in the preparation and review process of the Annual Financial Statements. The data were collected using primary and secondary data sources. The primary data were gathered through semi-structured interviews whilst the secondary data were extracted from various sources such as departmental websites and archives. The study made use of thematic data analysis to analyse the data.

Keywords: Financial accountability, Internal Control measures, Annual Financial Statements, Financial Reporting and Audit Outcomes.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ACRONYMS AND ABBREVIATIONS

AC	Audit Committee
AFS	Annual Financial Statement
AGSA	Auditor-General of South Africa
AO	Accounting Officer
AR	Annual Report
CFO	Chief Financial Officer
DG	Director General
GP	Gauteng Province
GRAP	General Reporting Accounting Practice
HOD	Head of Department
IRBA	Independent Regulatory Board for Auditors
MCS	Modified Cash Standards
PAG	Provincial Accountant General
SCM	Supply Chain Management

ANNEXURES

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

Financial governance and accountability continue to pose a serious challenge for the South African government, exposed most tellingly in the revelations of the the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State, better known as the Zondo Commission or State Capture Commission. The resultant effects are seen in diminishing public confidence in government due to the lack of provision of public services and are demonstrated by the negative audit outcomes as reported by the Auditor-General (AG) of South Africa. Recently, public attention has also been brought to concerns regarding the specific lack of fiscal accountability in government as reported by the Auditor-General in 2021 (News24, 22 June 2021). This is reflected in the Annual Financial Statements (AFS) which fulfill the reporting role on accountability for the government by reporting back to the stakeholders about the use of public funds. The AG cited that the lack of accountability in the expenditure of public funds emanates from non adherence to laws and regulations which govern fiscal spending.

This is becoming a norm and has resulted in damaging consequences reflected in the mismanagement of public resources and poor service delivery. These developments at the macro-level also reflect an undermining of departmental Annual Performance Plans (APPs), which articulates the annual objectives of departments on how the citizens will be serviced by the government fiscus in a particular year. The Auditor-General (AGSA General Report, 2020) stated that transparency and accountability for government spending to the benefit of citizens remains a key priority of their office, including during the period of the pandemic. This message was delivered to ensure the effective execution of the AG's constitutional mandate to promote transparency and accountability by assessing and auditing the use of public funds and whether these funds have been utilised for the purpose they were intended for. The auditors conclude that the objective of government accounting, financial reporting and accounting for performance is to manage and protect public resources by preventing and detecting fraud as well as corruption (Chan, 2003).

The Auditor-General's Report is based on an external assessment by auditors on the relevant performance reported by the government departments on their financial affairs. The outcomes of the departmental audit are thus a reflection of the quality of financial governance within the department and the effectiveness of the departmental management system. Over and above what management is responsible for, the internal audit unit and audit committees are key elements of assessing good governance within the department (AGSA General Report, 2019). Aswar (2020) draws attention to the significance of this assessment process arguing that good governance is a significant factor in realising the policy mandates of the department, reflected in the achievement of planned targets and goals in an accountable and transparent manner.

The ability to assess whether a department is achieving its policy mandate through accountable spending is reflected in the information captured and disclosed in the AFS of the department (Weerasinghe & Karunarathne, 2018). Therefore, AFS have become a vital tool that is used to provide information on the financial position, financial performance and cash flow of an economic entity – in this case, a government department (Avram, D., Avram, M., Dragomir, I., 2017). Although the APPs which drives the operations of the departments are aimed at ascertaining performance indicators and targets that a department seeks to achieve in the forthcoming budget year, their main purpose is to ensure that the political mandates are aligned across the departmental budgets, in-year and annual reports (Framework for Strategic Plans and Annual Performance Plans, 2021).

The AFS on the other hand are a tool used for transparently communicating to citizens but also to service providers and creditors on the financial performance of an organisation – in this case, a government department (Avram, D., *et al.,* 2017). The implications of poorly prepared financial statements result in undesirable audit outcomes and the reasons of which point to potential mismanagement or misappropriation of allocated funds for service delivery, for example, as indicated in the 2020/2021 report of the AGSA. The accurate preparation of the AFS is thus critical for assessing whether there is misspending in a government department and the likely causes as may be revealed in an annual departmental audit. The role of the Accounting Officer (Head of Department) is crucial in ensuring these AFS are prepared with due diligence and to demonstrate the accountability exercise and transparency role that they play in the organisation.

The performance of other government departments on financial matters such as financial governance is the mandate of the Gauteng Provincial Treasury where they exercise oversight on compliance with prescribed laws and regulations, and the effective and efficient utilisation of resources. The oversight role exercised by the Gauteng Provincial Treasury over departments, in this instance, involves the evaluation of reports and the accountability provided on financial matters on whether they are carried out in line with the applicable prescripts and thereafter make recommendations on actions to be carried out. However, the 2019/2020 and 2020/2021 financial year reports from the office of the Auditor-General indicate internal control deficiencies in the following selected departments: the Gauteng Department of Education and the Gauteng Department of Human Settlements. This could be construed as ineffective financial management, poor service delivery and ineffective oversight by the Gauteng Provincial Treasury. The fundamental concern could therefore be the effectiveness of the oversight role of the Gauteng Provincial Treasury on the selected provincial departments, which includes amongst others the verification of the credibility of the cash-flow projections.

Given the significance of the role of the Accounting Officers (Head of Department) in ensuring the accurate preparation of the AFS, this study will focus on the preparation process of the AFS in three selected government departments in the Gauteng Provincial Government and their effectiveness in reporting on planned performance, in line with the APPs and as reflected in particular in the AFS. The role will be critically assessed based on a case study of the Gauteng Provincial Departments of Education, Human Settlements and Treasury.

In the 2019/2020 financial year, the Auditor-General reported, amongst others, that the Annual Performance Report for the Gauteng Provincial Treasury included targets that are not aligned with the core functions of the department (2019/2020 AGSA Report). This is an indication of non-compliance with the Public Finance Management Act (PFMA) wherein reference is made that the annual report and the financial statements must present the state of affairs of the department, its financial results and performance against the non-financial objectives (PFMA, section 40(3)(a)). As the Gauteng Provincial Treasury is a monitoring and supporting department that is expected to provide oversight to other departments, the users of the annual financial statements may view the current state of affairs in the bad light similar to the Gauteng Department of Human Settlements and Education.

1.2 RESEARCH CONTEXT: BACKGROUND

The office of the AGSA as a constitutional institution is mandated to promote transparency and accountability by assessing and auditing the use of public funds and whether these funds have been utilised for the purpose they were intended for. The AGSA's audit process examines three focus areas; namely, the AFS, the Annual Performance Report, and finally compliance with the relevant laws and regulations governing financial accountability (AGSA General Report, 2020). These three focus areas are the key elements of assessing financial accountability (in other words that public spending is aligned with policy mandates) as each government department is allocated public funds to implement their core mandates, which should be accounted for at the end of each financial year. On completion of the audits, the AGSA's office expresses an audit opinion according to the following categories, depending on the status of the departmental state of affairs:

- *UNQUALIFIED audit opinion with no other matters:* an unqualified (clean) opinion is expressed when the auditor concludes that financial statements provides a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.
- *UNQUALIFIED audit opinion with other matters:* an unqualified opinion with other matters is expressed when the auditor concludes that the financial

statements were presented fairly, in all material respects, after the auditor has pointed out errors to be corrected and those errors or omissions were effected as a result of detection by the auditors, but before the audit process could be concluded.

- *QUALIFIED audit opinion:* expressed when financial statements contain material misstatements in specific accounts or there is insufficient evidence for the auditor to conclude that the specific account included in the financial statements are not materially misstated.
- *ADVERSE audit opinion*: expressed when financial statements contain material misstatements that in an auditors' opinion will affect fair presentation or misstatements represent a substantial portion of financial statements.
- *DISCLAIMER audit opinion*: expressed when auditee provided insufficient evidence in the form of documentation on which to base an audit opinion where the lack of sufficient evidence represents a substantial portion of information contained in the financial statements.

The study will be based in the Gauteng Province and the main focus will be on the Gauteng Department of Education (GDE), Gauteng Department of Human Settlements (DHuS), and Gauteng Provincial Treasury (GPT). The two selected departments (Gauteng Departments of Education and Human Settlements) were purposefully selected as they are regarded as service-orientated departments to protect and promote the rights of every citizen to a quality and equitable livelihood (GDE and DHuS Annual Reports, 2020). In the 2021/2022 financial year, the overall total budget allocation for the Department of Education amounted to R53.5 billion whilst the Department of Human Settlements received an allocation budget of R5.9 billion which contributes about 42% of the Gauteng Province's overall budget (Gauteng Provincial Government Estimates of Provincial Revenue and Expenditure, 2021). The third selected department, the Gauteng Provincial Treasury, is an oversight department, mandated to promote proper financial governance, better planning and budgeting synergy across all spheres of government in the Gauteng Province and to ensure balanced budgeting and sustainable funding for legislative mandates and strategic priorities of the province (GPT Annual Report, 2020).

The effectiveness of the preparation of the AFS process and accountability in provincial government expenditure will be the subject of this research study. The research study will critically focus on the technical process underlying the gathering of the data for the preparation of the AFS and analyse the reasons for the different audit outcomes as expressed by the office of the AGSA, on the AFS of the three government departments. This study intends to gain insights into why the AGSA's General Report reflects that the Gauteng Department of Education obtained an unqualified audit opinion while by contrast, the Gauteng Department of Human Settlements obtained a qualified audit opinion even though both departments have similar auditing and financial governance structures (AGSA General Report, 2019).

According to the AGSA (AGSA General Report, 2019), the Gauteng Departments of Education and Human Settlements presented financial information which revealed internal control weaknesses that resulted in amendments to financial statements during their audit. The AG reported that the quality of financial statements received for audit purposes was not at an appropriate level, reflecting that areas of reporting weakness could have been detected at the departmental level and were due to departmental internal control weaknesses (AGSA General Report, 2019). The Gauteng Provincial Treasury on the other hand has been receiving an unqualified audit opinion with no other matters reported since the 2012/2013 financial year to date, indicating that the financial statements submitted to the AGSA for audit were free from material misstatements (AGSA General Report, 2013).

However, budgets are appropriated to departments by the Gauteng Provincial Treasury for the achievement of the approved objectives but continuously, the departments are under-spending or mismanaging those budgets which could indicate ineffective oversight by the Gauteng Provincial Treasury. Such ineffective oversight could be the root cause of the negative impact on the provision of the departmental services resulting in negative audit outcomes. In addition, the persistent negative audit outcomes for other departments also have implications on the effectiveness of financial management executed by the Gauteng Provincial Treasury, which is mandated to frequently monitor and evaluate departments through legislated reporting and other control measures. Noting that the Gauteng Province is considered Africa's economic hub, the Gauteng Provincial Treasury is entrusted with the role of ensuring effective and efficient systems of financial management in the form of internal controls around the financial assets and liabilities of the Province. It thus provides a comparator department against which assessments can be made about financial governance systems in the other two government departments which form the case study.

1.3 PROBLEM STATEMENT

Concerns about accountability in government have increased over the past two decades due to a significant rise in publicized scandals of government misspending which have eroded public confidence in the public sector (Ebrahim, 2003). The recent scandals and exposé necessitate the need for a critical review of the systems of financial accountability in the government department environment. Therefore, this study focuses specifically on the role of the Accounting Officers (Heads of Departments) within the departments and the processes their institutions undertake to prepare the AFS as the mechanism to communicate the financial affairs of the department. Aswar (2020) states that the quality of accounting information is expected to have three dimensions; namely, accuracy, timeliness and relevance. The aim, therefore, is to better understand and analyse the experience of select government departments with regards to financial accountability in the Gauteng Provincial Government.

The study, therefore, through a case-study approach seeks to understand the reasons why select government departments in the Gauteng Province are submitting AFS to the Auditor-General which subsequently returns negative audit outcomes and suggests there is potential misspending or misappropriation of government expenditure. The three selected departments in the Gauteng Province shall be used as a case study and the focus will be to identify factors that lead to errors or omissions in the AFS which undermine the credibility and reliability of financial statements as submitted to the office of the AGSA. The study aims to investigate why there are these negative audit outcomes by examining the role of the Accounting Officers in relation to the preparation of the department's AFS (which reflects the actual spending which occurred during the financial year) and their alignment with the annual departmental performance plans, which sets out the annual objectives of the department.

1.4 AIM OF THE STUDY

This study aims to examine financial accountability in relation to the technical processes underlying the gathering of the data for the preparation of the AFS in select government departments in the Gauteng Province. The study also aims to understand the root causes of the negative audit opinions and to make practical recommendations in order address such - with a specific focus on three select government departments; namely, the Gauteng Department of Education, Human Settlements and Provincial Treasury.

1.5 RESEARCH OBJECTIVES

The research objectives of this study are as follows:

1.5.1 Primary research objective

The primary objective of this study is to analyse whether there are sufficient processes and procedures of accountability in the preparation of AFS in select government departments in the Gauteng Province through the examination of the role of the Accounting Officers and the institutional arrangements in the government departments.

1.5.2 Secondary research objectives

- To determine the internal control measures used to assess the effectiveness of the financial statements review processes and whether they conform with relevant legislation.
- To determine the strategies employed to address the barriers to achieving clean audit outcomes in the Gauteng Provincial Departments of Education, Human Settlements and Treasury?

- To assess adequacy of its financial reporting as a mechanism for monitoring accurate spending against the approved objectives in provincial departments.
- To determine the financial governance processes and structures and how these are then institutionalised to effect financial accountability.

1.6 RESEARCH QUESTIONS

Primary Research Question

This study attempts to provide answers to the following primary question to consider and reflect on the research concerns:

- What are the technical financial accountability processes applied in gathering the data for the preparation of the AFS in select government departments in the Gauteng Province?

The sub-questions for are the following

- What are the strategies employed to address the barriers to achieving clean audit outcomes in the Gauteng Provincial Departments of Education, Human Settlements and Treasury?
- How adequate is financial reporting as a mechanism for monitoring accurate spending against the approved objectives in provincial departments?
- What are the financial governance processes and structures and how are these then institutionalised to effect financial accountability?

1.7 SIGNIFICANCE OF THE STUDY

The findings of the study are aimed to assist the Accounting Officers (Head of Department) in discharging their roles and responsibilities to ensure the efficiency and effectiveness of the internal control measures. These in turn will be beneficial in ensuring that the strategies are implemented to address the challenges and barriers in achieving the desired clean audit outcomes. Furthermore, the study will assist management in understanding the integral importance of the department's AFS and the alignment with the annual departmental performance plans, which sets out the annual objectives of the department. Lastly, the study will contribute to the existing body of knowledge on financial accountability.

1.8 CHAPTER LAYOUT

The dissertation is structured as follows:

- **Chapter 1:** The chapter focuses on the importance of investigating the specific research problem. This chapter introduces the context of the study, describes the background to the study, the problem statement and the objectives of the study. The research aims, which are based on the statement problem and the background are also indicated in this chapter.
- **Chapter 2:** In this chapter, the conceptual theories of stakeholder participation and theories of project management, concepts of inclusive stakeholder participation and the extent of their participation as revealed by the literature are discussed. The chapter also introduces the legal framework applicable to the study.
- **Chapter 3:** The chapter mainly focuses on the research methodology; namely, the research design, methods of data collection and data processing techniques that are applied in the study.
- **Chapter 4:** This chapter presents the data that has been collected, the analysis thereof and finally the interpretation of the results.
- **Chapter 5:** In this chapter the research findings are discussed and interpreted, followed by the recommendations in relation to the research question.

1.9 CONCLUSION

This chapter introduced the research context of the study and presented a brief background of the financial accountability in government departments. This chapter described the background to the study, the problem statement and the objectives of the study. Included in the chapter is also the research problem, the aim and the objectives of the study as well as the research questions and significance of the study. Lastly, the chapter provided the structure of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

In the previous chapter, a brief overview of the research study was highlighted and the research objectives and key concepts were explained. This chapter presents the literature review, theoretical framework and the financial accountability accounting within the public sector. Therefore, this chapter aims to provide a brief overview of auditing in the public sector, provide numerous definitions of auditing and provide a detailed explanation on the need for auditing in the public sector.

Consequently, the discussion will focus on the influence of the PFMA's (Act 1 of 1999) influence on public service good governance, accountability and internal control measures as an integral part of financial management in the public sector. This is so because the PFMA is the key legislation mandates that the Accounting Officers use to ensure that their departments have an effective, efficient, economic and transparent system of financial and risk management and internal controls. Furthermore, the PFMA requires that the National Treasury develops and enforce regulations and issue instruction notes to the Accounting Officers on how to maintain an internal control environment to manage the organisational activities.

The fundamental purpose of the internal control environment in the public sector is to assist Accounting Officers to maintain efficient and effective control in public service institutions by evaluating the controls (specifically, determining their effectiveness and efficiency) and by making recommendations supporting the goal of enhancing and improving governance. In the context of the above, it is important to know the extent to which the auditors in the South African public sector meet the expectations of their stakeholders.

