INVESTIGATING VARIABLES THAT HAVE IMPACT ON ANNUAL FINANCIAL STATEMENT AUDIT REPORT OUTCOMES IN LOCAL GOVERNMENT

BY

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DECLARATION

I, Ntsikelelo Sigcau 198078090, hereby declare that the treatise for Magister in Business Administration to be awarded is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to another University or for another qualification.

Ntsikelelo Sigcau
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ABSTRACT

The third sphere of government (Local Government) has been persistently clouded by unfavourable Annual Financial Statement (AFS) audit reports. This results in local government losing credibility and its stakeholders losing confidence in the institutions or municipalities. In-depth analysis of the root cause of this dilemma is an opportunity for the municipality to reorganise its house and redeem its dignity and credibility to its stakeholders through addressing the identified challenges.

The importance of the study can be attributed to the need to investigate the root causes of unfavourable audit opinion and recommend possible remedies that can assist municipalities to improve their audit report outcomes which in turn will improve the confidence of its stakeholders.

The primary objective of the study was to investigate variables that impact on the audit report outcomes on annual financial statements of the municipalities that are within Alfred Nzo District (AND) Jurisdiction, including Alfred Nzo District Municipality (ANDM). This was achieved through investigating the root causes of the audit report outcomes with specific focus on the relationship that exists between the management role and audit outcomes of the Alfred Nzo District Municipalities. This was measured by the municipality’s leadership, governance, internal controls and human capital management.

Convenient sampling was used wherein 150 questionnaires (30 per municipality) were sent out to the selected employees in all the municipalities in the Alfred Nzo District. Out of the questionnaires that were sent out, 103 responses were received. These were analysed to draw findings, conclusion and recommendations.
The empirical results of the study revealed that there is strong evidence that leadership, governance and human capital management have a positive influence on the municipality’s AFS audit report outcomes. It also revealed that there is overwhelming evidence that internal controls have a positive influence on the municipality’s AFS audit report outcomes.

The study recommends how leadership, governance, internal controls and human capital management must be improved. It also provides future research recommendations to improve this study.
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CHAPTER 1

SCOPE OF THE STUDY

1.1 INTRODUCTION

The Republic of South Africa (RSA) has three spheres of government, namely: National, Provincial and Local Government respectively. The legislation of RSA compels all government departments and / or institutions to be subject to an annual audit of their Annual Financial Statement (AFS). This audit is performed by the Auditor General (AG) as mandated by the legislation. The purpose of the audit is for the AG to give an audit opinion whether the government institution has conducted its affairs in an orderly manner. According to the South African Institute of Chartered Accountants (SAICA) (2010), the audit opinion is categorised in the following order:

- Unqualified audit opinion - which means the outcome is favourable, usually referred to as a clean audit report;
- Qualified audit opinion – which means the AFS has misstatements that are material but not pervasive (unfavourable audit outcome);
- Adverse audit opinion – which means the AFS has misstatements that are both material and pervasive and therefore does not present the financial affairs of the institution (second worst unfavourable audit outcome); and
- Disclaimer audit opinion – which means the AG is unable to give an opinion due to unreliability and invalidity of information provided (worst unfavourable audit outcome).

According to the Public Audit Act No.12 of 2004 s.20, (c.3), RSA, the Auditor General must in respect of each audit prepare a report on the audit. The Act further states that an audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on –
• Whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;
• The auditee’s compliance with any applicable legislation relating to the financial matters, financial management and other related matters; and
• The reported information relating to performance of the auditee against the predetermined objectives.

The Act also states that in addition, the AG may report on whether the auditee’s resources were procured economically and utilised efficiently and effectively.

The Eastern Cape MFMA 2009-10 General Report (2011) and Eastern Cape MFMA 2010-11 General Report (2012) reveals that the third sphere of government (Local Government) has been persistently clouded by unfavourable audit reports. Irregular, unauthorized, fruitless and wasteful expenditure in the Eastern Cape municipalities has increased from R507 million to R2.232 billion in the period 2009/2010 to 2011/2012 (The Eastern Cape MFMA 2011-12 General Report, 2013). This results into local government losing credibility and its stakeholders losing confidence into the institutions or municipalities.

The present investigates the root causes of unfavourable audit reports in selected municipalities in the Eastern Cape of South Africa. In-depth analysis of the root cause of this dilemma is an opportunity for these municipalities to reorganize their houses and redeem their dignity and credibility to its stakeholders through addressing the identified challenges.
1.2 PROBLEM STATEMENT

Various public protests against non-service delivery have been experienced to be on the rise throughout South Africa. In some instances the protests have been violent and coupled with destruction of government infrastructure property. The study conducted by the Social Change Research Unit (2014), reveals an upward trend in community protests in the period 2004 (13 community protests held) to 2012 (470 community protests held). The study further reveals that a high percentage of community protests held relates to service delivery. It also reveals an upwards trend in the number of violent and disruptive protests since the year 2009.

The Eastern Cape MFMA 2011-12 General Report (2013), which is the latest audit report of the Auditor-General (AG) on municipalities’ annual financial statements, reveals a rise on irregular, unauthorized, fruitless and wasteful expenditure. It reveals that unauthorized expenditure for the entire Eastern Cape Province municipalities increased from R507 million in the 2009/10 financial year to R570 million and R2.322 billion in the 2010/11 and 2011/2012 financial years respectively. It also divulges that irregular expenditure of these municipalities amounted to R1.119 billion in 2009/10, R2.015 billion in 2010/11 and R2.920 billion in 2011/12. It further discloses that wasteful expenditure in these municipalities rose from R33 million in 2009/10 to R37 million and R130 million in the 2010/11 and 2011/12 financial years respectively.