2.2 BRIEF OVERVIEW OF AUDITING IN THE PUBLIC SECTOR

The Independent Regulatory Board of Auditors (IRBA) as a regulatory body for auditors has a mandate to promote accountability, transparency and good governance, particularly in the area of financial management in the public entity. Relating to South African public sector, the demands for greater accountability and good governance are clearly reflected in the legislation listed hereunder:

- The Constitution of the Republic of South Africa (Act No. 108 of 1996);
- Public Finance Management Act (PFMA), Act No. 1 of 1999;
- National Treasury Regulations for departments, constitutional institutions and public entities; and
- Public Audit Act, Act No. 25 of 2004.

In terms of the above-mentioned legislation, departments and public entities are mandated to take responsibility and accountability for their actions and decisions pertaining to public funds. Auditing then becomes a tool to test compliance with the legislative mandate and whether accountability is carried out to fulfil this commitment (IRBA, 2012). The Lima Declaration of Guidelines on Auditing Precepts of the International Organisation of Supreme Audit Institutions (INTOSAI) defined auditing in the public sector by specifying the following:

> *"The idea and formation of an audit is essential in public financial administration, as the management of public funds represents a trust. An audit is not an end in itself but rather an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of efficiency, effectiveness, legality and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent, or at least render more difficult, such breaches".*

It is against this backdrop that the aspects about auditing in a public sector are discussed through the literature review, as follows:

- definitions of auditing;
- the need for auditing of public sector entities;
- scope of auditing in the public sector; and
- different types of audit outcomes.

2.2.1 Definitions of auditing

The office of the AGSA as a constitutional institution is mandated to promote transparency and accountability by assessing and auditing the use of public funds and whether these funds have been utilised for the purpose they were intended for. Owing to the fact that auditing is a statutory and a good governance requirement, particularly in the public sector, clear definitions and a degree of agreement on what it means are important. The literature has revealed that there is no single definition of auditing. Different scholars have written about auditing and have engraved their own definitions and perspectives in this regard. Marx, Van de Walt and Bourne (2021) underscore this by stating that in various disciplines and situations, the terms audit and auditing are used interchangeably. In short, a definition of auditing is context-based. Therefore, it is crucial to probe various definitions where auditing is understood in order to fully appreciate the roles it plays in the public sector.

According to Okegbe *et al.,* (2019), auditing is "concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports" in an orderly way of collecting and evaluating evidence pertaining to assertions about economic decisions and actions in which an entity is engaged to make sure that the extent of communication between those assertions and established criteria and based on such detail, the auditors form an opinion which is embodied in a written report addressed to the parties to whom the auditors are responsible under the law.

This view is also shared by Boynton and Johnson (2005), who maintain that auditing is an objective investigation and assessment of the financial statements of an entity to make sure that the records are a fair and precise representation of the transactions they claim to represent. In agreement with this, Lubbe (in Marx *et al*., 2021) notes that auditing encompasses an investigation by an auditor into the evidence from the financial statements of an organisation in order to establish whether or not the financial statements fairly represent the summarised transactions for the period under review and of the concerned organisation's financial condition at the end date.

According to Visser and Erasmus (2002), auditing is a procedure concerned with the gathering of supporting documents or evidence that substantiates the information presented to express an informed, professional and independent opinion on the assertions and demonstrations made in management reports. Independent assessment and assurance about the credibility and completeness of financial and interrelated records explain what auditing entails.

From the definitions above, the researcher understands the auditing process as an independent process of assessing, testing and evaluating the assertions about the organisation's economic actions and events with the aim of determining the degree to which the said assertions correspond with established procedures or regulations and ultimately communicating the findings to interested parties. In its broadest perspective, auditing is the method of presenting to the stakeholders, its economic actions and proceedings of the organisation.

The fundamentals of the definitions above is that the purpose of an audit is to allow an auditor to express an opinion as to whether or not the financial statements fairly present a true and reasonable analysis, in all material respects, of the financial situation of the organisation at a particular time and the results of its financial position, financial performance and cash flow information for the period ended on that date in line with a relevant financial reporting framework and applicable laws and regulations. Besides being regarded as sufficient for the context of this study, the foregoing definitions are comprehensive and show values of general application. Most importantly, they reflect the following qualities of auditing which merit special attention (PAA, 2004):

I. A systematic process implies that auditing proceeds in a logical and structured series of steps.
II. Objective investigation and assessment of the financial statements suggest that the auditor examines the sources of the statements and evaluates the outcomes without preference either for or against the organisation making the assertions.
III. Extent of communication denotes the closeness with which assertions can be linked with recognised criteria. The auditor ascertains the degree to which assertions conform to the auditees' procedures or regulations.
IV. Assertions about economic decisions are the demonstrations made by the organisation under audit. This consists of the business matter of auditing, financial statements and internal operating reports.
V. Auditees receive their results achieved through a written report. The report is available to all users of the documents in which the assertions are made (Porter, *et al.* 2020). According to Boynton and Johnson (2005), the report either enhances or weakens the credibility of the representations made by the auditees.

Although brief, these features illustrate the fundamental elements of the auditor's work. For any auditing exercise to be a success, it is critical that both the management and employees of the public entity should know and appreciate its importance.

The next section describes and discusses the need for auditing of public sector organisations.

2.2.2 The need for auditing of public sector entities

Boynton and Johnson (2005) indicate that the need or requirement for auditing arose from the stakeholders who were misled by the managers assigned to monitor day-to-day operations of the organisation by materially miss-stating the financial performance of their organisation’s financial statements. Consequently, the users of financial statements started looking for an independent assessment of the records presented to provide assurance concerning the consistency of financial reports and their conformance to Generally Accepted Accounting Principles (GAAP) (Marx *et al.,* 2021). Although not exhaustive, the logical necessity of independent audits for public sector entities can further be attributed to conditions like the demonstration of accountability, reduction or elimination of conflict of interest and complexity of the public sector entities.

2.2.2.1 Assessment of accountability

Auditing, in some form, has existed and it is still relevant for as long as people have been required to account for their transactions (Woolf & Hindson, 2022). Jackson and Stent (2016) asserts that democratic governments are commonly expected to demonstrate accountability for the way they spend public money and efficiency in the delivery of services. This suggests that accountability and therefore auditing, is an indispensable part of a democracy.

Marx, *et al* (2021) points out that stakeholders of entities need assurance that the financial statements prepared by managers of such entities contain reliable information. By providing a purposeful opinion of whether or not public possessions are responsibly and meritoriously managed in order to accomplish anticipated results, auditors enable public entity organisations to accomplish responsibility and reliability, make improvements on operations and inspire self-accountability among the public (Goodson, Mory & Lapointe, 2018).

The International Standards of Supreme Audit Institutions (INTOSAI) attests to this view when it avows that public sector auditing provides legislative and oversight bodies, those charged with governance and the public with information and independent and objective assessments regarding the stewardship and performance of government policies, programmes or operations. Diamond (2002) states that auditing has always been perceived as a critical component of government financial management and increasingly as a tool for the performance of the public entity. This view puts auditing as a foundation of good public sector governance. Jackson and Stent (2016) contend that auditing has been a traditional means of assuring governments and its stakeholders that the taxpayers' money is spent in compliance with relevant laws. Marx, *et al.,* (2021) asserts that in addition to ensuring a fair presentation of the financial information audited, auditing also plays a key role in protecting the interests of the stakeholders.

Edwards and Hulme (1996) as cited in Ebrahim (2003) define accountability as a mechanism in which organisations report to designated authorities that processes, procedures and policies are applied to secure responsibility for their actions. Raffer (2004) further indicates that there have to be economic consequences for those who are assigned authority so that they are made self-aware and at a cost for the consequences of their actions and decisions. However, some studies suggests that the term financial accountability is a difficult concept to operationalise given the diverse contexts of its application and therefore requires the systematic development of an accountability framework that is specific to context and application (Crofts, 2008).

Even though institutional reforms have been proposed and widely discussed to make financial institutions more accountable, the lack of meaningful financial accountability has not received the necessary attention (Raffer, 2004). This, according to Ajibolade and Oboh (2017), is reflected by the public outcries over dilapidated infrastructure facilities and economic growth over the years despite the consistent rise in government expenditure. Ebrahim (2003) draws attention to the fact that the accountability gap is experienced to a greater extent in organisations that deal with the complexities associated with multiple stakeholders, like the authorities, oversight bodies, investors and citizens. For instance, over the years, billions of rands have been spent to improve the living conditions of the citizens, however, there has been little, or no substantial progress made since democracy.

Considering that government is accountable to the legislature and citizens, systematically entrenching financial accountability into systems of governance could allow for significantly greater levels of transparency on the provision of services for the public. Financial accountability is, therefore, a significant factor to ensure transformation in the lives of the citizens, economically and socially.

Raffer (2004) defines the two types of financial accountability as external and internal accountability. With regards to external accountability, it is where organisations need to account to their citizens and then internal accountability is the level of accountability within the organisation, the stakeholders and their staff members. Both types of financial accountability are of interest in this study as they provide insights into the operationalisation of accountability mechanisms to make financial governance more effective. There is therefore a need to explore and examine the external and internal contributing factors that enable (or undermine) financial accountability and financial governance challenges in government departments. Okike *et al.,* (2015) define the internal contributing factors in financial accountability and financial governance as those that include, inter alia, the economic state, the organisational culture of the department, government frameworks, policies and procedures, professional and/or regulatory bodies and oversight bodies. Okike *et al.,* (2015) further defines the other contributing factors to accountability as those that are derived from the external influences of the accounting standards, auditing standards and best governance practices.

Din *et al.,* (2017) states that transparency is an element in the approach to achieve accountability and define those as key crucial issues for an organised administration and further avers that the realisation of the effectiveness of such is reflected in the preparation of the financial statements. Afiah and Azwari (2015) define financial statements as financial related information about the organisation which provides accurate and reliable information gathered in the accounting system about the assets and liabilities, financial performance and financial position of that organisation. However, Avram *et al.,* (2017) contents that even though the AFS may fulfil the role in communicating the financial affairs in an organisation, institutionalising systems of accountability also has a significant role in creating transparent systems of financial management.

The government therefore also has a responsibility to ensure the quality of financial statement information so that those financial statements can be beneficial to the stakeholders in order to support decision making (Dewi, Azama & Yusoff, 2019). In view of the fact that accuracy and reliability are key features of credible financial statements, the quality thereof is crucial. This indicates that inaccuracies in the financial statements ought to be detected internally by the management through the review processes or failure to do so, those errors and omissions will be detected externally by an independent assessor such as auditors. Where the inaccuracies are identified by the auditors, those errors can be classified as unintended or intended inaccuracies (Kostova, 2013). The study further elaborates that intended inaccuracies can occur as a result of fraudulent financial reporting to mislead the users of the financial statements. Financial statement fraud often implies non-compliance with the laws and regulations emanating from the circumvention of the internal control environment by management.

2.2.2.2 Separation of powers

The users of the financial statements have demonstrated concerns regarding the actual or possible conflict of interest between them and the management of the reporting entity (Boynton & Johnson, 2005). The main risk, as noted in Goodson *et al* (2012), is that the management of the entity may use the organisational resources and authority to benefit their own interests rather than the user's interests. The potential of the auditing process to avert this anomaly is recognised in the literature (Porter *et al.,* 2003; Boynton & Johnson, 2005). It is noted that the financial statements of organisations are prepared by its managers and therefore, essentially, these managers' report on their own performance. Goodson *et al*. (2012) concedes that in the public sector the employees acting as the public's agents must occasionally account to the public for their use and stewardship of resources and the extent to which the public's objectives have been accomplished. By implication, the public, as the users of the financial statements expect the statements to reflect the organisation's financial performance, position and cash flow as accurately as possible (Porter *et al.,* 2003).

When senior managers assume the role of player and referee at the same time, they are most likely to be biased in their report and to reflect favourably on their management of the organisation’s affairs. Therefore, the external audit process plays a vital role in ensuring that the users are confident in receiving a report which is a fair reflection of the organisation’s financial affairs. In summary, an effective audit activity minimises the inherent risks in a preparer-user (an officials-public) connection. The user depends on the auditor to provide a self-sufficient, objective evaluation of the correctness of the agent’s accounting and to report on whether the agent uses the resources in accordance with the public’s interest.

2.2.2.3 Complexity of accounting processes

The global economy of the 21st Century has become the defining milestone which engendered a new direction for sound financial governance in both the private and public sectors (Passaris, 2011). Boynton and Johnson (2005) and Porter *et al.* (2013) contends that in recent years, economic transactions and the accounting systems which capture and process them have become increasingly complex. Boynton and Johnson (2005) further points out that the increasing levels of complexity carry with them the threat of misconceptions and of deliberate or unintended misstatement. In the case of these changes and complexities, the financial statement users are less likely to possess the technical expertise needed to oversee the activity (Goodson *et al*., 2019). It is therefore appropriate for the financial statements of the public sector to be evaluated by an independent qualified auditor, with all the necessary attributes to understand the organisation’s transactions, business and its accounting system (Marx *et al.,* 2021; Porter *et al.,* 2013)**.** Briefly stated, auditing enhances the credibility of financial statements by reducing information risk. Boynton and Johnson (2005) define information risk as the risk of the financial statement being biased, incorrect or incomplete.

2.2.3 Scope of auditing in the public entity

The AGSA is a public sector external auditor. For that reason, the scope of public sector auditing is derived from the role of the above institution (IRBA, 2012). In that regard, IRBA (2012) and Stratton (2014) concur that the AGSA is responsible primarily for the audits of (1) financial information, (2) performance information against pre-determined objectives as well as (3) compliance with laws and regulations. The AGSA as a constitutional institution is mandated to assess and audit the public funds on whether the funds have been utilised for the purpose that it was intended for. The AGSA's audit process examines three focus areas, i.e. the AFS, Annual Performance Report and the Compliance to laws and regulations (AGSA General Report, 2020). The audit outcomes are therefore influenced by the quality of the AFS, the reliability and usefulness of the information reported in the Annual Performance Report as well as the compliance to laws and regulations. These three focus areas are the bare minimum as each institution is allocated the public funds to implement their core mandates which should be accounted for at the end of each financial year. A brief description of the nature of each of the above audit follows hereunder:

2.2.3.1 Annual financial statements audit

The audit of the financial statements forms the basis and the area of focus for the auditors. The office of the Auditor-General is mandated to audit the AFS and express an independent opinion on them (IRBA, 2012). The financial statement audit primarily covers the overall collection of the information reported and evaluates that against the portfolio of evidence on an entity's results of its operations, presentation of its financial position and the cash flow, with the intention of expressing an opinion on whether the set of financial statements are fairly presented in conformity with criteria that is established (Jackson & Stent, 2016; Boynton & Johnson, 2005). It is generally expected that financial statements submitted for auditing must be free from material misstatements (AGSA, 2013).

Misstatements are normally regarded as incorrect or incomplete information caused by errors or omissions in the financial statements. Examples of such misstatements include, amongst others, the incorrect or incomplete classification of transactions or incorrect values placed on the account balances such as assets, liabilities or financial obligations and commitments. The AGSA (2014) states that the objective of an audit of financial statements is to indicate whether the financial statements fairly represent the financial position of auditees at financial year-end and the results of their operations for that financial year. However, the financial audit is not limited to an audit of financial statements (Marx *et al.,* 2021), according to the IRBA (2012), but the audit also covers some of the following elements:

i. The organisation's financial health.
ii. Financial accountability audit involving the examination and evaluation of financial records and expression of opinions on financial statements.
iii. The entire government administration's financial accountability.
iv. Assessment and evaluation of compliance with the applicable laws and regulations.
v. Internal control assessment and evaluation of the internal auditing functions.
vi. Probity auditing of the key administrative resolution taken by the key management personnel of the organisation.
vii. A report of any other material matters relating to the audit that the supreme audit institution, in this instance, the AGSA considers should be disclosed.
viii. Consequence management against officials that committed financial misconduct.
ix. Supply Chain Management processes, including contract management.
x. Information Technology governance processes.
xi. Human Resources Management.

These different components that are encompassed in the financial audit process are the enabling basis in which the auditor expresses an opinion on whether or not the financial statements are prepared in all material aspects and are in accordance with the applicable financial reporting framework (Marx *et al.,* 2021). Furthermore, the above-mentioned components collectively suggests that an audit process does not only focus on the fair presentation of the financial information being audited, but also fulfils a vital role in protecting the interests of stakeholders and build confidence in the public (Marx *et al.,* 2021).

2.2.3.2 Audit of the non-financial information - predetermined objectives

The audit of the performance information also forms an integral part of the financial audit process. According to Goodson *et al.* (2012), the audit of predetermined objectives involves a systematic collection of the portfolio of evidence during the financial audit process with the aim to assess different aspects of programme performance against financial reporting. The main goal for the audit of non-financial information is to assess the usefulness and reliability of the reported information against predetermined objectives (IRBA, 2012).

In terms of sections 20(2)(c) and 28(1)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the audit of pre-determined objectives is a mandatory auditing aspect. The IRBA (2012) avers that mandatory audits deliberate on uniformity auditing, which must be done on a yearly basis. Moreover, the PFMA, the Municipal Finance Management Act (MFMA), and other related prescripts require accounting officers to report annually on the performance of the entity against predetermined objectives. Therefore, the government entities are mandated to prepare financial statements and report on their financial position, financial performance and cashflow of the organisation.

The IRBA (2012) states that the basis on which the external auditor uses to evaluate the performance management system and annual performance report when drawing an audit conclusion is mainly on the application of all relevant laws and regulations; and compliance to Framework for Managing Programme Performance Information, as issued by the National Treasury. These performance reports are used to assess the success of service delivery to the citizens and the use of funds appropriated by the parliament or provincial legislatures (IRBA, 2012; Marx *et al.,* 2021).

The IRBA (2012) further elaborates that the audit of predetermined objectives involves, amongst others, the following:

I. Assessment of the internal policies, standard operating procedures and controls related to the management of and reporting on performance information.
II. Assessing and testing systems and controls relevant to recording, monitoring and reporting of performance information.
III. Verifying the existence, measurability and relevance of planned and reported performance information.
IV. Verifying the consistency of performance information between the strategic or annual performance plan, the quarterly or in-year reports, the annual performance report and the annual report.
V. Verifying the presentation of performance against predetermined objectives in the annual performance report against the format and content requirements as prescribed by the National Treasury.
VI. Comparing reported performance information to the substantiating supporting documentation and verifying the validity, accuracy and completeness thereof.
VII. Assessing the usefulness and reliability of the information presented.

The audit outcomes thereafter become a reflection of the external assessment of the information reported by an organisation on the affairs of the organisation and this is attributable to effective governance (AGSA General Report, 2019). Aswar (2020) further emphasizes that good governance is a success factor in carrying out the mandate of building the country in accordance with planned targets and goals. This role is fulfilled by the management of the organisation, the internal audit unit, which is mandated to assist with strengthening the control environment and the audit committees that are assigned to provide an oversight role on the activities of the organisation. However, Okike *et al.* (2015) challenge the view that suggests that the lack of an effective governance system represents the basis of governance challenges in developing countries. The scholars emphasize that the lack of governance structures is not a contributing factor for internal control deficiencies but rather the main issue is the appropriateness of such governance structures coupled with the effectiveness of enforcement mechanisms.

2.2.3.3 Compliance audit

The public sector entities are entrusted with public funds for service delivery purposes and therefore it is the responsibility of the management structures in the public sector entities to be transparent about their actions (IRBA, 2012). The management also has a responsibility to be accountable to the citizens for the funds with which they are entrusted with and exercise good stewardship over such funds (Goodson *et al*., 2012; Diamond, 2002).

In South Africa's perspective, the IRBA (2012) highlights that compliance audits are performed as part of the financial and performance audit and to assess whether or not information reported for a particular subject matter complies with applicable laws and regulations. Boynton and Johnson (2005) avers that through compliance auditing, public sector auditors assesses, verifies, test and report on the organisation's conformity with the required standards.

The main objective of the compliance audits is to assess compliance with laws and regulations, policies and procedures and prescribed reporting frameworks. In endorsing the above views, the IRBA (2012) emphasises that in the Public Audit Act, the auditors are required to report the status of the entity's level of compliance with applicable laws and regulations relating to financial information, financial management, performance management and other matters deemed material. The auditor has a responsibility to apply professional judgement when assessing whether non-compliance is material or not. In that regard, there are several factors to be considered when applying professional judgment and according to the IRBA (2012), such factors include the following:

I. The extent, impact or monetary value of non-compliance.

II. Turn-around times on service delivery matters.
III. The expectation of the public.
IV. The nature and circumstances that led to non-compliance.
V. The consequences and effects of non-compliance.
VI. Sensitivity of the programme in question (for example, is it the subject of significant public interest or does it impact vulnerable citizens?).
VII. Needs and expectations of the parliament or legislature.

2.2.3.4 Performance audit

The IRBA (2012) defines the performance audit as an auditing process that is conducted independently to assess the measures implemented by the management of an organisation to ensure that resources have been procured transparently and economically. The assessment also involves the evaluation of whether those resources are used efficiently and effectively. It involves attaining and assessing evidence about the productivity and usefulness of the operations of an entity in relation to its objectives (Boynton & Johnson, 2005). The authors also state that performance audit is used interchangeably with operational audit or organisational audit.

Goodson *et al.* (2012) highlights that performance audit is mainly concerned with the auditing of the following key aspects:

- *Effectiveness* – evaluates programme accomplishments to the extent to which the intervention's objectives were achieved or are expected to be achieved considering their relative importance. The main purpose is to assesses the effectiveness of performance in relation to the achievement of policy objectives and the strategic goals (IRBA, 2012).
- *Efficiency* – examines productivity, unit cost or indicators such as the utilisation of rates, backlogs or turn-around times. The IRBA (2012) concisely states that it assesses and measures how the economic resources/inputs (funds, expertise, time, equipment etc.) are converted into results.

- *Economy* – examines the extent to which an organisation has acquired goods or services in the right quantity and quality, at the right time and at the lowest possible cost. The IRBA (2012) states that the main focus is on whether goods and services have been procured cost-effectively and are managed and controlled towards attaining the desired goals.
- *Sustainability* - assesses the continuation of benefits from the implemented intervention after major development assistance has ceased. Interventions must be both environmentally and financially sustainable. Where the emphasis is not on external assistance, sustainability can be defined as the ability of key stakeholders to sustain intervention benefits – after the cessation of donor funding – with efforts that use locally available resources.

According to Section 20(3) of the Public Audit Act, performance audits are discretionary. In the IRBA (2012) an explanation is provided that discretionary audits would normally be passed out where there are complaints and where there is a particular public interest hence their reporting is not limited to annual information and could cover more than one financial year (IRBA, 2012). The next section focuses on the different types of audit outcomes in light of the previous explanation of the scope of auditing in the public sector.

2.2.4 Different types of audit outcomes

An audit opinion is expressed by the auditor on audited financial statements. Schmidt (2004) states that the audit opinion expresses the auditor's conclusion on the financial statements whether they fairly represent the financial position and performance of the organisation and whether or not they conform to the applicable accounting reporting framework. In the South African context, AGSA expresses an audit opinion in five different categories. The AGSA briefly highlights those categories as follows (AGSA, General Report (2014):

2.2.4.1 Unqualified opinion with no findings

An unqualified opinion with no findings is used interchangeably with a clean audit. It is an opinion that is obtained by the auditees due to the following:

I. The financial statements produced are free from material misstatements, and therefore indicating that they did not contain any significant errors or omissions that affect the credibility and reliability of the financial statements;
II. The reported performance information is in line with the predetermined objectives as stated in the APP and is regarded as useful and reliable; and
III. Compliance to applicable laws and regulations.

2.2.4.2 Unqualified opinion with findings

A financially unqualified audit opinion with findings is obtained by auditees who produced financial statements that are free from material misstatements. However, emphasis is brought to the users of the financial statements on the matters identified during the audit, which are not significant enough for the audit opinion to be qualified. Amongst others, the following could be the contributing factors for the opinion:

I. Financial Statements contained errors and omissions, however those errors were rectified during the audit process;
II. Insufficient portfolio of evidence to support the performance reports against the set targets the auditee committed to deliver on as reflected in the APPs;
III. Performance indicators that are not specific, measurable, realistic and time bound resulting in difficulties to measure the performance against set targets;
IV. Inconsistent reporting of the achieved performance against the set targets; and
V. Non-compliance to laws and regulations.

2.2.4.3 Qualified opinion

A qualified audit opinion is obtained by auditees who produced financial statements that contained material misstatements and therefore attention is brought to the users of the financial statements that the errors identified during the audit could not be corrected during the audit process. Auditees that obtain a financially qualified audit opinion with findings is a demonstration that the organisation has challenges that need to be attended to in the areas of reporting on financial statements, performance information and compliance with key legislation. Basically, the auditee that receives a qualified audit opinion was unable to produce credible and reliable financial statements which could not be corrected before the financial statements were published.

2.2.4.4 Adverse opinion

An adverse opinion is expressed when the effect of a disagreement between the auditors and the auditee is so material, pervasive and/or fundamental to the financial statements that the auditor is not in agreement that the financial statements result in a fair presentation. Auditees that receive an adverse audit opinion with findings have numerous material misstatements that are irreconcilable with the account balances and schedules in the financial statements.

2.2.4.5 Disclaimer opinion

An audit opinion is disclaimed when the possible effect of a limitation of scope of the audit work is so material, pervasive and fundamental that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. Auditees with adverse and disclaimer audit opinions are regarded as follows:

I. not capable to offer required documents for the accomplishments reported in their annual performance reviews; and

II. not able to comply with key legislation.

The different audit outcomes have an impact on the citizens of the country as they demonstrate the level of financial management in the organisations that have been entrusted with public funds. Lenz and Sarens (2012) assume that an entity that obtain a clean audit opinion has strong financial management, sound internal controls and a robust budgeting control and management. However, Lorgat's (2012) opinion is that an entity spends the funds at its disposal efficiently and effectively towards achieving the targets set out in its APPs which ultimately result in improved service delivery for the citizens.

Table 1 below further defines the different types of audit opinions and their individual implications as stated by the IRBA (2012).

Table 1: Different kinds of audit opinions

Audit opinion	Severity	Explanation
Unqualified audit opinion	None	Audit findings do not justify any further audit disclosure.
Unqualified audit opinion with emphasis of matter	Least severe audit opinion	An unqualified opinion is expressed when the auditor concludes that the financial statements provide a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.
Qualified audit opinion	Severe audit opinion	The financial statements contain material misstatements in specific accounts, or there is insufficient evidence for the auditor to conclude that specific account included in the financial statements are not materially misstated.

Adverse audit opinion	More severe audit opinion	The financial statements contain material misstatements that in the auditor's opinion will affect fair presentation or the misstatements represent a substantial portion of the financial statements.
Disclaimer opinion	Most severe opinion	The auditee 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.

Different audit opinions outlined in the table above enlighten users of the financial statements, including all the relevant stakeholders, like the general public, employees, unions, suppliers and investors about the financial health of an organisation. The next session outlines the roles and responsibilities of the organisational management team during the audit process. This is in relation to the expectations on the attainment of the audit opinions discussed above.

2.2.5 The roles and responsibilities of senior managers during public sector audit exercises

The outcome of an audit process is dependent on the role played by the senior management of the organisation and the professional relationship established with the auditors. The co-ordination and management of such a process rests with the Chief Financial Officer (CFO). The Office of the Accountant-General in the National Treasury is the oversight body on financial management matters in South Africa. Such responsibility is cascaded to the Provincial Accountant-General in the Provinces. The main objective of the Office of the Accountant-General is to facilitate roundtable discussions amongst the CFOs and to find solutions to problems and introduce best practices. Furthermore, that office is responsible for playing a mediation role between the department and the Office of the Auditor-General on any technical disagreements during the audit process in terms of proving clarity on the interpretation of the applicable laws and regulations.

The CFOs on the other hand are responsible for managing the accounting and financial aspects of their departments and many more other functions. They are expert advisors to the Accounting Officers and are a crucial informant to management. The CFO has an essential function in assisting the accounting officer to carry out his or her financial management responsibilities in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control policies and procedures.

Given the scope of financial management in the public sector, it is recognised that the CFO must be technically trained and proficient in strategic management, business planning and design, financial accounting, management accounting, internal control, internal and external audit, communication and should be analytically skilled. This is mainly the reason why CFOs are appointed as senior managers and form part of the key management personnel in an organisation. They play an integral role in implementing the financial reforms at the direction of the accounting officer with the assistance of appropriately skilled finance staff. The CFO must be actively involved in all material business decisions to ensure that the immediate and long-term implications, opportunities and risks are fully considered.

Lastly, the CFO ought to promote a system of good financial management so that public money is always safeguarded and is used appropriately, economically, efficiently and effectively. They need to respond to the changing needs for financial information and advice on the financial aspects of the strategic planning process to ensure that internal financial targets and budgets are fully consistent with the strategic plan and relevant agreements within government. They are expected to meet the reporting requirements as required in terms of financial management legislation such as the PFMA, Treasury Regulations and the Division of Revenue Act (DoRA) of 2016, maintain systems of internal control, which comply with internal audit requirements. This implies that the CFO serves as the main link between the organisation and the auditing team.

This is one of the reasons why Visser and Erasmus (2002) states that the success of audits relies on management's guidance and co-operation.

It is against this backdrop that the literature outlines the role of senior management during the auditing process as follows:

I. Compilation of complete, valid and accurate financial statements;
II. Convene regular audit steering committee meetings to track the process of the audit and timeously address challenges encountered by the audit team, if any.
III. Respond to the auditor's Request for Information (RFI) within specific time frames (normally within three days);
IV. Provide additional information to the auditors as per the request of the auditors; and
V. Submit portfolio of evidence to the auditing team as and when required.

In grappling with the roles and responsibilities of managers during the auditing exercise, one must appreciate the scope they are covering. The scope of auditing may range from performance information, ensuring the smooth running of the internal administration, managing the finance section and managing the provisioning section to asset management. Immediately when the audit process is finalised, management has a responsibility to reflect on the previous audit process, develop an audit action plan with clear time frames on when and how to address the audit findings.

2.2.6 Annual financial statement process

This section discusses the financial statement process from quarterly Interim Financial Statements (IFS) to AFS.

2.2.6.1 Definition

The financial statements are a set of records of financial information of an organisation in an accounting period that can be used to describe the performance of an organisation (Dewi, Azama & Yusoff, 2019). The AFS are defined as a vital tool that is used to provide information on the financial position, financial performance and the cashflow of an economic entity (Avram *et al,* 2017). According to Weerasinghe *et al*. (2018), the relevance and the value of an organisation is thus defined by the information captured and disclosed in the financial statements of the organisation, whilst Avram *et.al.* (2017) defines the role of the AFSs as a financial communicator that is reflected as the financial communication tool for current and prospective activities. Financial statements are therefore regarded as a tool to demonstrate the results of the stewardship of management and the accountability of management for the resources entrusted to it.

Afiah and Azwari (2015) defines the financial statements as the financial related information that provides accurate and reliable information gathered in the accounting system, such as information about the organisation's assets and liabilities, financial performance and financial position. The main goal of the AFS presentation is to provide information on financial performance as well as reporting on the organisation's ability to meet current and future obligations by presenting the consolidated monetary values in terms of assets, liabilities, revenue and expenditure. Therefore, AFS fulfil the role in the communication process to the extent that they meet minimum requirements, as prescribed (Avram, D., Avram, M., Dragomir, I., 2017).

The structure of the financial statements for the South African government departments, as prescribed by National Treasury, includes the Appropriation Statement, the Statement of Financial Position, the Statement of the Financial Performance, the Cash Flow Statement, the Statement of Changes in Net Assets and the Notes to the Financial Statements (National Treasury AFS Specimen Template, 2020). All government departments are mandated to utilise the prescribed AFS template for the submission of the AFS to the office of the AGSA at the end of each financial year for the audit (Treasury Regulations, par 18.2).

The IFS, according to the International Financial Reporting Standards (IFRS), is a full set of financial statements which is compressed to reflect information for a shorter period rather than a full financial year. The minimum contents required for the IFS also includes the comparative figures from the prior period, the Appropriation Statement, the Statement of Financial Position, the Statement of the Financial Performance, the Cash Flow Statement, the Statement of Changes in Net Assets and the Notes to the Financial Statements (National Treasury AFS Specimen Template, 2020). The information presented is on the basis of information available on a year-to-date basis. In relation to South African government, the prescribed period of the IFS is on a quarterly basis.

2.2.6.2 Accounting Reporting Framework

The National Treasury is mandated to regulate financial management in the national and provincial government to ensure that all revenue, expenditure, assets and liabilities are managed efficiently and effectively as outlined in the PFMA (PFMA, 1999). The purpose of effective financial management post 1994 was the government's attempt to rebuild the nation and the democratic government went on to review its operation systems, including the financial management systems. Moreover, financial management aims to support and manage the public sector in its distribution of limited resources yet taking note of the purpose to ensure effective and efficient delivery of services to the citizens.

As part of the reformation, the National Treasury was tasked with the role to promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions (Section 6 (1)(g) of the PFMA, 1999). It is against this backdrop that the Accounting Officers are mandated to prepare the financial statements of their individual government departments, for each financial year, in accordance with Generally Recognised Accounting Practice (GRAP) and must submit those financial statements to the Auditor-General within two months after the end of the financial year for auditing (PFMA, section 40, 1999).

In the South African context, the design and implementation of accounting policies are centralised and controlled by the National Treasury, in line with the legislative prescripts. The PFMA No 1 of 1999, requires departments to “prepare financial statements for each financial year in accordance with generally recognised accounting practice”. The Treasury Regulations, which are also prescriptive in nature, require the accounting officer of a department to ensure that the AFS are prepared on a modified cash basis in accordance with the formats prescribed by the National Treasury. In terms of the PFMA section 40 (1)(b) states that the Accounting Officer (Head of Department) must prepare financial statements for each financial year in accordance with GRAP and must submit those financial statements to the Auditor-General within two months after the end of the financial year for auditing (PFMA, 1999). This states that each government department must prepare the set of financial statements after the end of the financial year period, which is the 31 March and must submit those financial statements to the AGSA for auditing on the 31 May of each year.