Eastern Cape MFMA 2009-10 – General Report (2011), revealed that the unfavourable audit outcome obtained by various municipalities is mainly attributable to:

- Volatile political climate within councils and inadequate leadership practices;
- Lack of understanding and subsequent disregard of the requirements for determining, managing, monitoring and reporting on predetermined objectives by leadership;
- Non-compliance with relevant laws and regulations;
- Inefficient Information Technology (IT) systems; and
- Lack of basic control disciplines.
Eastern Cape MFMA 2010-11 – General Report (2012), revealed very slow progress has been made in improving the audit in municipalities due to the fact that:

- Very little effort was made to establish basic internal controls and management disciplines;
- In almost all instances there were no consequences for poor performance; and
- The appointment of inadequately competent and skilled officials in key positions added to this challenge, with about two-thirds of these officials not meeting the expected minimum performance norms of generating credible reports and maintaining a sound internal control environment.

Eastern Cape MFMA 2011-12 – General Report (2013) revealed regression in the audit outcomes of municipalities and highlighted the following as the root causes:

- Instability in political leadership and political interference;
- Lack of alignment between administrative and political leadership;
- Ineffective performance management;
- Culture of non-performance and malicious compliance and leadership’s lack of action;
- Poor planning or inadequate planning;
- Lack of financial disciplines;
- Lack of knowledge or deliberate non-compliance with laws and regulations;
- Lack of skills and readiness to address Generally Recognised Accounting Practice (GRAP) requirements;
- Administration not utilising the remedies at their disposal/required by rules and regulations;
- Inappropriate action plans or action plans not monitored adequately;
- Ineffective monitoring of commitments by oversight;
- Audit Committees not taken seriously;
- Weak or understaffed Internal Audit; and
- Poor management of human resources function.
The above indicates a combination of weakness in leadership, governance, effective internal controls and human capital management.

An unfavourable audit outcome is an indication that the municipality/auditee is not in compliance with one, some or all of the aspects that the AG is required to express an opinion on (RSA, 2004). This could mean the financial affairs of the municipality are not properly managed. It could also mean that the municipality is not effective and efficient in utilising its resources (RSA, 2004). These have a crucial negative impact on its financial viability and sustainability and, if not address it could eventually lead to the collapse of the organisation.

According to Siswana (2007), governance is essential both in the private and public sector so that organisational mission, vision and organisational systems and structures are maintained. Fourie (2009) states that effective governance requires the complete dedication and commitment of all the role-players involved in the management of each public sector department and leadership should fulfil a key role in good governance. The attributes of the unfavourable audit outcome highlighted by the Auditor General (AG) above suggest poor governance in the municipalities. It further suggests that the quality of managerial leadership is questionable hence this needs to be investigated.

An analysis of government within the public finance context is paramount because if such an analysis is not taken into account, systems and processes could hardly be efficient (Siswana, 2007). Further to analysis of governance, other characteristics that can lead to unfavourable audit outcomes as indicated from the AG’s report above need to be investigated and solved. Failure to do so would result in inefficiencies and even the collapse of the affected municipalities. An unfavourable audit outcome would also jeopardise the relationship between the municipality and its stakeholders (internal and external).
The Constitution of South Africa 1996 s.216, (c.13), RSA, states that the National Assembly (NA) must establish a National Treasury (NT) and prescribe measures to ensure both transparency and expenditure controls in each sphere of government. It further states that NT must enforce compliance with the established measures and may stop the transfer of funds to an organ of state if that organ of state commits serious or persistent material breach of those measures.

The municipality is an organ of the state and it obtains most of its funds from the National Government. Persistent unfavourable audit outcomes could lead to NT stopping the transfer of funds to that particular municipality. Other funding organisations would also lose confidence with the municipality and not approve any funding to it. This could lead to revolt by the public/residents of that particular municipality as this would mean lack of or poor service delivery. Residents/customers could refuse to pay for municipal services due to poor performance and this would result in the municipality being under financial strain. This might lead to the municipality experiencing cash flow challenges and being unable to honour its financial obligations. This would jeopardise the municipality relationship with its service providers. The internal stakeholders would be equally affected as employees would be demoralised due to worries of not knowing whether the municipality will be able to pay them at month end resulting in poor performance and high staff turnover.

It is therefore crucial that the root cause of unfavourable audit outcomes be investigated and properly addressed in order to regain stakeholders’ confidence in the municipality and improve its financial viability and sustainability.
1.3 LITERATURE REVIEW

According to Andrews (2008 cited in Andrews, Hay and Myers, 2010), theoretical frameworks are important constructs for thinking about why a certain phenomenon matters. Literature tends to suggest that leadership, governance, systems and internal controls as well as human capital management are variables that have an effect on an organisation’s performance and its audit report. Secondary data will therefore be collected through a literature review on the above independent variables as the bases of understanding the problem statement and exploring the hypothesis of the study. A literature review on auditing will also be conducted, that is looking at its intended purpose, its nature and elements of effective auditing.

Various reliable sources of literature will be utilised ranging from journals to articles (electronic and hardcopy), books, conference papers, government acts, statutory reports and so on. Though efforts will be made to focus on public sector literature, the literature from other sectors that are relevant to the topic will also be used in this research to achieve a wide variety in exploring the problem statement and hypothesis.