The Office of the Accountant-General in the National Treasury thus developed and issued the Modified Cash Standard which sets out the principles for the recognition, recording, measurement, presentation and disclosure of financial information. The Modified Cash Standard were developed for application by national departments listed in Schedule 1 to the Public Service Act, 1994; provincial departments listed in Schedule 2 to the Public Service Act, 1994 and the Office of a Premier listed in Schedule 1 to the Public Service Act, 1994 (Accounting Framework – Modified Cash Standards, 2021).

2.6.2.3 Internal control process

Altamuro and Beatty (2009) define the internal control as a process effected by an entity’s board of directors and key management personnel which is designed to provide reasonable assurance regarding the achievement of effectiveness and efficiency of operations, reliable financial reporting and compliance with applicable laws and regulations. In terms of the Committee of Sponsoring Organisations (COSO) Framework (2013), internal control is defined as a process effected by those charged with governance to provide reasonable assurance regarding the achievement of objectives relating to operations and reporting. The COSO Framework indicates that there are five components of internal control:

I. Control environment;
II. Risk assessment;
III. Control activities;
IV. Information and communication; and
V. Monitoring activities.

The management of an organisation and auditors are regulated to report on the effectiveness of internal controls. Section 38 (1)(a)(i) of the PFMA (PFMA, 1999) states that the Accounting Officer of a Department, Trading entity or Constitutional Institution must ensure that they maintain effective, efficient and transparent systems of financial and risk management and internal control. In terms of Paragraph 3 of the Treasury Regulations, management is responsible for designing, implementing and monitoring the effective functioning of the system of internal control within the Department.

The PFMA emphasises the importance of these internal controls as a contribution to good organisational governance. The legislation requires the accounting officer to take the necessary steps to ensure that the departments have and maintains effective, efficient and transparent systems of internal control. However, it should be noted that the responsibility of internal control is not only for the accounting officer but the following role players also play a critical role:

I. Management is expected to take responsibility for designing and implementing the system of internal control.
II. Members of legislatures are expected to play an oversight role on the implementation of controls.
III. The Auditor-General is expected to make recommendations as and when weaknesses are identified during the audit in the system of internal controls.
IV. Audit Committee is expected to plan for oversight over the implementation of controls and monitor instances where there may be management override of internal controls.

According to the Association of Chartered Certified Accountants (ACCA), the internal controls have the following important objectives:

I. *Efficient conduct of business:* controls should be in place to ensure that business processes flow smoothly and free from disruptions.
II. *Safeguarding of assets:* controls should be in place to ensure that assets are used for intended purposes in fulfilment of business objectives and are not stolen.
III. *Preventing and detecting fraud:* controls should detect and/or prevent fraudulent activities as all businesses are likely to fall victim to fraud.
IV. *Completeness and accuracy of financial records*: controls should ensure that the system records all transactions accurately and completely in accordance with the necessary accounting requirements.
V. *Timely preparation of the financial statements:* controls should assist companies in fulfilling their legal obligations in submitting financial statements in accordance with prescribed time frames.

2.2.7 Annual financial statement accountability

This section discusses the financial statement accountability.

2.2.7.1 Definition

Financial accountability relates to the actions to hold an individual/unit or department accountable to effectively performing a financial activity, such as a key control procedure within a financial transaction process. According to Edwards and Hulme (1996) as cited in Ebrahim (2003), accountability is defined as a mechanism where the responsibility managers get to report back on the application of processes, procedures and policies to the designated authorities. Ebrahim (2003) further avers that government is equally accountable to parliament or the legislature and the citizens, systematically entrenching financial accountability into systems of governance which in turn allows the levels of transparency on the provision of services for the public.

2.2.7.2 Accountability value

1) The role of the Provincial Accountant-General

The vision of the Gauteng Provincial Treasury, as indicated in their Annual Report is:

> *"to provide strategic leadership in financial and fiscal matters to ensure sustainable and inclusive social and economic development of the people of Gauteng so that all may enjoy value for money services of the highest quality".*

In realising this vision, the department has established transversal units to provide oversight functions over the provincial departments and entities. Amongst the transversal unit, the Office of the Provincial Accountant-General (OoPAG) is mandated to provide the oversight role on financial management matters in the Gauteng Province and is responsible for facilitating roundtable discussions with CFOs and to establish best practices to resolve the financial management challenges encountered. The responsibilities of the OoPAG are to promote accountability through substantive reflection of financial activities and compliance with the PFMA in the Gauteng Provincial Government (GPT, 2022).

The roundtable discussions are facilitated through the CFO's Forum which is a platform where the Provincial Accountant-General (PAG) is able to engage and discuss with the CFOs from departments and entities, issues that pertain to the provinces' current financial standing. These discussions entail matters such as financial management in the departments' non-compliance, performance information and how these affect the provinces' audit outcome.

2) The role of the Internal Audit

The PFMA mandates every institution to which the Treasury Regulations applies to, to have a functioning Internal Audit unit in place (PFMA, 1999). The main objective of the unit is to provide independent assurance with the aim to provide an objective view on the effectiveness of governance and internal control processes. The Internal Audit unit thus performs audits on the risk based method, according to the risk assessment of the organization and provides assurance on other governance matters for the organisation. Such audit outcomes are then reported to the Audit Committee that provides oversight to the organisation. Functionally, the Internal Audit unit reports directly to the Audit Committee in order to maintain their independence but administratively, they report directly to the Accounting Officer (Philipp, 2011). This indicates that the Internal Audit unit reports to the Audit Committee on the performance of their duties, the status and nature of the audits performed whilst the Audit Committee is responsible to ensure that they have the necessary skills, competency and budgets to execute the audit plan, in line with the risk assessment. The Internal Audit function therefore supports the entity to monitor the implementation of the audit action plans as provided by management, in line with the audit report issued by the Office of the Auditor-General.

3) The role of the Audit Committee

According to Treasury Regulations, paragraph 3.1.2, the Accounting Officer must appoint independent Audit Committee members, in consultation with the Executive Authority of the organisation (PFMA, 1999). The Executive Authority of a government department is the Minister, in case of a National Department and provincially it is the Member of the Executive Council (MEC). The Audit Committee therefore becomes an independent committee responsible for oversight of the governance, risk management and control and is expected to provide an independent and objective view on the effectiveness of the risk management of the department. The Audit Committee is expected to ensure that the Internal Audit function of the department is functioning efficiently and effectively, in line with the approved internal audit plan (Phillip, 2011). The author also indicates that the Audit Committee has a responsibility to ensure that the organisational risks are clearly defined and mitigation plans are in place to ensure that those risks are fully mitigated. Therefore, the Audit Committee plays a significant role in ensuring that the integrity of the organisation is maintained to an acceptable level. Integrating and aligning assurance processes in an organisation is key to maximising risk and governance oversight and control efficiencies, considering the organisations risk appetite.

2.2.8 Theory of auditing in the public sector

Auditing is an integral part of the organisation, where an independent assessment is provided to the stakeholders that are not involved in the day-to-day management of the organisation. It has been existing for some time and is evolving in a similar pace with the accounting reforms. Starting from the era when the records were approved after a public reading, to the era when government's officials were measured by their honesty and integrity. This practice has been evolving ever since the company owners started separating their roles and responsibilities from operational management of the organisation with the aim of protecting their investments (Whittington & Pany, 2021). Dennis (2015) avers that the public demands accountability from the auditors to clearly demonstrate their independence from the evidence that they have gathered against the assessment conducted in the standards required.

Dennis (2015) further states the following as the assumption for auditing theory:

I. Accountability is demonstrated through an audit process.
II. The auditor should be independent and exercise freedom from influence by management.
III. The financial statements and performance information should be supported by the credible evidence and not prone to errors and irregularities.
IV. Consistent application of accounting reporting framework, demonstrating a clear message of what is being reported.
V. An audit builds public confidence.

The objective of an audit of financial statements is to enable the auditor (Auditor General of South Africa - AGSA) to express an opinion on whether the financial statements present fairly, in all material respect the financial position of a department/entity, its financial performance and its cashflows. The auditor will consider the following:

I. Compliance with the legislation.
II. Whether the AFS presents the true and fair view of the department's affairs and results.
III. Whether adequate accounting records have been kept.
IV. Whether accounts agree with the accounting records.
V. Whether other information in the financial statements is consistent with the accounts.

The auditor shall express an unqualified opinion when he/she concludes that the financial statements are prepared, in all material respect, in accordance with the applicable financial reporting framework.

2.2.9 Theoretical framework applicable for this study

2.2.9.1 Stakeholder theory

The theoretical model that is of interest in this study is the stakeholder theory. According to Freeman (2002), a "stakeholder theory" is a theoretical model that is concerned with the balance of power and influence of a range of actors and how the resolution of their exercise of power and influence affects the achievement of an organisation's mandate. The emphasis and importance of the stakeholder theoretical framework are that it points to features of organisational life that occur on a daily or micro-level basis and which are often not apparent in their ordinariness but nonetheless when excavated reveal insights on organisational relationships and new features of the organisation that were previously not taken into consideration (Freeman & Phillip, 2002).

In the interest of financial accountability, all the stakeholders must be allocated the responsibility in achieving the mandate of the organisation. Moreover, in the stakeholder theory perspective, a significant focus is on the organisational management and ethics and those factors that influence the quality of reporting for example, which inform decision making (Handayani & Erlina, 2020). In this regard, the stakeholder theory will be utilised to assess relationships of power and influence between the actors involved in the preparation and processing of the AFS of the three departments which form the subject of the case study and how these relate to the primary managerial tasks that the Accounting Officer (Head of Department) has responsibility for and how these impact on the quality of the AFS and the achievement of the department's deliverables (Annual Performance Plan).

The stakeholder theory offers more insights on the management of intra-dependencies within an organisation and their consequences in the context of this study for the preparation of credible management reports. The key factor is that an organisations' success is argued to be dependent on how the relationships are managed within the organisation as well as with the key stakeholders such as in this instance other government departments within the Gauteng Province, employees, citizens, service providers and oversight bodies (Freeman & Phillip, 2002).

2.2.9.2 Agency theory

The practice of financial reporting in public sector organisations can also be considered from the perspective of agency theory considering that many public sector organisational practices, processes and policies are influenced by agency theory (Dewi, Azama & Yusoff, 2019). The Accounting Officer, appointed as the Head of Department, in the context of government departments, is the agency in ensuring that there is financial accountability. This emanates further from the fact that in financial reporting, the government acting as an agent has the mandate to provide information of strategic value to users of government financial information who are acting as principals in making decisions whether economic, social and political (Dewi, Azama & Yusoff, 2019).

Freeman (1994) argues that the focus should not only be reduced to a principal-agent relationship as found in the agency theory concept but rather should interrogate the institutional arrangements in the organisation and assess the arrangements against ethical standards for example. While these are valid concerns, it is felt that the stakeholder framework allows for more structured analyses that combine ethical organisational practices and ethics. The Accounting Officer is a mediating agent in relation to internal and external actors and is invested with the responsibility to manage these stakeholders, balancing their interests, while ensuring that the department delivers on its mandate. Their role is thus a critical one for ensuring the process is adhered to ethically and procedurally and thus will be subject to critical scrutiny through the lens of the stakeholder theoretical framework.

Through the lens of the stakeholder theory, this study will therefore explore the pressures experienced by the Accounting Officers (Head of Departments) in improving the quality of reporting, whilst focusing on the multiple stakeholders that they must account to. The financial year 2020/2021 was also a crucial year for Gauteng Provincial Government specifically on the credibility of the financial reporting because of the implementation of the Public Audit Amendment Act, No. 5 of 2018. The Act holds the Accounting Officer (Head of Department) personally liable for any non-compliance to laws and regulations, fraud and theft or a breach of fiduciary duties (PAA, 2018).

The stakeholder theory will provide an analytical framework to understand the challenges, barriers and factors experienced by the Accounting Officer (Head of Department) in complying with the applicable laws and regulations of accurate financial reporting, relative to other key stakeholders. This conceptual framework will therefore provide the basis for explaining, in the context of the research, the concepts of treasury oversight, control measures concerning financial management and reporting. Additionally, the research problem will be analysed as part of the control functions in the performance of public financial management to locate the study within the discipline of Public Administration. It is for these reasons that stakeholder theory will be applied as a framework to assess and interrogate the research questions in the study.

2.2.9.3 Financial accountability framework

The financial accountability framework is a term used to describe the overall process applied for the preparation of the AFS. The framework is encapsulated in four (4) steps; namely, the gathering of the data for the preparation of the reports, analyse the data to ensure completeness and accuracy, review the data in line with the supporting documents and finally sign-off. The oversight reviewers, Provincial Treasury and Audit Committee are responsible for promoting accountability through substantive reflection of financial information, operational activities and compliance with legislative requirements. These oversight assessments are constructed to assist departments identity and analyse potential risks and to promote good governance.

Table 2: Financial accountability framework

***Source: Own*

2.10 CONCLUSION

The chapter reflectively engaged with the literature concerning auditing, accountability and oversight by government institutions. It noted that accountability, oversight and transparency need to be maintained in government departments and public entities. In the absence of these tenets of governance, fruitless and unauthorized expenditures become the order of the day. Therefore, chapter two reviewed auditing in public sector entities, its scope, and types of audit outcomes, theory of auditing and the role and responsibility of senior management in public sector entity audit exercises. The chapter laid the foundation for the ensuing chapter 3 on research design and methodology.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter outlines and focuses on the methodology and the overall research design followed in this study. Research design is defined by Baxter and Jack (2008) as a plan or blueprint of how one intends conducting the study and this influences activities like what data to be collected and how. Research methodology is regarded as the method of data collection and data processing within the framework of the research process. Therefore, research designs relate to study questions, study problem and logic of the study.

3.2 RESEARCH DESIGN

The study follows a qualitative research methods approach, using a case study of the Gauteng Department of Education, Human Settlements and Treasury to investigate how financial governance and accountability are prioritized in an institutional environment such as a government department. This qualitative case study research approach will allow for an in-depth exploration of the underlying contributing factors in the quality of the AFS submitted for audit (Baxter & Jack, 2008). An exploratory study is a valuable means to ask open questions to gain insights about the topic of interests (Wagner, Kawulich & Garner, 2012).

A qualitative research approach is also suitable for this study as it seeks to identify the complexity of challenges and understand how these barriers affect the phenomena in question, i.e. accountability in government expenditure. The strength of the qualitative research approach which applies to this study is that it allows for a nuanced exploration of the preparation of the AFS processes through interacting with the people involved in the process (Wagner *et al*., 2012). A qualitative case study approach further enables the researcher to explore differences within and between the selected government departments which forms the case study and in this manner gain insights into the underlying factors that influence financial governance processes and accountability in the selected departments (Baxter & Jack, 2008). Based on the strengths highlighted, the qualitative research approach is considered appropriate for answering the research questions specified and will assist in addressing the objectives of this study which is to understand the factors that contribute to the poor quality of AFS including but not limited to the role of the Accounting Officers tasked with preparing the financial statements within the government department. This study used the exploratory research design.

3.3 RESEARCH PHILOSOPHY

A research philosophy refers to the belief and assumptions regarding the way data about the phenomenon should be collected, analysed and used when conducting the study (Saunders, Lewis & Thornhill, 2016). There are four major research paradigms in business and management; namely, positivism which is related to the philosophical stance of the natural scientist, and it is about working with a visible social reality to produce law-like generalisations (Wagner *et al.,* 2012). Critical realism puts more focus on providing explanations on what the researcher has seen and experienced regarding the underlying structures of reality that shape the observable event. Constructivists or interpretivists view reality as being socially constructed and hold that there are multiple realities. Postcolonial indigenous research emphasizes reality as being socially constructed with multiple realities based on the relationships humans have with each other and the world around them in the context of locales permeated by inequalities of race, class and gender consequent of colonialism. Transformative or emancipatory research focuses on the view that reality is shaped by culture, politics, gender, race, economics, ethnicity and disability. Values are considered to be important because values and beliefs differ from one culture to the next.

Interpretivism was adopted as the philosophical paradigm for this study due to the fact it is linked to the ontological position of constructivism. It prioritises subjective understandings and interpretation of social phenomena and is often linked with qualitative approach to research (Wagner *et al.,* 2012). Through the interpretivist approach, the researcher is able to explore the social world from the point of view of the respondents and reflect on their own subjective interpretations (Wagner *et al.,* 2012).

3.4 POPULATION

Following Neuman (2014), the population is the abstract idea of a large group of many cases from which a researcher draws a systematic sample, and to which results from a sample are generalized. The full set of cases from which the sample is drawn from is referred to as the population (Saunders *et al.,* 1996). The target population for the study was a total of 50 stakeholders involved in the preparation and review of the AFS process including but not limited to government officials from the Gauteng Department of Education, Gauteng Department of Human Settlements and Gauteng Provincial Treasury. These involve the accountability providers who are involved in the recommendations of the AFS to be submitted for audit.

3.5 SAMPLING STRATEGY

Sampling techniques provide a range of methods that enable the researcher to reduce the amount of data that needs to be collected by considering only data from a sub-group rather all the possible cases (Saunders *et al.,* 1996). Sampling is therefore a process of selecting units (e.g. people, organizations and time periods) from a population of interest, studying these in greater detail and then drawing conclusions about the larger population. A purposive, convenient sampling technique was used to select the participants in line with the objectives of the study. A purposive sampling is sampling with a purpose in mind and it can be very useful for situations where evaluators need to reach a targeted sample quickly and where sampling for proportionality is not the primary concern. The main purpose for adopting this sampling technique was to select the respondents that are directly involved and knowledgeable in the AFS process. The variables to which the sample is drawn up are linked to the research question and since the unit of analysis is the AFS preparation and review process, the oversight support unit in the Gauteng Provincial Treasury, the Finance Managers, the CFO’s and the Audit Committee members were considered for the study.

In the purposive sampling technique, the interpretation of the results is limited to the population under study. However, despite these inherent biases, purposive sampling can provide reliable and robust data (Neuman, 2014). A purposive sample of fifteen (15) participants was selected for the semi-structured interviews consisting of employees in strategic roles in the preparation and review process of the AFS so that those sampled are directly relevant to the research questions which are the subject of the research study. The research respondents were grouped into two categories, (i) the internal respondents from the department and (ii) the external accountability providers of a department. Within the internally focused category, the respondents were grouped according to their roles, those who prepare and reviews the financial statements. The externally focused category comprised of the accountability providers which included the office of the Provincial Accountant-General, Audit Committee Chairperson and the Internal Auditors. The other external accountability providers were the External Auditors from the office of the Auditor-General which finally expresses an audit opinion of the financial statements audited.

The identified respondents were contacted via emails, telephone calls and in-person (following the COVID-19 protocols), outlining the research agenda. The purposive sample included amongst others the following:

1) Three Accounting Officers (Head of Departments);
2) Three Chief Financial Officers;
3) Three Chairpersons of the Audit Committee;
4) The Gauteng Provincial Accountant-General;
5) Three officials from the office of the Gauteng Provincial Accountant-General;
6) The reviewers of the AFS before they are submitted to the Auditor-General for audit;
7) Three Internal Auditors; and
8) Three audit Senior Managers from the Gauteng Audit Services Unit.

3.6 DATA COLLECTION INSTRUMENTS

The research was based on primary and secondary data sources. The first phase of data collection was sourcing and scrutinizing existing documentation, such as the

Strategic Plans, Annual Reports and AFS of the Gauteng Department of Education, Gauteng Department of Human Settlements and Gauteng Provincial Treasury. The said documents were hard copies and in electronic versions. The secondary data sources were extracted from various sources such as departmental websites and archives. The data gathered became key in assessing the similarities in the primary data gathered through interviews. The secondary data, amongst others consisted of the strategic plans, the budget allocation books, the departmental annual reports and the Auditor-General's reports. These documents were the central focus of the documentary component of the analysis. Other documentation for analysis included official documents such as management reports, memorandums or statements by key decision-makers.

The second phase of this study was through the semi-structured interviews with key informants. The interviews were conducted in English and inductive in nature in order to gain further knowledge and understanding regarding the processes related to research objectives. The primary and secondary data collection methods were relevant to the study because they formed a combination of data gathered from various sources and fulfilled the purpose and aim of the research.

3.6.1 Semi-structured interviews

Bryman & Bell (2018) states that semi-structured interviews allow the researcher a degree of control and flexibility during the interview process, which is the case in this research. Semi-structured interviews were used to allow for flexibility and control by the researcher during the interview process (Bryman & Bell, 2018). While a key instrument for data collection was the semi-structured interviews due to the COVID-19 global pandemic, face-to-face interviews were not feasible. In such instances, virtual or telephonic interviews were conducted.

Through semi-structured interviews, the respondents were probed for insights in their respective areas of expertise as it relates to the primary research questions. The benefit of conducting individual semi-structured interviews is that it accommodates further elaboration of the questions posed. The limitation of this technique is that the respondents were reluctant to participate based on the perception that their competency levels were assessed. The researcher clarified the purpose of the interview before conducting the interviews and ensured anonymity.

The primary research question aimed to investigate the reasons for the misalignment between the APPs reported and the financial performance as reported in the AFS of selected government departments submitted to the Auditor-Generals Office for an audit. Therefore, three (3) sub-questions were developed for consideration to attempt a response to the primary research question. The sub-questions are as follows:

1) What internal control measures are in place to assess the effectiveness of the financial statements review processes and whether they conform with the relevant legislation governing fiscal accountability?
2) What are the strategies employed to address the barriers in achieving clean audit outcomes in the Gauteng Provincial Departments of Education, Human Settlements and Treasury?

3) How adequate is financial reporting as a mechanism for monitoring the accurate spending against the approved objectives in provincial departments?

3.7 DATA COLLECTION

The primary data source that was used for the study included the analysis of official documents such as the General Report as issued by the AGSA, the departmental Annual Reports, the departmental AFS and the departmental APP. The primary data were gathered by means of various instruments and the archives. Additional secondary data were collected by means of semi-structured interviews. The approval to conduct the research was granted by the Accounting Officer of the Gauteng Department of Education and Gauteng Provincial Treasury.

3.8 DATA ANALYSIS

In collecting and analysing the data, the study made use of thematic data analysis, an approach that is used in analysing qualitative data by identifying themes and patterns in the data (Wagner, Kawulich & Garner, 2012). Data analysis for the quantitative data was analysed using Microsoft Excel and for the qualitative data, the analysis was done by means of thematic analysis as proposed by Braun and Clarke (2006). A thematic content analysis, involving the analysis of the recurring themes and data were conducted for the purpose of this study (Wagner, Kawulich & Garner, 2012).

Data were coded in line with the research objectives and the research questions. These themes were patterns of the perceptions of the research respondents on the various research questions posed. Since the semi-structured interviews were recorded, the recordings were used to transcribe and code for key common themes and the data analysed. The analysis was used to analyse and interpret data generated through the semi-structured interviews and document review.

Table 3: Research and interview questions

Research Question	**Interview question**
Research question 1: What internal control measures are in place to assess the effectiveness of the financial statements review processes and whether they conform with the relevant legislation governing fiscal accountability?	Interview question 1: What internal control measures are in place to assess the effectiveness of the financial statements review processes and whether they conform with the relevant legislation governing fiscal accountability? Interview question 2: How adequate is financial reporting as a mechanism for monitoring accurate spending against the approved objectives in provincial departments?
Research question 2: What are the strategies employed to address the barriers in achieving clean audit outcomes in the Gauteng	Interview question 3: What in your view are the strategies employed to address the barriers, if

Provincial Departments of Education, Human Settlements and Treasury?	any, to achieving clean audit outcomes? Interview question 4: Specifically, now focusing on the reports expressed by the Auditor-General in the Annual Reports: 1) Could you describe the challenges relating to the internal control deficiencies in the departmental processes? 2) In your view, what are the root causes of internal control deficiencies?
Research question 3: How adequate is financial reporting as a mechanism for monitoring the accurate spending against the approved objectives in provincial departments?	Interview question 5: Please describe the methods used by your department to ensure effective reporting of the financial state of affairs of the select government departments you have responsibility for. Interview question 6: Please explain what, in your view, are the factors contributing to: 1) the system of accountability in the provincial government expenditure and 2) lack of accountability in the system of provincial government expenditure.

3.9 RELIABILITY AND VALIDITY

For this study, it is critical that trustworthiness is considered as it lends credibility to the study. The methods to be used to ensure reliability and validity of the study are described. Wagner, Kawulich and Garner (2012) argue that it is essential for all credible research to ensure reliability as well as validity especially when conducting qualitative research in order to ensure the overall quality of both the research process and the results. Wagner, Kawulich and Garner (2012) also highlight that reliability is concerned with whether the results of a research study are repeatable, which means that the research conducted should have a reasonable probability that the same results and findings will be derived if undertaken by another researcher. Therefore, reliability seeks to answer whether the measures that are devised for concepts are consistent. However, Neuman (2014) states that measurement reliability refers to the quantitative study whereas numerical results are not impacted by the characteristics of the measurement process.

Follow-up engagements are vital during the data analysis phase to verify the accuracy and validity of the gathered information. Therefore, where deemed crucial, follow-up engagements were facilitated during the data analysis phase to assess the accuracy of the information gathered from the respondents and to ensure the overall quality of the research results. According to Bell, Brynman, Harley and Bill (2019), the researcher will provide research participants with an account of the findings with the view to seek corroboration of the account that the researcher has arrived at.

3.10 LIMITATIONS OF THE STUDY

The first limitation is the time during which that a mini dissertation is required to be undertaken. The second limitation is the availability of quality information sufficient to undertake the analysis. Crucial information and other information related to internal documentation was not readily available due to concerns of confidentiality and the scope and limitations of what interviewees were willing to reveal in semi-structured interviews. The third limitation was the restricted access to sensitive information. The officials were not available at all times to assist with the requested information and this had the potential of limiting the scope of the research. Lastly, the Accounting Officer from the Gauteng Department of Human Settlements did not respond to the request to conduct interviews even after numerous follow-ups were made with the department.

3.11 ELIMINATION OF BIAS

Time was optimally utilized and managed properly in order to limit the limitations on the ability to complete the research within the deadline. The limitation to gather crucial internal documents from the selected department was mitigated through the request for appropriate permission to conduct this research and ethical guarantees from the relevant Accounting Officers. Relating to the Gauteng Department of Human Settlements, a desktop case study was conducted on the public information gathered from the primary data sources.

3.12 ETHICAL CONSIDERATIONS

Ethical considerations in a study refers to the behaviour and moral principles which guide the research information gathering process and how researchers relate to the participants and the information gathered. An ethical clearance to conduct the study was submitted to the relevant Wits School of Governance Ethics Committee and subsequently requested from the Gauteng Department of Education, Gauteng Department of Human Settlements and Gauteng Provincial Treasury Accounting Officers. In conducting the study, the objectives and aims of the research were carefully explained to the interviewees as well as their role and the fact that confidentiality will be guaranteed for interviewees with formal written assurances provided to ensure that ethically inappropriate behaviour such as covert data collection is not undertaken, that interviewees provide informed consent as regards their participation and their privacy is not compromised.

The participants were further assured that they are participating in the research on a confidential and voluntary basis and can exit the interview process at any stage and that the research will not be conducted with any obligation imposed on them. Clarity was provided to the participants that the main purpose of the research is for academic purposes only. The participants were made aware of the disclosure or non-disclosure of their identities before participating in the research as well as the specific terms under which the information obtained will be utilised and disposed of.

The researcher observed and carried out the following ethical considerations.

- Ensured that the participants remain anonymous by not disclosing any information that may compromise the participants, including their identity.
- Ensured that the information is stored within strict guidelines governing data management and not accessible to anyone not authorized. Furthermore, that data will be protected on a hard drive and only accessible to the researcher and access controlled through a complex password.
- Committed to providing an accurate analysis in response to the data gathered.
- Used unbiased language regarding gender, race, age and other forms of discrimination.
- Acknowledged all the sources used in the research.

Secure from the interview participants completed consent forms stating that they are willingly participating in the study.

3.13 CONCLUSION

This chapter discussed the research methodology and research design that was adopted for undertaking this study. The qualitative research methodology was selected as the best suitable method to undertake the study.

CHAPTER 4

PRESENTATION OF RESEARCH RESULTS

4.1 INTRODUCTION

In this chapter, the results of the study, per research question are discussed. The said questions are the three questions indicated in Chapter three (3) and all the information relating to the documents review, participants and interview notes are covered. The respondents were selected based on the roles and responsibilities relating to their accountability in the government departments. The chapter aims to highlight the results of the study and will provide an interpretation of the results.

4.2 SAMPLE OF OVERVIEW

As mentioned in Chapter three (3), fifteen (15) participants were interviewed and were considered relevant to the study in terms of the involvement with the preparation and review process of the AFS and Annual Reports. The participants occupy different positions in the public sector, whilst other participants are providing oversight responsibilities to the government departments. This allowed for a variety of insights to assist with the identification of themes relevant to the study. The participant's selection related to the theoretical model that was applied in the study, which is the stakeholder theory. According to Freeman (2002), a "stakeholder theory" is concerned with the balance of power and influence of a range of actors and how the resolution of their exercise of power and influence affects the achievement of an organization's mandate. The main focus of the study is on the organisational management and ethics and all the other factors that have a direct influence on the quality of reporting decision making.

4.3 SUMMARY OF RESULTS

Table 4: Details of interviews

Activities	Duration
Interviews done	15 respondents

All interviews duration	9 hours, 52 minutes
Longest interview session	45 minutes
Short session	20 minutes
Average time spent	38 minutes

**Source: own*

The respondents were profiled in terms of the years of experience in the process of ensuring internal control measures are in place and whether they conform to the relevant legislation governing fiscal accountability.

Table 5: Participants details

No	Job title	Years of experience
1	Head of Department	+17 years
2	Provincial Accountant-General	+25 years
3	Chief Director – Accounting Services	+12 years
4	Chief Financial Officer	+13 years
5	Chief Financial Officer	+11 years
6	Director – Accounting Services	+13 years
7	Director – Financial Reporting	+9 years
8	Provincial Audit Committee Chairperson	+5 years
9	Audit Committee Chairperson	+8 years
10	Audit Committee Chairperson	+6 years
11	Audit Committee Member	+16 years
12	Deputy Director	+2 years
13	Chief Audit Executive	+15 years
14	Director	+17 years
15	Director	+12 years

From the total of fifteen (15) respondents, five (5) had more than 15 years' experience, five (5) had more than 10 years of experience whilst only one (1) had less than 5 years' experience in the public sector environment. This is a demonstration that knowledgeable and experienced personnel are employed in the departments with the potential to transfer the relevant skills in the workplace. Taking into consideration the number of years that officials have been in the public sector, this provides an indication that they are clear with the reporting guidelines and policies as issued by the National Treasury. They have been operating in the public sector for several years, of which when assessed from the number of years of experience, they ought to be regarded as experts in their field.

Table 6: Interview session details

No	Date	Interview duration (rounded to 1 minute)
1	Head of Department	35 minutes
2	Provincial Accountant-General	45 minutes
3	Chief Director – Accounting Services	40 minutes
4	Chief Financial Officer	40 minutes
5	Chief Financial Officer	41 minutes
6	Director – Accounting Services	35 minutes
7	Director – Financial Reporting	20 minutes
8	Provincial Audit Committee Chairperson	45 minutes
9	Audit Committee Chairperson	40 minutes
10	Audit Committee Chairperson	30 minutes
11	Audit Committee Member	30 minutes
12	Deputy Director	35 minutes
13	Chief Audit Executive	35 minutes
14	Director	20 minutes
15	Director	40 minutes

The table above illustrates the duration of the interviews with the respondents. The longest interview was with the respondents that are responsible to provide an oversight role to the government departments and not necessarily with the managers accountable for the day-to-day operations of the departments. The shortest interview was with the actual preparer of the final reports that get to be audited by the office of the AGSA. This demonstrated the level of analysis conducted by the oversight representatives on the information presented in the financial statements and the annual reports.

4.4 PRESENTATION OF RESULTS

Below are the sub-questions explored during the study and the results are discussed in this chapter and the next chapter.

Research question 1

What internal control measures are in place to assess the effectiveness of the financial statements review processes and whether they conform with the relevant legislation governing fiscal accountability?

Research question 2

What are the strategies employed to address the barriers in achieving clean audit outcomes in the Gauteng Provincial Departments of Education, Human Settlements and Treasury?

Research question 3

How adequate is financial reporting as a mechanism for monitoring the accurate spending against the approved objectives in provincial departments?

4.4.1 Overall presentation of results

This section aims to provide the results of the documents review and the interview questionnaire which was formulated to gather information about the AFS process and accountability in provincial government expenditure in Gauteng Province. Data were collected through the departmental archives and the semi-structured interviews.

Table 7: Presentation of the audit outcomes from 2018/2019 financial year to 2021/2022

Department	AUDIT OUTCOMES			
	2021/22	2020/21	2019/20	2018/19
Gauteng Department of Education	Unqualified	Unqualified	Unqualified	Unqualified
Gauteng Provincial Treasury	Unqualified with no matters (Clean)	Unqualified with no matters (Clean)	Unqualified with no matters (Clean)	Unqualified with no matters (Clean)
Gauteng Human Settlement	Qualified	Qualified	Qualified	Disclaimer

**AGSA, 2022*

The table above presents the audit outcomes of the three selected departments as reported by the office of the AGSA for the past four (4) financial years. Based on the Annual Reports reviewed, it is evident that the departments are not demonstrating any levels of improvement, the audit opinions expressed by the office of the Auditor-General are stagnant (AGSA, 2022). The Gauteng Provincial Treasury is maintaining the clean audit opinion whilst the Department of Education is stagnant in getting an unqualified audit report. The Gauteng Department of Human Settlements improved from the disclaimer audit opinion that was expressed in the 2018/2019 financial year to a stagnant qualified audit opinion since the 2019/2020 financial year to-date (DHuS, 2021). This is an indication that there are repeat findings that are reported by the Auditor General and are a reflection that the current internal controls in the system are not working to achieve the desired outcomes. Based on the review conducted, the control environment within the areas audited is considered to be ineffective in providing reasonable assurance that the inherent risks are appropriately managed and that the departments' objectives will be attained.