1.4 RESEARCH OBJECTIVES

1.4.1 Primary objective

The primary objective of the study is to investigate variables that have an impact on the audit report outcomes on annual financial statements of the Municipalities that are within Alfred Nzo District (AND) Jurisdiction including Alfred Nzo District Municipality (ANDM). This will be achieved through investigating the root causes of the audit report outcomes with specific focus on the relationship that exists between the management role and audit outcomes of the selected municipalities. This will be measured by the Municipality’s leadership, governance, internal controls and human capital management.
1.4.2 Secondary objective

The secondary objectives of the study will attempt to address the following research questions that are critical to the achievement of the primary objective:

- What audit outcomes have been obtained by the selected municipalities?
- What management factors influenced the audit outcome in the selected municipalities?
- What management strategies can be implemented to achieve a favourable audit report?
- How can management/leadership implement strategies to improve the audit report?
- Why is it important to achieve a favourable audit report?

1.4.3 Research design objective

To achieve the above research objectives, the following steps will be followed:

- A literature review will be conducted to collect secondary data on variables that are under study;
- A self-constructed questionnaire will be developed for the purpose of collecting primary data on the independent variables;
- A questionnaire will be physically distributed to 150 participants or employees of the selected municipalities;
- Data obtained from returned questionnaires will be captured in Microsoft Excel for analysis;
- Statistica will be utilised to analyse the data;
- The results will be interpreted and conclusions drawn on the finding; and
- Recommendations will be made.
1.5 HYPOTHESES

The following null hypotheses will be formulated for the purpose of testing the hypothesised relationship among variables:

- H01: Leadership has no influence on a municipality’s audit report
- H02: Governance has no influence on a municipality’s audit report
- H03: Internal controls have no influence on a municipality’s audit report
- H04: Human capital management has no influence on a municipality’s audit report

Figure 1.1 below reflects the graphical view of the above null hypotheses.

FIGURE 1.1: CONCEPTUAL MODEL TO INVESTIGATE VARIABLES THAT HAVE AN IMPACT ON AUDIT REPORT OUTCOMES IN LOCAL GOVERNMENT – THE NULL HYPOTHESES

![Conceptual Model](source: Author’s own construction)
1.6 METHODOLOGY OF THE STUDY

This study will consider the following with regard to methodology.

1.6.1 Research paradigm

According to Collis and Hussey (2009), a research paradigm is a philosophical framework that guides how scientific research should be conducted. In concurrence with the above two authors, Williams (1998) states that a paradigm is providing a framework for seeing and making sense of the social world. Williams (1998) further states that within the research process the researcher’s belief will influence his or her approach in designing, collecting, analysing and presenting research results.

Dash (2005) states that since theoretical questions in education emerge from different conceptions and interpretations of social reality, different paradigms have been evolved to determine the criteria according to which one would select and define problems for inquiry. Dash (2005) further states that in the past century various paradigms evolved, however there are two main paradigms for the verification of theoretical propositions, namely: positivism (qualitative) paradigm and anti-positivism (interpretivism or phenomenological or qualitative) paradigm

A positivism paradigm is based on the belief that the researchers perceive the world as external and objective, and science as value free and as observers they are independent and values can be suspended in order to understand (Williams, 1998). According to Krauss (2005), positivism believes in empiricism, the idea that observation and measurement are the basis of science venture. Wardlow (1989), as cited in Kim (2003), states that positivism is based on the assumption that there are universal laws that govern social events, and uncovering these laws enables researchers to describe, predict, and control social phenomena.
A phenomenological paradigm is based on the belief that the researcher views the world as a socio-psychological construct where there are multiple realities forming an interconnected whole that can only be understood as these multiple realities (Williams, 1998). According to Dash (2005), anti-positivism emphasises that social reality is viewed and interpreted by the individual herself according to the ideological positions she possesses. The research paradigm will determine the approach that the researcher will follow in his or her study. The researcher might decide to make use of both approaches.

This study will be located in the positivism paradigm and a quantitative approach will be followed. The writer will be objective in conducting the study and will not allow his perceptions to influence the findings. This approach is preferred as it will allow a large number of participants to be involved in the study and therefore improve the validity and reliability of the findings (Collis and Hussey, 2009). The writer is of the view that the topic that will be researched is a subject of interest to all employees let alone those at senior level in local government and therefore does not require participants that are specialists where phenomenological paradigm would be preferred.

1.6.2 The sample

According to Collis and Hussey (2009), a sample is an unbiased subset that represents the population and a population is a body of people or collection of items under consideration for statistical purposes. They further state that if the population is relatively small, you can select the whole population, otherwise you will need to select a random sample. Wegner (2010), states that a sample must be representative of all the members of the target population if it is to produce valid and precise statistical inference of population parameters based on sample evidence.

According to Wegner (2010), there are two basic methods of sampling, namely:

- Probability sampling – is where the sampling members are selected from the target population purely on a random basis; and
- Non-probability sampling is where criteria other than random selection are used as the basis for choosing the sample members of the population. Probability sampling methods are simple random sampling, systematic random sampling, stratified random sampling and cluster random sampling. Non-probability sampling methods are convenience sampling, judgment sampling, quota sampling and snowball sampling (Wegner, 2010).

The convenience sampling will be used in the study to select management and other middle level officials of all municipalities that are in the Alfred Nzo District, including ANDM, targeting a total of 150 participants. The Alfred Nzo District Municipalities are selected for convenience to avoid time delays and high costs. The level of official who will participate in the study is critical in ensuring that the information they provide is reliable and valid.

**1.6.3 Measuring instruments**

Collis and Hussey (2009), state that there are two main collection methods that are commonly used in positivist studies, namely:

- **Questionnaire** – a list of carefully structured questions, which have been chosen after considerable testing with the view to eliciting reliable responses from a particular group of people; and
- **Interview** – where selected participants are asked questions to find out what they think or feel.

A questionnaire enables quantitative data to be collected in a standardised way so that the data are internally consistent and coherent for analysis (Malhotra, 2012).

In this study primary data will be collected through a self-constructed questionnaire whereas secondary data will be collected through a literature review. The questionnaire will consist of mainly closed questions and a few open ended questions. Its design will be informed by the purpose of the study and the type of data that are required to address the objective of the study.
The design of a questionnaire is critical in ensuring that questions asked are relevant to the research objective that accurate and appropriate data are collected for analysis (Wegner, 2010). A Likert scale rating of 1 (strongly disagree) to 5 (strongly agree) will be used. The questionnaire will be physically distributed to and from the selected participants. The tools that will be utilised in the study to perform statistical analysis are Microsoft Excel and Statistica.

1.7 DEFINITION OF CONCEPTS

1.7.1 Auditing

Salehi (2011) defines auditing as the independent function that critically examines the assertions made by an individual or organisation about economic activities in which they are engaged and communicates the results in the form of a report to the users. Comprehensive Audit Foundation (1991 cited in IIA, 2006) defines an audit as the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities. The IIA (1999 cited in Stewart and Subramaniam, 2008) defines internal auditing as an independent objective assurance and consulting activity designed to add value and improve an organisation’s operations.

1.7.2 Audit committee

An audit committee is one of the committees established by the board of directors that is responsible for assisting it (board of directors) in overseeing the financial reporting system, controlling the relationship between board of directors and both internal and external auditors (Catikkas, Dumlu and Saricam, 2010).
1.7.3 Leadership

Leadership is generally defined as the social process of influencing people to work voluntarily, enthusiastically and persistently towards a purposeful group or organisational goal (Werner, 2011). Leadership is essentially an aesthetic function, where a leader formulates an organisational vision, and designs the system to achieve this vision, even though it may not be fully attainable (Ackoff, 1999 cited in de Villiers, 2002).

1.7.4 Governance

Governance refers to the formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and societal actors interact to make decisions (Olowu and Sako, 2002 cited in Siswana, 2007). Governance is a process in which state institutions and departmental structures coordinate government processes and implements public policies by complying with norms and standards set up by the government (Siswana, 2007).

1.7.5 Internal controls

Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Committee of Sponsoring Organisations of the Treadway Commission (COSO), 2011).
1.7.6 Human resources management

Human resources management (HRM) refers to the totality of people management practices found in organisations (Gibb, 2000 cited in Surujlal, 2011). It can be seen as a process that involves the acquisition of employees, introducing them into jobs, training them for their current job and developing them for subsequent ones, controlling and evaluating their performance, compensating them and managing their voluntary or involuntary departure from the organisation (Morton, 1996 cited in Surujlal, 2011). HRM is a function that facilitates the most effective use of people to achieve organisational and individual goals (Ivancevich, 1998 cited in Surujlal, 2011).

1.8 OUTLINE OF THE CHAPTERS

The study consists of six chapters and the content of each chapter is briefly described below as follows:

Chapter one (1) will consist of the scope of the study, presenting the problem statement, research objectives and study methodology.

Chapter two (2) discusses the literature review on the audit report, looking at factors that have an effect on the outcome of the audit report. It will discuss the possible strategies that can be implemented to improve the audit report.

Chapter three (3) will discuss the conceptual model utilised in the study of investigating variables that have impact on audit report outcomes in local government.

Chapter four (4) will highlight the study methodology which looks at the research approach, sample selection and measuring instruments or data collection tools. The results of validity and reliability of the measuring instruments will also be discussed in this chapter.
Chapter five (5) will present the empirical results of the study and their interpretation.

Chapter six (6) will consist of conclusions on the findings of the study as well as recommendations.

1.9 CHAPTER SUMMARY

The chapter presented the background information of the study which informs the final report. The chapter explained the problem statement of the study, it also highlighted the literature review that will be conducted in the study in a build up to inform the final findings of the study. The primary, secondary and research design objectives of the study were indicated. The hypothesis and research methodology of the study is discussed to point toward the direction of the study as well as its overall intended purpose. Key concepts have been clarified to create common understanding and avoid confusion to readers of the report.

Chapter two of the report will give an overview of auditing concept through in-depth literature review. This further assists the reader in better understanding the problem statement of the study.
CHAPTER 2

AN OVERVIEW IN AUDITING

2.1 INTRODUCTION

This chapter provides the literature review of the auditing concept which is related to the problem statement. The chapter explore into the legal background, definition and purpose of auditing in local government. It further explore into the elements and effects of auditing.