For one to get a positive or desired audit opinion, the AFS and the Annual Performance Report submitted must be substantiated with credible supporting documents. The IRBA (2012) defines a clean audit opinion as an audit opinion that is expressed by the auditor when they conclude that financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework. This is an ideal audit opinion that all the government entities should be achieving as they demonstrate that the public funds are utilised for what they were intended for, with service delivery being the evidence of what the citizens are deriving value from.

The above audit outcomes are translated below in real numbers for the previous four financial years, from 2018/2019 to 2021/2022 for the three selected departments in the Gauteng Province.

Table 8: Presentation of final appropriation (budget allocation) from 2018/2019 financial year to 2021/2022

	BUDGET APPROPRIATED			
Department	2021/22 R'000	2020/21 R'000	2019/20 R'000	2018/19 R'000
Gauteng Department of Education	56 678 273	52 876 598	49 421 412	45 711 906
Gauteng Provincial Treasury	675 545	677 458	779 950	705 663
Gauteng Human Settlement	5 966 126	5 477 907	6 046 542	6 062 851

**Source – GPT, 2022*

The table above presents the overall budget allocated per department from 2018/2019 financial year to 2021/2022. The appropriated budget is the monetary translation of the objective a department has set to achieve in a particular financial year. This is inclusive of the compensation of employees, goods and services to be procured in a financial year, from operational activities to capital and infrastructure targets. The departments have been allocated an incremental budget year-in-year out, with the exception of the Department of Human Settlements.

According to the study, the Gauteng Department of Education's budget is 50% more than the overall budget of the Gauteng Provincial Government. This is an indication that the majority of the financial resources are allocated to GDE and therefore the oversight bodies should emphasise and focus on the financial management of the department and ensure that service delivery is also not compromised. For the past four financial years, the Department of Education has been receiving an unqualified audit opinion on performance information, indicating that the Auditor-General has not identified any areas of concerns on the information reported against the target set in the APP. The observation thereof is that the Gauteng Department of

Education has audit findings on two elements, i,e, on the financial statements and compliance to laws and regulations (GDE, 2018-2022).

However, compared to the Department of Human Settlements, the status is deteriorating. The department reported findings on all the elements that are assessed by the office of the Auditor-General. They reported findings on the inaccuracy of the financial statement, the performance information that was reported as achieved in the Annual Performance Report differed with the substantiating supporting documents provided during the audit, there were also findings relating to compliance with applicable laws and regulations (DHuS, 2018-2022).

Table 9: Presentation of Irregular Expenditure balances from 2018/2019 financial year to 2021/2022

	IRREGULAR EXPENDITURE			
Department	2021/22 R'000	2020/21 R'000	2019/20 R'000	2018/19 R'000
Gauteng Department of Education	772 276	886 252	1 030 657	913 781
Gauteng Provincial Treasury	-	-	-	-
Gauteng Human Settlement	191 225	405 160	1 010 060	410 913

**Source – GPT, 2022*

The table above presents the balance of irregular expenditure incurred from the 2018/2019 financial year to the 2021/2022 financial year. The Irregular Expenditure over the past four years relate primarily to instances of non-compliance with Supply Chain Management (SCM) rules and regulations.

According to the National Treasury Framework, Irregular Expenditure is defined in section 1 of the PFMA (PFMA, 1999) as ‘expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation’. For the purposes of determining whether irregular expenditure has taken place, there must have been a transgression of a provision contained in any applicable legislation which shall include:-

a) the Public Finance Management Act;
b) the Treasury Regulations;

c) a National Treasury instruction issued in terms of section 76 of the PFMA; and
d) a Provincial Treasury instruction issued in terms of section 18(2)(a) of the PFMA.

The level of non-compliance to laws and regulations is a demonstration that there was transgression to applicable laws and regulations. The Department of Education is not demonstrating any improvement in this regard. Since the 2018/2019 financial year, the irregular expenditure incurred is more than R750 million in each financial year. According to National Treasury guidelines on Irregular Expenditure Framework, there are steps that needs to be followed by the Accounting Officer of the department to assess whether the irregular expenditure incurred was not linked to fraud or corruption. For as long as those steps have not taken place, the irregular expenditure should remain in the AFS and be reported as transgression to applicable laws and regulations.

In summary, the Irregular Expenditure Framework requires the following steps to be taken upon confirmation of the irregular expenditure:

a) Firstly, the Loss Control Function or any relevant functionary must conduct a determination test to establish the facts and losses, if any, related to the transaction.
b) If it is suspected that there is a possibility of fraudulent, corrupt or other criminal conduct emanating from the incurrence of irregular expenditure, it should be investigated. Losses emanating from fraudulent, corrupt or other criminal conduct must be reported to the South African Police Services (SAPS) and after conclusion of the criminal case a civil claim for the recovery of the loss be instituted.
c) If losses do not emanate from fraudulent, corrupt or other criminal conduct a claim against the responsible employee should be instituted for recovery of the loss.
d) If confirmed that there is an employee who is responsible for the irregular expenditure, but no losses were incurred, disciplinary processes should be instituted.
e) Where no losses were incurred, the matter must be referred to the National Treasury for condonation.

f) Lastly, the Accounting Officer may remove irregular expenditure that was not condoned by the National Treasury after satisfying themselves that the required action has been taken and it is sufficient enough.

The Gauteng Provincial Treasury has not reported any instances of irregular expenditure incurred for the past four financial years. As much as this is a good indication that the enforcement of application of laws and regulations is in place, it is not evident which role they are playing in ensuring that the other departments are improving in this regard. As the gatekeepers of good governance, they have a mandate to promote fiscal management across the province and to provide support and assistance to other departments. The GPT must demonstrate in their operating model elements to strengthen governance, assist departments to comply with the legislative prescripts and improve overall financial management and reporting. The system of internal controls operating over the expenditure management process is not operating as intended. Several control failures were identified and that could result in significant risks materialising in financial management processes and those failures are as follows:

- Inadequate compliance with the monitoring process for applicable laws and legislations.
- Insufficient documentation to substantiate the expenditure incurred.
- Non-alignment with the expenditure to performance information reported.

Table 10: Presentation of Fruitless and Wasteful Expenditure balances from 2018/2019 financial year to 2021/2022

Department	FRUITLESS AND WASTEFUL EXPENDITURE			
	2021/22 R'000	2020/21 R'000	2019/20 R'000	2018/19 R'000
Gauteng Department of Education	159	74	58	75
Gauteng Provincial Treasury	-	-	-	-
Gauteng Human Settlement	1 610	118 018	18 484	11 868

**Source – GPT, 2022*

The table above presents the balance of fruitless and wasteful expenditure incurred from the 2018/2019 financial year to the 2021/2022. Section 1 of the PFMA defines fruitless and wasteful expenditure as “expenditure which was made in vain and would have been avoided had reasonable care been exercised”. The study revealed that the Fruitless and Wasteful expenditure over the past financial years relate mostly to interest due on overdue accounts. Section 38 of the PFMA spells out the following general responsibilities of accounting officers related to fruitless and wasteful expenditure:

a) Section 38 (1)(c): The accounting officer must take effective and appropriate steps to prevent fruitless and wasteful expenditure;

b) Section 38 (1)(g): The accounting officer must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury; and

c) Section 38 (1)(h): The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who makes or permits fruitless and wasteful expenditure.

Section 45(c) of the PFMA requires an official of a department, trading entity and constitutional institution to take effective and appropriate steps to prevent fruitless and wasteful expenditure within that official’s area of responsibility. However, the study revealed that fruitless and wasteful expenditure emanates from an action that is initiated or instigated by an official which results in a financial loss to the department. The Accounting Officer has a mandate to investigate the cause and if that investigation reveals that indeed the official is liable in law, then accountability for the fruitless and wasteful expenditure and any losses relating thereto shall be vested with that official.

The Gauteng Department of Human Settlements reported R1.6 million of fruitless and wasteful expenditure in the 2021/2022 financial year. That money, according to the definition of fruitless and wasteful expenditure is money that was paid in vain and could have been avoided (PFMA, 1999). Fruitless and Wasteful expenditure can arise from a simple oversight in performing administrative tasks to a deliberate or malicious conduct with an intention to transgress from the applicable laws and regulations. It is therefore crucial that an investigation is undertaken and weaknesses in the value chain be addressed in order to avoid recurrence.

Table 11: Presentation of Contingent Liability balances from the 2018/2019 financial year to the 2021/2022 financial year.

	CONTINGENT LIABILITIES			
Department	2021/22 R'000	2020/21 R'000	2019/20 R'000	2018/19 R'000
Gauteng Department of Education	1 520 131	1 425 168	1 038 659	473 476
Gauteng Provincial Treasury	33 153	33 076	33 076	-
Gauteng Human Settlement	2 858 582	2 814 807	2 784 809	656 614

**Source – AGSA, 2022*

The table above presents the balance of the contingent liabilities from the 2018/2019 financial year to the 2021/2022 financial year. According to the Modified Cash Standards (MCS), as issued by National Treasury as the accounting standards applicable to government departments, a contingent liability is a possible obligation that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department (MCS, 2021).

A contingent liability is classified as a liability in the accounting records and this category of liability has been steadily growing over the past four financial years with the Gauteng Department of Human Settlements reporting over R2.8 billion in the 2021/2022 financial year. This amount relates largely to claims against the department in respect of premature termination of contracts with service providers. The accumulated balance for claims against the Department of Human Settlements is more that 50% of the overall budget allocated to the department. This could jeopardise service delivery should the department lose the cases in a court of law. Even in this category of account balances, the Gauteng Provincial Treasury is reporting a fraction of the liabilities and there is no indication which support is provided to other departments to improve the status quo.

Table 12: Presentation of Accruals and Payables not recognised balances from 2018/2019 financial year to 2021/2022

	ACCRUALS AND PAYABLES NOT RECOGNISED			
Department	2021/22 R'000	2020/21 R'000	2019/20 R'000	2018/19 R'000
Gauteng Department of Education	427 374	474 180	308 112	221 792
Gauteng Provincial Treasury	3 496	6 753	5 972	5 572
Gauteng Human Settlement	210 014	254 070	338 006	37 483

**Source – AGSA, 2022*

The table above presents the balance of the accruals and payables not recognised from the 2018/2019 financial year to the 2021/2022 financial year. According to the MCS, as issued by National Treasury as the accounting standards applicable to government departments, accruals and payables not recognised refer to unpaid expenses at the end of an accounting period, be it month end or year-end reporting period. This implies that at the end of the accounting period, the departments procured and received goods and services amounting to R427 million for the Gauteng Department of Education, R3 million for the Gauteng Provincial Treasury and R210 million for the Gauteng Department of Human Settlements that were yet unpaid at the reporting period. Non-payment of service providers is regarded as a non-compliance matter because it indicates that goods and/or services were received, the benefits were derived by the department, but the payment is still due to the service providers.

The study revealed that the Gauteng Provincial Treasury's accruals and payables not recognised were within an acceptable level, which is within 30 days from the date of receipt of the invoice. That practice is in line with the applicable laws and regulations, as specified in the Treasury Regulations. However, the other two departments had invoices outstanding, ranging between 90 days and 120 or more days, from the date of receipt of an invoice. The non-compliance with Treasury Regulations paragraph 8.2.3 was reported by the office of the Auditor-General. This finding is one of the non-compliance finding that the AGSA had for the Department of Education and as such had a contributing factor to the department not attaining a clean audit opinion. The study revealed that all the three selected departments underspend the overall appropriated budget in each financial year and therefore it is not clear why the service providers are not paid within 30 days of receipt of invoices.

Table 13: Presentation of Capital Commitments balances from 2018/2019 financial year to 2021/2022

	CAPITAL COMMITMENTS			
Department	2021/22 R'000	2020/21 R'000	2019/20 R'000	2018/19 R'000
Gauteng Department of Education	1 359 335	1 425 168	1 145 440	1 033 941
Gauteng Provincial Treasury	5 515	-	-	5 875
Gauteng Human Settlement	458	105	-	-

**Source – GPT, 2022*

As at 31 March 2022, the Department of Education had commitments worth R1,3 billion which imply that they started the 2022/2023 financial year with the majority of the total budget already committed; which might be linked or not linked to the current financial year priorities. The commitments indicates that contractual obligations have been made to the service providers in the previous financial year for the delivery in the following financial year therefore that money should be set aside to cover those commitments. The commitments on their own are not a problem for as long as they are funded and are in line with the priorities and predetermined objectives. The study noted that accruals and over commitments are the major contributors of department's cash flow challenges and the inability to pay invoices within 30 days from date of receipt of invoices which impact negatively on the department's ability to comply with Treasury Regulation paragraph 8.2.3. The commitments that are not in line with the predetermined objectives are, at times, a cause of fruitless and wasteful expenditure. The next section comprise the analysis of the data collected through the semi-structured interviews conducted.

4.4.2 Presentation and discussion of results: research question 1

These open-ended questions required the participants to highlight the understanding of financial governance in government departments and to reflect on the effectiveness of the financial statement's preparation and review process. The questions required a reflection on whether the processes applied in the departments conform with the relevant governing fiscal accountability mechanisms.

All the respondents had an understanding of what internal control measures are and further linked the concept to financial governance and accountability. The respondents indicated that internal controls are a foundation on which management conducts their daily operations within financial management. The respondents indicated that internal controls involve the monitoring processes that provides an organisation with sufficient financial information that the finances are being appropriately managed towards the achievement of both the short and long-term priorities.

Respondent X5 further indicated that internal controls relate to a mechanism to establishing key performance indicators and statutory reporting that guide decision making whilst respondent X13 stated that it relates to the implementation of policies and procedures, addressing and mitigating the risks when taking decisions and actions to run the operations within the Department. All respondents demonstrated a clear understanding of what the Treasury Regulations are stating with regard to the establishment of the Internal Control unit in a department. Respondent X4 however raised a concern that in his department, the control environment is only managed and monitored in the office of the CFO and by the Chief Risk Officer contrary to paragraph 3 of the Treasury Regulations which states that management is responsible for designing, implementing and monitoring the effective functioning of the system of internal control within the Department. Respondent X5 basically answered as follows:

> *“We deal with payments, financial statements, investigations…etc, we are expected to be jack of all trades.”*

Relating to the accuracy of financial reporting as a mechanism for monitoring accurate spending against the approved objectives of the department, the respondents indicated that the performance information oversight is the responsibility of the Office of the Premier. The Gauteng Provincial Treasury only provided oversight responsibility of the financial statements. Respondent X14 raised a concern that the preparers of the reports are expected to submit the same reports to the Office of the Premier and also the Gauteng Provincial Treasury at the same time. The respondents in the departments highlighted concerns of inconspicuous support from the oversight departments and stated that the transversal units do not provide relevant support. As much as training and workshops are conducted, the workshop approach does not assist to identify the real risks that departments may be prone to. The respondents concluded by stating that expert facilitators could be more beneficial rather than being called into an academic workshop than addressing practical matters faced by the implementers. Respondent X12 who is working in the service delivery driven departments stated the following:

> *“The support they provide isn’t felt by our department. They just provide generic support and use a blanket approach for everything, not considering the department, its mandate and the type of industry. The frustration that we’re facing is that we submit the reports all over and there is no central point”.*

Respondent X9 indicated that the service delivery driven departments lack good financial management discipline, associated with a culture of executing accounting routines like daily or monthly reconciliations to ensure that the year-end presentation of AFS and Annual Performance Reports are reported timeously. This, he further said, limits the oversight bodies in providing reasonable assurance due to time pressures that are expected to be met, as legislated. Even though the National Treasury introduced quarterly Interim Financial Statements that are meant to assist departments in identifying areas that have a potential to adversely affect the AFS, oversight bodies are not given ample time to exercise their roles and responsibilities. This view was commonly shared by all the respondents in the oversight levels. All the oversight respondents cited that departments demonstrate the lack of capacity in producing such Interim Reports and are constantly not demonstrating improvement on the state of readiness in preparing the AFS at the end of the financial year.

The respondents from the oversight department (Gauteng Provincial Treasury) are of the opinion that due to the high levels of professionalism, the definitions of the roles of each stakeholder and clear communication of deadlines makes the process very smooth in terms of information gathering. This view emanated from the departmental administrators and not necessarily the transversal support units that are meant to assist all the departments with instilling financial discipline. This, they say, is attributed to the fact that the Gauteng Provincial Treasury, is a small department that does not have lots of branches like other big departments. The respondents in the Gauteng Provincial Treasury stated that through stakeholder engagements, they have overcome the challenges (by using meeting/workshops as a vehicle of communication), which demonstrates that the co-operation amongst different units in the departments are at an acceptable level hence their department is able to maintain a favourable audit outcome. This is based on the relationships that are maintained with the respective programs, units and their heads. The units in the department perform their activities as required and this is imbedded within their operational plans. An example of one of the respondents working in the administrative branch of the oversight department, respondent X14, stated the following:

> *“The financial statements and the formulation of the reports is the responsibility of the department’s Chief Financial Officer (CFO). Processes are in place that ensure that input required are received and reported on accordingly. Exceptions or non-adherence are identified, and these are managed to ensure adherence. Furthermore, the Financial*

Governance (FG) program under the leadership of the Provincial Accountant General (PAG) of the province is responsible for the review of Annual Financial Statements (AFS) and the consolidation thereof and the subsequent Annual Performance Report as per the timelines required. The unit responsible for this is equipped with support resources that assist with training and the actual completion of the AFS as prescribed. The respective departmental units are well versed of what are required from them and this allows for exceptions to be identified and dealt with timeously. Inputs that are needed are received on time and the quality allows for AFS preparation and the subsequent Annual Performance Report (APR) to be submitted and completed, always."