According to Salehi (2011), the growth in business has been accompanied by increasing separation of the ownership and management functions resulting in the need for company managers to report to the organisations’ owners and other providers of funds on the financial aspects of their activities. The link between shareholders and finance lenders on one hand and management on the other hand is established through annual financial statements which need to be audited to provide assurance that they are reliable and credible through authentication based on a professional code of ethics regulation (Salehi, 2011). In concurrence with the above, the Wilson Committee (1980 cited in IIA, 2006) state that, the financial accountability requirement came to existence ever since it became necessary for one individual to entrust the care of his possessions or business to another. This is equally applicable to the public sector as the public officials or administrators are required to report to their political counterparts as well as the public on the financial aspects of the activities they undertook in their positions of employment. The audit report on the annual financial statements of an institution is one of the key measures that is used by the owners of the business and other stakeholders to assess the performance of the management or administrators that are tasked with the running of that particular organisation.
IIA (2006) states that the public sector represents a principal-agent relationship, where the officials are acting as the principal’s agent and must periodically account to the principal for their use and stewardship of resources and the extent to which the public’s objectives have been accomplished. It further states that the principal relies upon the auditor to provide an independent, objective evaluation of the accuracy of the agent accounting and to report on whether the agent had been using the resources in accordance with the principal's wishes. The principal-agent and third party relationship is reflected in figure 2.1 below.

**FIGURE 2.1: THE PARTY RELATIONSHIP**

Source: Adapted from IIA (2006)
The principal offers its resource authority to the agent and the agent must therefore account to the principal on accomplishment of the mandate entrusted to him or her. The auditor verifies and validates, with an independent objective, the agent’s assertion and reports to the principal.

The principal-agent relationship that exists in the public sector compels an imperative need for an effective and efficient audit and this is enforced in South Africa as it has been legislated to be a law. The IIA (2006), states that an effective public sector audit activity strengthens governance by materially increasing citizens’ ability to hold their government accountable. It further states that auditors perform an especially important function in those aspects of governance that are crucial in the public sector for promoting credibility, equity, and appropriate behaviour of government officials, while reducing the risk of public corruption.

Various types of audits can be conducted, however this study is only limited to three types of audits that the Municipal Finance Management Act (MFMA) compels to be periodically (annually) performed in Local Governance:

- Financial audit (performed by AG);
- Performance audit (performed by AG); and
- Internal audit (performed by internal audit function or outsource to an outside organisation).

2.2 THE LEGAL FRAMEWORK, DEFINITION AND PURPOSE OF AUDITING IN LOCAL GOVERNMENT

According to Anderson, Francis and Stokes (1993); and the Blue Ribbon Committee (1999) as cited in Coram, Ferguson and Moroney (2006), corporate governance literature has identified three monitoring mechanisms namely:

- External auditing;
- Internal auditing; and
- Directorship.
The IIA (2003 cited in Coram, Ferguson and Moroney, 2006) has also identified the audit committee as one of the monitoring mechanisms.

2.2.1 Local government auditing legal framework

According to the Municipal Finance Management Act No. 56 of 2003 s.126, (c.12), RSA, the accounting officer of a municipality must prepare the annual financial statements (consolidated annual financial statements where the municipality have an entity) of the Municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor General for auditing. It further states that the Auditor General must audit those financial statements and submit an audit report on those statements to the accounting officer of the municipality within three months of receipt of the statements. It continues to state that, once the Auditor General has submitted an audit report to the accounting officer, no person other than the Auditor General may alter the audit report or the financial statements to which the audit report relates. This compels the agent (municipal officials through the accounting officer) to account by preparing annual financial statements. It also requires the external auditor (AG) to verify and validate the accounts submitted by the agent and report to the principal by issuing an audit report that gives an opinion on the annual financial statements.

The MFMA, (c.14), RSA, stipulates that each municipality and municipal entity must have an internal audit unit. It further states that the internal audit unit of the municipality or municipal entity must:

- Prepare a risk-based audit plan and an internal audit programme for each financial year;
- Advise the accounting officer and report to the audit committee (AC) 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
  - Compliance with this Act and any other applicable legislation; and
- Perform such other duties as may be assigned to it by the accounting officer.

The Act further states that the internal audit function may be outsourced if the municipality or the municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost effective.

The MFMA, (c.14), RSA, stipulates that each municipality and municipal entity must have an audit committee. It further states that an audit committee is an independent advisory body which must:

- Advise the municipal council, the political office bearers, the accounting officer and the management staff of the Municipality, or the board of directors, the accounting officer and the management staff of the municipal entity 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
  - Compliance with this act, the annual Division of Revenue Act and any other applicable legislation
  - Performance evaluation
  - Any other issues referred to it by the municipality or municipal entity.
It also states that members of the audit committee must be appointed by the council of the municipality or, in the case of the municipal entity, by the council of the parent municipality. Furthermore, the Act states that a single audit committee may be established for a district municipality and the local municipalities within that district municipality and for a municipality and municipal entities under its sole control. The Act also states that one of the members who are not in the employ of the Municipality or municipal entity must be appointed as chairperson of the committee and no councillor may be a member of an audit committee.

### 2.2.2 The auditing definition

Selehi (2011) defines auditing as the independent function that critically examines the assertions made by an individual or organisation about economic activities in which they are engaged and communicate the results in the form of a report to the users. In line with the above definition, the Canadian Comprehensive Audit Foundation (1991 cited in IIA, 2006) defines an audit as the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities. Mautz and Sharaf (1986 cited in Selehi, 2011) defines auditing as the verification of accounting data, determining the accuracy and reliability of accounting statements and reports. This definition is also in agreement with the above two definitions. Burns and Fogarty (2010) state that audits are a collection of judgments about many matters including management’s application of accounting pronouncements, adequacy of management’s disclosures, scope of audit, risk of misstatement, materiality and sufficiency and appropriateness of audit evidence.

Mpehle and Qwabe (2008) state that, traditionally the state auditors were concerned with the consistency of expenditure and conformity of financial statements and this has changed drastically, marking a shift from a compliance audit to a performance audit or value for money audit. According to Waring and Morgan (2007 cited in Mpehle and Qwabe, 2008) a performance audit is an instrument to objectively evaluate if
government’s service delivery programmes have successfully responded to the needs of society. The auditor’s report must clearly indicate whether the targets set have been achieved in an economic and efficient manner (Cosserat, 2006 cited in Mpehle and Qwabe, 2008). Therefore the audit must (Waring et al., 2007 cited in Mpehle and Qwabe, 2008):

- Determine if government activities adhere to management policies, administrative practices and principles as far as value for money is concerned;
- Establish whether there has been efficient use of resources such as human, financial and other relevant resources;
- Examine if the system in place to monitor and evaluate performance have been followed and give remedy to identified deficiencies; and
- Ascertain if performance has been effective in achieving the desired objectives and compare the actual impact the activities have against the intended impact.

Additional to the audit that is performed by the external auditors (AG), the South African public sector is required to have an Internal Audit Function (IAF) that must perform an internal audit for the purpose of identifying risks in the organisation’s systems of governance so that they can be addressed. Internal auditing is an integral part of the corporate governance assortment in both the public and the private sectors (Cohen et al., 2002 cited in Karagiorgos, Drogalas, Gotzamanis and Tampakoudis, 2010).

The IIA (1999 cited in Stewart and Subramaniam, 2008) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. In concurrence with the above definition, the United States Government Accountability Office (GAO) (1999 cited in Karagiorgos, Drogalas and Giovanis, 2011) illustrates that internal auditing is an integral component of an organisation’s management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.
Sawyer (2003 cited in Karagiorgos, Drogalas and Giovanis, 2011) gives a detailed definition of internal auditing by stating that, for the purpose of consulting with management in assisting the organisation in the effective discharge of governance responsibilities, internal auditors systematically and objectively appraise diverse operations and controls within an organisation to determine whether:

- Financial and operating information is accurate and reliable;
- Risks to the enterprise are identified and minimized;
- External regulations and acceptable internal policies and procedures are followed;
- Satisfactory operating criteria are met;
- Resources are used efficiently and economically; and
- The organisation’s objectives are effectively achieved.

2.2.3 The purpose or role of auditing

The external audit is also regarded as an important cornerstone of corporate governance, particularly with respect to the prevention and detection of fraud and errors in financial statements (Adamec, Leinicke, Ostrosky and Rexford, 2005; Davidson, Goodwin-Stewart and Kent, 2005 cited in Karagiorgos, Drogalas, Gotzamanis and Tampakoudis, 2010).

According to IIA (2006), the government auditor’s role supports the governance responsibilities of oversight, insight, and foresight. It further describes oversight, insight, and foresight as follows:

- Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and deter public corruption;
- Insight assists decision-makers by providing an independent assessment of government programmes, policies, operations, and results; and
- Foresight identifies trends and emerging challenges that are facing the organisation.
IIA (2006) further states that, because government’s success is measured primarily by its ability to deliver services successfully and carry out programmes in an equitable and appropriate manner, government audit activities should have the authority and the competency to evaluate financial and programme integrity, effectiveness, and efficiency. Overall, auditors must also protect the core values of the government, as it serves all citizens (IIA, 2006).

Burns and Fogarty (2010) state that the purpose of an audit is to provide reasonable assurance that an entity’s financial statement are fairly presented in accordance with the applicable accounting framework and therefore are free from material misstatements due to fraud or error. They further state that an audit tends to increase the credibility of financial statements and accordingly reduces cost of capital. In concurrence with the above Nuhoglu and Parlak (2012), state that auditing is expected to enable the assurance in financial information of companies which stakeholders use as an input in their decision-making process. They further state that confidence in the information comforts the stakeholder and allows more time and energy for the decision-making process based on the financial data, in place of requiring effort for the verification of data. The last two writers above bring an important element in their explanation of the audit purpose, which is the improvement of the decision making process and this was also indicated in the IIA explanation of the auditor’s role above.

According to Cohen and Sayag (2010), the aim of internal auditing is to improve organisational efficiency and effectiveness through constructive criticism. According to the IIA Research Foundation (2009, cited in Janse van Rensburg and Coetzee, 2011), the role of internal auditing relates to the responsibility of the internal auditor to assist the organisation in achieving its objectives and improving its operations by providing audit assessments that are independent and impartial. The IIA (1999 cited in Stewart and Subramaniam, 2008) states that it helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
In consensus with the above, Eden and Moriah (1996 cited in Cohen and Sayag, 2010) state that the internal audit has four main components:

- Verification of written records;
- Analysis of policy;
- Evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organisation’s policies; and
- Reporting recommendations for improvements to engagement.

They further state that by detecting weaknesses in management operations, internal audit function (IAF) provides a basis for correcting deficiencies that have eluded the first line of defence before these deficiencies become uncontrollable or are exposed in the external auditor’s report. In concurrence with the above Skoczylas and Nowak (2012) state that, the role of the modern internal audit in the Polish public finance sector is the management control assessment, which according to the current law on public finance, means the whole of the action taken to ensure that the objectives and tasks are consistent with the law, efficient, cost-effective and timely. They further state that the most important aspects, according to the Polish legislature, which should be included in management control, are:

- Business compliance with laws and internal procedures;
- Effectiveness and efficiency of operations;
- The reliability of financial statements;
- Protection of resources;
- Upholding and promoting the principles of ethical conduct;
- Effectiveness and efficiency of information flow; and
- Risk management.