Respondent X2 stated the following:

> *"the internal audit raise similar findings relating to internal control deficiencies to the department all the time but departments seem not to get it right. We constantly hold the Accounting Officers to commit in ensuring that the audit implementation plans are monitored at the EXCO level but there is just no improvement".*

4.4.3 Presentation and discussion of results: research question 2

These open-ended questions required the participants to highlight the strategies employed to address the barriers in achieving clean audit outcomes in the Gauteng Provincial Departments of Education and Treasury? The answers from the respondents demonstrate that there are strategies in place to achieve clean audit outcomes. The respondents stated that the performance contracts of the officials all have the "clean audit outcomes" as one of their key performance areas that they get to be assessed on by their superiors.

The majority of the respondents demonstrated that they have employed programmes that build financial management maturity to sustain positive audit outcomes. Focusing on improving internal controls in SCM, as well as a more effective implementation of quarterly financial reporting through the submission of quality Interim Financial Statements to enable quality AFS with no findings.

Strengthening governance structures, including building capacity in the Internal Audit units, Risk Management structures and the Audit Committees was cited as one of the strategies employed to address the barriers in achieving clean audit outcomes.

Regarding the strategies employed to achieve clean outcomes in the province, Respondent X2 stated the following:

> *"the province though the Provincial Supply Chain Management Transversal unit has established a component within the unit, which is responsible to conduct probity audits on all the tenders to be awarded in the province. This initiative has gained momentum and we are seeing improvement in compliance to SCM processes and procedures. The province managed to prevent non-compliant contracts even before they were awarded. That on its own contributes to clean governance because the procurement processes had to be started and that eliminated irregular expenditure from taking place".*

The majority of the respondents cited the lack of capacity in terms of integrated systems as a challenge or barriers in achieving the desired audit outcomes. The National Treasury is advocating a decline in the cost of compensation of employees whilst the service delivery requirements are increasing. This, they added, poses a strain to human capital due to manual processes in the entire value chain whilst government is not allowed to increase the staff complement. About 90% of the respondents stated that the outdated approach by National Treasury overwhelms departments with templates and those templates are considered to not be user friendly. The process to prepare the AFS is still manual, prepared on Ms Excel and also translated manually to Ms Word. The risks of the manual process is that the entire process is prone to errors. Immediately when errors or omissions are detected by the Auditor General, they therefore minimises the chances of the department getting a clean audit. In order to achieve an unqualified audit with no finding, the financial statements presented must be free of material misstatements.

Below is the response from Respondent X8:

"In the era of 4IR, there is a need for National Treasury to have developed an integrated reporting system and ensure the use of technology reporting. Also, the departments need to adopt data as an asset - Improve on data enablement to improve decision making. In order to ensure that they get this right, continuous review of controls and development of standard operating procedures for all business units is crucial".

4.4.4 Presentation and Discussion of results: Research question 3

These open-ended questions required the participants to indicate the adequacy of financial reporting as a mechanism for monitoring the accurate spending against the approved objectives in provincial departments. The questions required the respondents to indicate the level of co-operation from the other departmental units within their organisations when it comes to the preparation of the AFS and the reporting in Annual Performance Report. The respondents provided different views on this question because all of them have a role to play in instilling the system of accountability and as a result, mutual accusations of failure in accountability were made. What also emerged was that co-operation with other role players is poor because other units within the Department do not understand or appreciate the implications of not providing the required information in preparing the AFS and the Annual Performance Report.

Below is the view of one of the respondents that prepared the reports:

"everyone know what to do and when to do it but we lack synergy in our processes".

4.5 CONCLUSIONS

This chapter discussed the research findings per research question followed by the next chapter which focuses on the conclusions and recommendations. The weaknesses in internal controls are the key root causes for audit qualifications. It is therefore necessary to understand what internal controls are and their importance in the context of financial governance. The weaknesses reflected in the internal controls do not only impact the financial reporting, but also impact the operating efficiency of the organisation. Effective internal control not only helps external stakeholders make more informed decisions, but also enhances firms' internal operations and contributes to overall good management and governance.

CHAPTER 5

STATEMENT OF RESULTS, ANALYSIS AND DISCUSSION

5.1 INTRODUCTION

In this chapter, the key conclusions per study questions and key recommendations to overcome the barriers for the misalignment between the annual performance plans and the financial performance reported are discussed. Furthermore, the chapter proposes areas of future studies and how limitations can be addressed emanating from the study results of the semi-structured interviews per research question are discussed. The study revealed the following as the common findings among the selected Gauteng Provincial Government departments, which prevents them from attaining unqualified audit opinion without any matters of emphasis:

1) Inaccurate Annual Financial Statements

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) and (b) of the PFMA. Material misstatements to the AFS were identified by the auditors in the submitted financial statements. However, management managed to correct the identified errors during the audit process hence the Gauteng Department of Education reported an unqualified audit opinion at the time the audit report was signed.

Due to the magnitude of the errors identified at the Gauteng Department of Human Settlements, the errors could not be corrected, and the auditor could not quantify the magnitude due to the nature of the errors and omissions. That resulted in the Department of Human Settlements receiving a qualified audit opinion. This is an indication that there are no regular reconciliations performed, which also emanates from inappropriate monitoring of the daily and monthly processing of transactions affecting the department’s financial reporting framework.

2) Irregular Expenditure

Effective and appropriate steps were not taken to prevent irregular expenditure as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure disclosed in the financial statements were due to the departments' incorrect application of the objective assessment against predetermined functionality criteria as prescribed by the Preferential Procurement Policy Framework (PPPF) Act (Act no. 5 of 2000) (PPPFA) during the evaluation of competitive bids. This resulted in tenders being awarded to service providers that did not score the highest preference points which is in contravention of section 217 of the Constitution of South Africa.

3) Inadequate review the annual performance report

The Gauteng Department of Education and Gauteng Department of Human Settlements provided for audit an inadequately reviewed annual performance report. The reported achievements were not supported by the valid, accurate and complete supporting evidence to substantiate the service delivery targets reported. In some instances, the reported achievements were not supported by original and verified evidence to ensure their validity. These resulted in material misstatements due to errors and omissions to the annual performance report submitted for an audit.

4) Internal control deficiencies

Effective internal controls were not in place for the approval and processing of payments as required by Treasury Regulation 8.1.1. This resulted in payments not being made within 30 days or an agreed period after receipt of an invoice as required by Treasury Regulation 8.2.3. The non-payment of service providers is a reputational risk for an organisation and impacts on the public confidence which citizens ought to have for the people entrusted with public funds. There is lack of human capacity to fulfil the internal control functions as the departments do not have enough staff to fully provide the required support to their department. The internal control unit, which resided in the office of the CFOs is given too many responsibilities and they are unable to cope with the workload and this results in the unit not providing relevant support to the department.

Section 51(1)(a)(i) of the PFMA states that the accounting authority must ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the [qualified/adverse/disclaimer of] opinion. The root causes are categorised according to the five components of an effective system of internal control.

5) Standard operating procedures and policies not regularly updated

Policies and procedure manuals in place were not regularly reviewed and therefore were not consistent with changes in legislation to support the departmental strategic objectives. These issues were repeatedly raised by the office of the Auditor General but the departments are not taking effective steps to ensure non-recurrence.

6) Poor record keeping

Inappropriate record keeping resulted in the departments not submitting the required information to substantiate the reported targets as required. The lack of information limited the Auditor-General from concluding on the usefulness and reliability of the information reported.

7) Contingent Liabilities

The departments are defendants in lawsuits as a result of various litigation claims against them. The funds that are meant for service delivery could end up funding the litigation costs should the department not win those cases in the court of law.

8) The lack of human resources capacity

The Auditor-General reported that some employees were appointed without following a proper process to verify their qualifications. Moreover, the managers in charge of pay points did not always certify that the employees receiving payment were entitled to it. This is a specific requirement in terms of the Treasury Regulations in order to monitor that money is paid to the valid employees.

9) Supply Chain Management

The audit process includes an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective SCM system, in line with section 217 of the Constitution of South Africa. These are meant to reduce the likelihood of fraud, corruption, favouritism and unfairness and other irregular practices.

A summary of the findings from the audit are as follows:

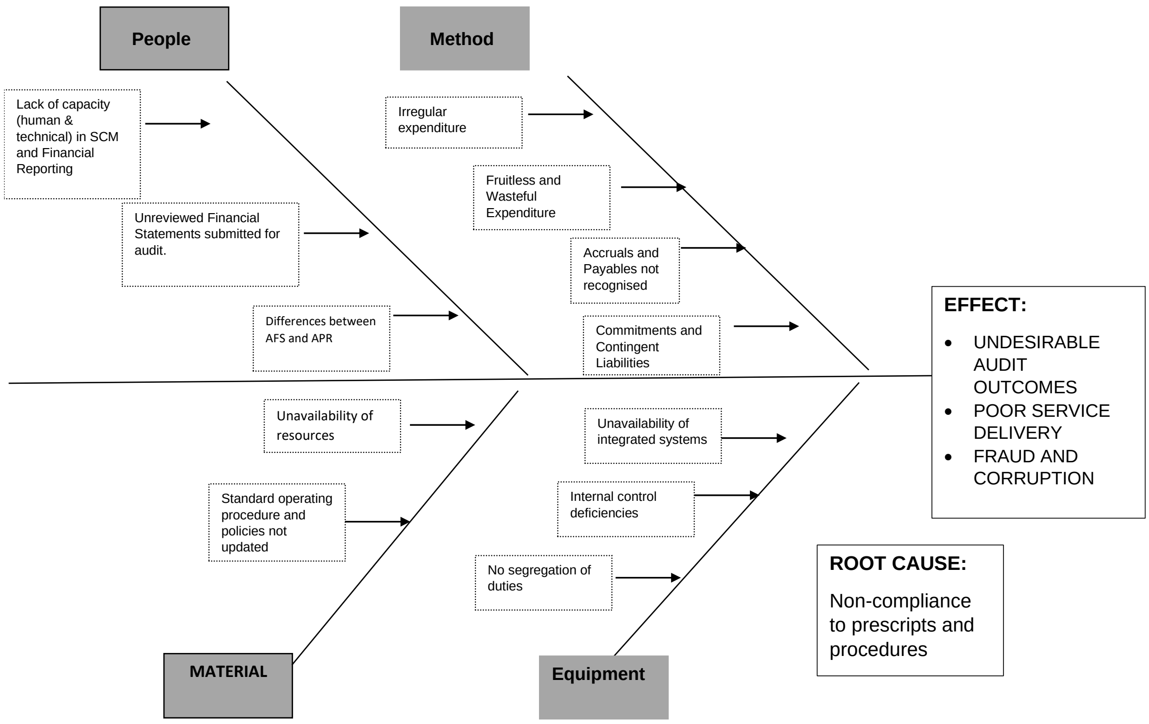
1) Invitation for competitive bids for the procurement of goods and services were not always advertised for the required minimum number of days.
2) Contracts were signed and the department committed without inviting competitive bids.
3) Contracts were awarded to bidders who did not comply with specified pre-qualification criteria requirements.

10) Asset Management

The safeguarding of movable assets has been highlighted by the Office of the AGSA to be one of the challenging areas in the province. The Office of the Auditor-General furthermore advised the Gauteng Provincial Treasury that they must ensure the facilitation of training sessions across departments and put stringent monitoring measures. The PFMA Section 40 reports must be reviewed with the asset registers to monitor and verify whether asset acquisitions are accounted for correctly and whether they are in line with the departmental asset management plans.

The root causes of the poor-quality of financial statements submitted to the Office of the Auditor-General are demonstrated in the fishbone analysis below. This analysis aims to demonstrate a more systematic root cause identification, noting that the contributing factors are multi-faceted.

Diagram 1



**Source - Own*

5.2 RESEARCH QUESTIONS CONCLUSIONS

In government, the biggest risk is adherence to the SCM policies and procedures and as such the key focus area in enforcing strict adherence for compliance will be the implementation of monthly monitoring of compliance to legislation relating to SCM. The use of technology should be prioritised to enable various programmes to comply to set legislation while simplified monitoring and reporting processes assists in managing risks and act on identified gaps. The Accounting Officers must ensure that the right levels of accountability are maintained by all those entrusted with the use of public funds and this includes invoking disciplinary actions in cases of persistent and material breach of legislation.

In the past four financial years, the Gauteng Provincial Government departments were tasked to implement cost containment measures in an effort to stabilise provincial finances. However, the results are not yet visible as irregular expenditure, accruals and fruitless and wasteful expenditure remain a challenge. In many instances, departments have over-spent their ‘Compensation of Employees’ and

‘Goods and Services’ budgets while at the same time under-spending on ‘Payments for Capital Assets’. Together with the inefficient spending on Conditional Grants, over-commitments and accruals have placed undue pressures on the overall fiscal position of the province, leaving no room for the increased funding of services.

All finance officials should attend audit briefing sessions to ensure that the entire finance branch speaks the same language in addressing audit issues. This will assist to raise awareness in terms of the importance of being audit ready. Inviting one or two Departments with good audit outcomes to share their strategies in preparing AFS and reporting in the Annual Performance Report can be introduced as a starting point in order to share best practices.

“You can’t manage what you do not know”, therefore, the Accounting Officers must have access to reporting tools and dashboards to monitor performance. There must be robust systems of reporting and data analytics capability. Since management does not happen in a vacuum, there must be common values in the organisation in order to foster a positive culture driven by ethical leadership. Managers must set clear, realistic and measurable goals for the organisation.

5.3 RECOMMENDATIONS

After a thorough consideration of the results, the study proposes several innovative solutions and recommendations for consideration aimed at removing the barriers to address the systematic challenges. The improved review processes are key to ensure that critical or problematic sections or issues are identified on time and are given special attention before finalisation of the set of financial statements.

5.3.1 Governance structure recommendation

Management must also implement proper record keeping controls that ensure that complete, relevant, valid and accurate information is accessible and easily available as and when requested for audit.

a) This means that the public is aware of any adverse financial impact of government decisions and as a result of public attention, executive authorities tend to be far more financially aware and responsible.
b) Reinforce Section 45 of the PFMA that officials must take effective and appropriate steps to prevent and detect any irregular expenditure or fruitless and wasteful expenditure and are responsible for the management, including the safeguarding of the assets and the management of the liabilities.
c) Reduce tolerance of corruption through big data and analytics, launch data analytics software that cross-checks data across public and private sector organizations to identify conflicts of interest.
d) To ensure that administrative initiatives are adopted and implemented, there must be a greater appetite within political systems to reduce corruption.
e) Ensure that key units (SCM, financial reporting, Human Resources) within the department are capacitated to ensure optimum results.
f) Implement and enforce systems in place to ensure that there is compliance to key laws and regulations.
g) Ensure that consequence management is implemented and enforced where non-compliance to key laws and regulations are breached.
h) Ensure that policies and standard operating procedures are reviewed periodically throughout all the units within the department.
i) Review of operating procedures, processes and internal controls on an annual basis to ensure the department utilises relevant processes.
j) Ensuring that action plans to address review and audit findings are implemented timeously.
k) Ensure reviews of financial statements are done by the CFO prior to submission to relevant oversight bodies.

5.3.2 Policies

The Gauteng Provincial Treasury, as an oversight department that is responsible to allocate funds in the province and instil fiscal disciple should invest in industry experts to ensure that relevant support is provided to the other departments on policy development matters. This will also help in functions such as Business

Continuity Management because it is a specialised area and departments are struggling to continue with the operations when disasters are declared.

5.3.3 Audit Action

Management must formulate an audit action plan and ensure that it is fully implemented to address prior year material misstatements that were raised by the auditors. This will result in the auditors not to identify matters of a similar nature as in the following financial year.

5.3.4 Recommendations to address structural barriers

The Gauteng Provincial Treasury must intensify and reinforce measures to improve the status quo, such as:

I. Review and provide feedback to the department on the financial statements.
II. The financial statements submitted to be accompanied by reliable audit files that are cross-referenced to the main accounts.
III. Ensure that the departments develop a credible audit action plan immediately after the audit has been concluded to address the audits findings that might arise in the 2013/2014 audits.
IV. Ensure that the departments are made to account on the implementation status of the audit action plans developed.
V. Capacitate the departments in a form of on-the-job training and/or formal training sessions to be kept abreast of any financial reforms.
VI. Assist the department to improve on the financial management maturity level ratings as measured in terms of the Financial Management Capability Maturity Model (FMCMM) developed by the National Treasury.
VII. Assist the CFOs to improve financial management and controls in general.
VIII. Engage with the office of the Auditor-General to ensure that the performance report indicates the audit outcomes of the performance information.