This indicates that the IAF plays a big role in improving the audit report opinion that is issued by the external auditors.
Internal auditors provide management with a far broader range of information concerning the organisation’s financial, operational and compliance activities to improve effectiveness, efficiency, and economy of management performance and activities (Rezaee, 1996 cited in Karagiorgos, Drogalas, Gotzamanis and Tampakoudis, 2010). Karagiorgos, Drogalas, Gotzamanis and Tampakoudis (2010) further argue that internal auditing helps corporate governance by reviewing the organisation’s code of conduct and ethics policies to ensure they are current and are communicated to employees. According to Chojna-Duch (2002 cited in Skoczylas and Nowak, 2012), the European guidelines require as one of the major components of the system of public internal financial control, an internal audit in order to improve efficiency, transparency and openness of public administration and better use of public funds. This requirement as well as its purpose is equally applicable in the South African public sector in general and local government in particular.

2.2.4 The audit committee

The audit committee is one of the committees established by the board of directors that is responsible for assisting it (board of directors) in overseeing the financial reporting system, controlling the relationship between the board of directors and both internal and external auditors (Catikkas, Dumlu and Saricam, 2010). In concurrence with the above, Spira (1999 cited in Catikkas, Dumlu and Saricam, 2010) states that an audit committee is a sub-committee of the main board of directors of a company, usually formed from non-executive directors and charged with matters relating to financial reporting and auditing. The audit committee is expected to be an informed, prudent, and constructive overseer of the financial reporting process (Wild, 1996 cited in Catikkas and Saricam, 2010).
According to Djokic (2009), the audit committee as an expert body can, by virtue of its existence and composition, encourage a more objective evaluation of the risks incurred by a corporation and of their assessment and this evaluation is carried out by internal auditors. The writer further states that the audit committee also ensures information is provided to shareholders and the public concerning the data contained in the relevant financial statements.

The King III (2009) states that:

- Audit committee members of all government institutions, including public entities and state-owned companies must comply with the minimum qualification criteria established by the executive authority;
- The relevant executive authority in the public sector must agree with any premature termination of the services of a person serving on an audit committee for government institutions, including departments, public entities, municipalities, municipal entities and constitutional institutions in the public sector;
- The report of the audit committee must also include comments on the quality of the management and monthly or quarterly reports submitted under the PFMA, the MFMA and the Division of Revenue Act;
- Should a report to an audit committee, whether from the internal audit function or any other source, implicate the accounting officer, any member of the accounting authority, or any official in financial misconduct, including fraud, corruption or negligence, the chairman of the audit committee must promptly report this to the relevant executive authority and the Auditor-General or authorised auditor; and
- The audit committee may communicate any concerns it considers necessary to the executive authority (as defined in the relevant acts), the relevant treasury (if applicable), the Auditor-General and, if appropriate, to the authorised auditor.
The IIA (2006) states that an established audit committee should strive to achieve the following best practices:

- Operate under a formal mandate, preferably legislation, with sufficient authority to complete its mandate;
- Include independent members who collectively possess sufficient knowledge of audit, finance, risk, and control;
- Be chaired by a member who is not the individual to whom a head of audit reports administratively;
- Assess the effectiveness of the organisation’s governance, risk management, and control frameworks and legislative and regulatory compliance;
- Provide oversight to the organisation’s internal and/or external audit activity, including ensuring adequate coverage and resources, approving internal audit plans, and approving the appointment or termination of internal and/or external auditors;
- Oversee the organisation’s financial reporting and accounting standards; and
- Provide a direct link and regular reporting to the organisation’s governing board, council, or other governing authority.

2.3 THE ELEMENTS AND NATURE OF EFFECTIVE AUDITING

2.3.1 The elements of effective auditing

The IIA (2006) argues that the audit activity must be empowered to act with integrity and produce reliable services. It further states that the government audit activities must at least have the following qualities:

- Organisational independence; which allows the audit activity to conduct work without interference by the entity under audit and this can be achieved when the audit activity has sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so, coupled with objectivity, organisational independence contributes to accuracy of the auditors’ work and the ability to rely on the results and report;
- A formal mandate - the audit activity’s powers and duties should be established by the government’s constitution, charter, or other basic legal document and among other topics, this document would address procedures and requirements of reporting, the obligation of the audited entity to collaborate with the auditor;
- Unrestricted access - audits should be conducted with complete and unrestricted access to employees, property, and records;
- Sufficient funding - the audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organisation under audit because the budget impacts the audit activity’s capacity to carry out its duties;
- Competent leadership - the head of the audit activity must be able to effectively recruit, retain, and manage highly skilled staff and moreover, the chief audit executive should be an articulate public spokesperson for the audit activity;
- Competent staff - the audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate and must comply with minimum continuing education requirements established by the relevant professional organisations and standards;
- Stakeholder support - the legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and involved citizens; and
- Professional audit standards support the implementation of the previous elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence.

The key point, however, is that government audit activities must be configured appropriately to enable governments and government entities to fulfil their duty to be accountable to the citizens, while achieving their objectives effectively, efficiently, and ethically (IIA, 2006).
The IIA Research Foundation (2003 cited in Alizadeh, 2011) state that the effective elements on internal audit effectiveness include environmental and stimulation specification such as:

- Employee talents;
- Workers’ improvement techniques;
- Management potentials;
- Senior managers support of internal auditing;
- Organisation great familiarity of internal auditing;
- Teamwork concept;
- Professional training;
- Independency;
- Neutrality; and
- Equity auditing techniques.