5.3.5 Providers of Accountability recommendation

The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the departments is to consider auditees' annual reports. To perform this oversight function, the oversight bodies need accountability that the information in the annual report is credible. To this end, the annual report includes the auditor's report which provides accountability on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with laws and regulations.

The reporting and oversight processes reflect on past events as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented. The audit processes also incorporate and assess the level of accountability provided by these accountability providers based on the status of internal controls and the impact of the different role players on these controls. The assessment for the audit cycle is provided on the levels of accountability below.

1. First level of accountability

a) Senior management

The responsibility at this level includes, amongst others, the development and implementation policies that drive the departmental objectives in line with the strategy of the department and the performance indicators for the set targets to be achieved. Senior management of the department is also responsible for the development and implementation of the internal control measures, risk management, fraud risk management and implementation and monitoring of compliance to laws and regulations.

During the financial year, senior management is expected to provide assurance at all times. They engage with the external audit teams to identify and resolve matters which affect the audit outcomes and also provided accountability to achieve positive audit outcomes. Senior management must be involved in the review and approval of transactions to ensure that monthly, quarterly and annual financial and performance information can be relied upon. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. The auditors responsibility is to obtain reasonable assurance that the information presented, either in the financial statements and performance report is free from material misstatement, whether caused by error, omission or fraud and to issue an auditor's report that includes the opinion. There is however an inherent risk that some material misstatements, including fraud, may not be detected by the auditors due to the fact that the audit is conducted on a sample basis hence assurance is required from senior management.

b) Accounting Officer

The Head of Department as the Accounting Officer of the department must be involved in the audit process, as well as the overall operation of the department. The expectation is to engage with the internal and external auditors in order to be kept abreast about the assessments conducted by the independent assurance providers. Regular interactions with the audit team, audit committee and management must take place during the audit, whereby pertinent matters are discussed and addressed before the conclusion of the audit process. The Head of Department should be driven to ensure the department obtains favourable audit outcomes, but where there are misstatements identified by the auditors, the clean audit opinion does not get to be realised. The Accounting Officer must take the necessary steps to design and implement an action plan to address the deficiencies identified by the auditors in order to improve the control environment on the day-to-day operations of the department.

c) Member of Executive Council – Executive Authority

The Member of Executive Council (MEC) as the political head of the department must be committed to ensure that the department complies with laws and regulations and aims to achieve a clean audit opinion on its financial and performance report. The MEC is also expected to interact with management and auditors when required so that issues identified during the audit, especially the service delivery initiatives can be addressed and resolved during the audit process. The MEC can attend the audit steering committee meetings to get an understanding of any technical matters affecting the department which have been identified by the auditors and need to be escalated to the political head.

2. Second level of accountability

This level of accountability rests with the departmental oversight bodies that are entrusted with the review function on compliance matters that are entrenched in the operations of the department. This level of assurance comprises amongst others, the risk and compliance management structures of each department such as internal audit unit, risk management units, compliance units, occupational health and safety, legal services and internal control units as well as Finance, Human Resources Management and Strategy unit. Below are the key oversight bodies that provide assurance in the departmental operations.

a) Internal audit unit

The PFMA requires the establishment of an Internal Audit unit and further outlines the roles and responsibilities of the unit. Internal audit units must form part of the internal control and governance structures of the department and must play an important role in its monitoring activities. The internal audit must provide an independent assessment of the department's governance, risk management and internal control processes. The internal audit unit of a department must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer. Internal audit has been actively involved in both the internal and external audit processes, including coordinating and attending the regular audit steering committee meetings and provides quality review over the information submitted to external audit and management responses to audit findings.

b) Audit committee

The PFMA requires the establishment of an Audit Committee and further outlines the roles and responsibilities of the committee. The audit committee must be an independent advisory body to the department, accounting officer and the management and staff of the department on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the PFMA and any other applicable legislation; performance evaluation and any other issues. This oversight role provides accountability on the design, implementation and operating effectiveness of internal controls over financial reporting, performance reporting and compliance with laws and regulations.

The audit committee is also expected to review the AFS to provide an authoritative and credible view of the department, its efficiency and effectiveness and its overall level of compliance with the applicable legislation. The audit committee is mandated to meet regularly during the year and review the department's quarterly reports and AFS, annual performance report and quarterly internal audit reports. Feedback must be provided by the audit committee to management and follow ups be made to track the implementation of the commitments made. This oversight role provides accountability on the design, implementation and operating effectiveness of internal controls over financial reporting, performance reporting and compliance with laws and regulations.

3. Third level of accountability

The responsibility at the third level of accountability includes inter alia that the political bodies are meant to protect the public interest against the funds that have been allocated to the department for service delivery purposes. It is made up of other external assurance providers such as the Portfolio Committee and the Standing Committee on Public Accounts (SCOPA). In this level of accountability, the expectation is to provide an independent and objective assurance.

a) Standing Committee On Public Accounts (SCOPA)

The SCOPA oversight role as a legislature committee overseeing compliance with service delivery mandates also provides accountability on the implementation and operating effectiveness of internal controls over financial reporting, performance reporting and compliance with laws and regulations. The key management personnel of the department must regularly meet with SCOPA throughout the year to present the department's performance against the annual performance plans that are tabled at the Provincial Legislature. The committee in place must be active and have regular meetings regarding issues affecting the department and must provide recommendations to management on matters of compliance.

5.4 RECOMMENDATIONS FOR FUTURE RESEARCH

The areas suggested for research in the medium to long-term are:

- identification of financial governance processes and structures and how these are then institutionalised to effect financial accountability in Local, Provincial and National Government Departments.
- a quantitative study on why there are these negative audit outcomes by examining the role of the Accounting Officers in relation to the preparation of the department's AFS since this research was a qualitative study.

5.5 CONCLUSIONS

The study revealed that the respondents have a theoretical understanding of financial governance, accountability and internal control measures which impact on the attainment of the desired audit outcomes. However, the barriers for the misalignment between the annual performance plans and the financial performance reported are mainly encountered due to lack of collaborating day-to-day activities and inadequate integrated processes. The lack of integrated processes is one of the contributing factors to non-compliance to laws and regulations. For as long as there is no synergy in the processes, people will tend to focus on their areas of responsibilities without taking into consideration the impact their actions may have to the organisational performance. The non-compliance to laws and regulations was assessed to be a deterring factor which contributes to the accumulated balances of unauthorised, irregular, fruitless and wasteful expenditure. This is an indication that non-compliance can result in long-term consequences for the Gauteng Provincial Government as departments start off the new financial year with prior year burden, instead of providing service delivery commitments.

The stakeholders theory suggests that the Accounting Officers are responsible for the quality of financial and non-financial reporting to all the stakeholders as part of financial governance. This suggestion assists in answering the primary research question on what are the technical financial accountability processes to be applied during the preparation of the AFS. However, the stakeholder theory falls short on how and when the Accounting Officer should improve the quality of reporting, as part of financial governance.

The study also revealed that financial accountability relates to the actions to hold an individual/unit or department accountable to effectively performing a financial activity, such as a key control procedure within a financial transaction process. Clearly defined processes and the enforcement thereof are crucial in the entire value chain. In so doing, keeping the delegated official/s responsible for their actions and activities promotes accountability in their respective areas are key for financial accountability. This includes the actions from planning to the realisation and the management of the overall process. Therefore, by holding the delegated officials in the department accountable, reporting mechanisms are required. The above is supported by the agency theory which advances that public sector organisations must implement practices, processes and policies to enhance reporting driven by the Accounting Officer who is viewed as an agent.

It is the researchers deduction that for sufficient processes and procedures of accountability in the preparation of AFS, there is a strong need that Accounting Officers should ensure financial accountability as they are acting agents and they are expected to provide effective financial oversight and accountability (Dewi, Azama & Yusoff, 2019). An additional concern not highlighted by the agency theory is that who are the real principals who should hold the Accounting Officers accountable for not performing their fiducuary agency responsibilities, as required by the Public Finance Management Act.

This study recommends that monthly or quarterly performance reports should be discussed and deliberated upon. Inspite of the current checks and balances in the form of regular reporting, AGSA (2021) highlights that Accounting Officers and their management, supported by the assurance providers failed to prepare AFS that are free from material misstatements which is contrary to the suggestion made by the agency theory. Based on the literature review, this study established that regular reporting and auditing is an indispensable part of financial accountability (Jackson & Stent, 2016). Exceptions or non-adherence should be identified and managed accordingly to safeguard the overall performance of the department. This will ensure that all efforts of the respective units are harnessed towards the goals and objectives of the department. Where corrective measures are required, these will be identified with adequate time available to rectify and corrective measures to be implemented.

Further research should investigate the synergy between the different role players in the financial reporting areas with the performance reporting to assess whether the impact on service delivery is properly reported to the public and not just reflecting the audit outcomes to the public.

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ANNEXURE A

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

WITS SCHOOL OF GOVERNANCE

Research Office:
Lehlohonolo Mmolotsane
Tel: 011 717 3113
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Research Ethics Chair:
Rekgotsofetse Chikane
Tel: 011 717 3869
Email: rekgotsofetse.chikane@wits.ac.za

04 July 2022

Dear Andiswa Jass,

Title: The Annual Financial Statements process and accountability in provincial government expenditure in Gauteng Province
Student Number: 1134591
Degree: Masters in Management
Ethics Clearance Number: WSG-2022-31

All candidates must satisfy the University's ethical standards for research. Your ethics application has been received and reviewed by the Wits School of Governance Human Research Ethics Committee.

Your ethical clearance has been approved subject to you getting permission to conduct research from all sites where research is conducted. The letter(s) of permission to undertake research must be submitted to the WSG Research Office and kept on file with your final proposal and other ethics documents.

You may commence your data collection under the guidance of your supervisor. In the event that the scope, methodology or nature of the research changes, you are required to submit another ethics application reflecting the changes.

The onus is on you as the candidate, with support from your supervisor, to ensure your research complies with university human research ethics policies and protocols at all stages of the research process.

It is recommended that you keep this letter in a safe place as you are responsible for ensuring you have proof of ethics clearance and have lodged the ethics clearance / protocol number with Faculty before final submission of your research report. If you do not have an ethics clearance number, you are not permitted to graduate.

Please do not hesitate to contact me if you have any queries.

Yours sincerely,

Rekgotsofetse Chikane
Research Ethics Chair

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ANNEXURE B

GAUTENG PROVINCE
Department: Education
REPUBLIC OF SOUTH AFRICA

8/4/4/1/2

GDE RESEARCH APPROVAL LETTER

Date:	**19 July 2022**
Validity of Research Approval:	**08 February 2022– 30 September 2022** **2022/313**
Name of Researcher:	**Jass AO**
Address of Researcher:	**403 Long Avenue**
	Ferndale
	Randburg
Telephone Number:	**082 906 8329**
Email address:	andiswaj@gmail.com
Research Topic:	**The Annual Financial Statements process and accountability in provincial government expenditure in Gauteng Province.**
Type of qualification	**Masters in Management – Governance.**
Number and type of schools:	**Head Office**
District/s/HO	**Head Office**

Re: Approval in Respect of Request to Conduct Research

This letter serves to indicate that approval is hereby granted to the above-mentioned researcher to proceed with research in respect of the study indicated above. The onus rests with the researcher to negotiate appropriate and relevant time schedules with the school/s and/or offices involved to conduct the research. A separate copy of this letter must be presented to both the School (both Principal and SGB) and the District/Head Office Senior Manager confirming that permission has been granted for the research to be conducted.

19/07/2022

The following conditions apply to GDE research. The researcher may proceed with the above study subject to the conditions listed below are met. Approval may be withdrawn should any of the conditions listed below be flouted:

1

Making education a societal priority

Office of the Director: Education Research and Knowledge Management
7th Floor, 17 Simmonds Street, Johannesburg, 2001
Tel: (011) 355 0488
Email: Faith.Tshabalala@gauteng.gov.za
Website: www.education.gpg.gov.za

ANNEXURE C

GAUTENG PROVINCE
TREASURY
REPUBLIC OF SOUTH AFRICA

Enquiries: Mxolisi Xulu | Spokazi Ndudane
Tel: 011 689 4622 | 011 689 8165
Email: Mxolisi.Xulu@gauteng.gov.za | Spokazi.Ndudane@gauteng.gov.za

Ms. Andiswa Oyama Jass
No.2 Milost Avenija
403 Long Avenue
Ferndale, Randburg
2194

RE: FEEDBACK ON THE REQUEST TO CONDUCT RESEARCH

Dear Ms., Jass

The purpose of this communiqué is to advise you that the Head of Department: Gauteng Provincial Treasury (HOD: GPT) has approved your request to conduct a research study within GPT, with the title: "***The Annual Financial Statements Process and Accountability in provincial government expenditure in Gauteng Province)***"

That said, you are therefore urged to adhere to the GPT's research framework when completing this study; please schedule all your research activities with participants during lunchtime and/ or after working hours to ensure that performance and service delivery does not get hampered.

Lastly, as part of the research guidelines policy for GPT, you are required to furnish the Department with a copy of your final research document' upon completion for record keeping. The submission of the said document should be addressed to Ms. M.R Mashabela, Director: Human Resource Development on the 5th Floor.

Should you have any enquiries, please do not hesitate to contact Human Resource Development (HRD) office on the above contact details provided.

Yours faithfully

Ms. M.R Mashabela
Director: HRD/ER/EHWP
Date: 04 August 2022

ANNEXURE D

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

1 Jan Smuts Avenue
Braamfontein
Johannesburg
2000

Title of project: The Annual Financial Statements process and accountability in Provincial Government expenditure – Gauteng Province.

Name of researcher: Ms Andiswa Jass

I, ……………………………………….., agree to participating in this research project. The research has been explained to me and I understand what my participation will involve. I agree to the following:

(Please circle the relevant options below)

I agree that my participation will remain anonymous	YES	NO
I agree that the researcher may use anonymous quotes in his / her research report	YES	NO
I agree that the interview may be audio recorded	YES	NO
I agree that the information I provide may be used anonymously after this project has ended, for academic purposes by other researchers, subject to their own ethics clearance being obtained.	YES	NO

____

Name of participant

Date: ________________

Andiswa Jass - Researcher

01 October 2022

ANNEXURE E

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

1 Jan Smuts Avenue
Braamfontein
Johannesburg
2000

INDICATIVE QUESTIONS

Title of project: The Annual Financial Statements process and accountability in Provincial Government expenditure – Gauteng Province

INTRODUCTION: Good day. My name is Andiswa Jass and I am a Masters student in the field of Governance at the University of Witwatersrand in Johannesburg. I am very grateful for the time that you have afforded me to explain the study as well as your subsequent participation. By way of background, I am undertaking a post-graduate research project through the Wits School of Governance, to understand the reasons for the misalignment between the annual performance plans reported and the financial performance as reported in the Annual Financial Statement of select government departments submitted to the Auditor-Generals Office for an audit. I am undertaking the research program under the supervision of Professor Robert van Niekerk. The information will be used for the study purposes and to assess the processes and procedures in the preparation of Annual Financial Statements in select government departments in Gauteng Province. This will be done through an examination of the role of the Accounting Officers and the institutional arrangements in the government departments. All information that you give me will remain strictly confidential and will only be used for the research project. It will not take more than **60 minutes** of your time. Please also note that this interview will be recorded with your express permission.	
INTERVIEWER NUMBER	
ORGANISATION NAME	

SCREENING SECTION		
A1	**ASK:** Would you be prepared to participate in this research?	
	Yes	**CONTINUE**
	No	**CLOSE**

SECTION B The respondent should answer to the best of his/her ability	
B1	Please describe your role in the organisation or the business you manage. ______________________________ ______________________________
B2	What internal control measures are in place to assess the effectiveness of the financial statements review processes and whether they conform with the relevant legislation governing fiscal accountability?
	______________________________ ______________________________ ______________________________ ______________________________
B3	How adequate is financial reporting as a mechanism for monitoring accurate spending against the approved objectives in provincial departments? ______________________________ ______________________________ ______________________________ ______________________________
B4	What in your view are the strategies employed to address the barriers, if any, to achieving clean audit outcomes? ______________________________ ______________________________ ______________________________ ______________________________

B5	Specifically, now focusing on the reports expressed by the Auditor-General in the Annual Reports: 1. Could you describe the challenges relating to the internal control deficiencies in the departmental processes? 2. In your view, what are the root causes of internal control deficiencies? ____ ____ ____ ____________
B6	Please describe the methods used by your department to ensure effective reporting of the financial state of affairs of the select government departments you have responsibility for. ____ ____ ____ ____ _______________
B7	Please explain what, in your view, are the factors contributing to 1) the system of accountability in the provincial government expenditure and 2) lack of accountability in the system of provincial government expenditure. ____ ____ ____ ____ _______________

We have now come to the end of the interview, thank you so much for your participation.

______________________	____________________
Name of participant	**Ms Andiswa Jass**
Date: ________________	**Date:**
_______________	