### 2.3.2 The nature of effective auditing

Although public sector auditing has broadened its focus from individual transactions to control systems and programme operations, government auditing should retain the defining characteristics that are the basis of its credibility; that is, the value it provides to the governance process including:

- Unbiased orientation toward the subject under audit;
- Use of systematic processes to collect and analyse information;
- Comparison to criteria for formulating conclusions, examples of criteria include standards, goals/targets, benchmarks, and laws; and
- Use of widely accepted professional audit standards (IIA, 2006).

The study conducted by Ibanez (2007), indicates that there has been a shift towards the business risk based audit methodology in recent years which means auditors tend to rely more on internal controls and therefore perform more compliance testing (testing if the audited organisation complied with set internal controls) than substantive testing.
(testing transactions, account balances and analytical review of procedures). The writer further state that according to this approach, the effort made by auditors depends largely on the identification of internal control threats. Additionally, auditors following this method tend to give more importance to high-risk areas of a company, and adjust the audit resources to address identified risks (Lindow and Race, 2002 cited in Ibanez, 2007). This indicates the importance of having a sound internal control system in an organisation together with effective and efficient internal audit function. The King Committee (2009) states that the internal audit should be risk-based, every year the internal auditors should furnish an assessment to the board generally on the system of internal controls and to the audit committee specifically on the effectiveness of internal financial controls.

The Auditor General is mandated to perform a combination of a financial or regulatory audit, risk management systems and controls audit as well as a performance audit when auditing a government sector. According to IIA (2006), in its broadest context, performance audit objectives might assess:

- **Effectiveness** – evaluates programme accomplishments that is to verify whether a programme has achieved its objectives and what are the programme’s outcomes or results, both intended and unintended?
- **Efficiency** – examines productivity, unit cost, or indicators such as utilisation rates, backlogs, or service wait times. Do operations maximise outputs in relation to costs and other resource inputs (for example, number of license renewals per staff hour)?
- **Economy** – examines the extent to which a government operation has minimised its use of inputs or resources consistent with the quality needs of the programme.
- **Compliance** – tests the organisation’s conformity with objective requirements, standards, or criteria. These types of audits typically assess compliance with laws and regulations, contract requirements, grant requirements, and organisational policies and procedures including environmental regulations.
- **Data reliability** – assesses internal controls and reporting for non-financial matters, such as performance measures.
• Policy and other prospective (forward-looking) evaluation – assesses programme or policy alternatives, forecasts potential programme outcomes under various assumptions, or evaluates the advantages or disadvantages of various legislative proposals.

• Risk Assessment – identifies risks that may affect achievement of an organisation’s strategic and financial goals and objectives and assesses management’s response to those risks.

With regard to financial or regulatory audit, the IIA (2006) states that auditors express an opinion on the presentation of the financial statements in accordance with established or accepted accounting principles (regularity) with focus on properly accounting for assets and expenditures as reported by the government. IIA (2006) further states that in addition to the financial statement opinion, financial audits can also examine the reliability of specific financial information, compliance with relevant procedures and rules, or the safeguarding of assets. However, risk management systems and controls - auditors assess the adequacy of corporate governance and the control environment; the effectiveness of processes to identify, assess, and manage risks; the assurance provided by control policies, procedures, and activities; the completeness and accuracy of information and communication systems and practices; and the effectiveness of management’s monitoring and evaluation activities (IIA, 2006).

National Treasury (MFMA Circular no. 65) (2012), clusters the nature of the internal audit work into three components: governance, risk management and control. It further explains the nature of the work to be conducted on each of these components as follows:

• Governance - Internal audit activity must assess and make recommendations for improving governance process in its accomplishment of the following objectives:
  o Promoting appropriate ethics and values within the municipality;
  o Ensuring effective organisational performance management and accountability;
o Communicating risk and control information to appropriate areas of municipality; and
o Coordinating the activities of and communicating information among the audit committee, external, internal auditors and management.

- Risk Management - internal audit is responsible for providing assurance to management and the audit committee on the adequacy and effectiveness of the risk management process through examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of management’s risk processes (National Treasury (MFMA Circular no. 65), (2012)).

- Control - based on the results of the risk assessment internal audit must evaluate the adequacy and effectiveness of controls encompassing the municipality’s governance, operations, and information systems through assessing adequacy on:
  o The control environment and management attitude towards controls;
  o Standard control practices; and
  o Compliance with other generally used control frameworks (National Treasury (MFMA Circular no. 65), (2012)).

Skoczylas and Nowak (2012) state that, the internal audit is becoming an increasingly useful tool for the Polish sector of the public finances units, and it is not only used to gather information, but also it evolves toward the provision of ready-made applications and management arrangements, which may result in increased efficiency of the organisation. This is also observed in the South African public sector and the current legislation as discussed above seeks to drive this sector into an effective internal audit that will result in increased efficiency and clean audit report outcomes.
2.4 CHAPTER SUMMARY

This chapter provides background about the need for auditing which has been compelled by the increase in the agent relationship in the operations of the business. It explains this agent relationship to have been forced by business growth which led to businesses migrating from owner to professional managers who are employed to run the business on behalf of the owners. The importance of agent relationship is even enormous in the public sector due to the fact that the nature of public sector can only operate through agent relationships.

The broad definition of auditing has been provided in the chapter as well as its sub components which include performance audit; internal audit and external audit. The chapter also discussed the ideal relationship that must exist between the internal and external auditors in order to strengthen the overall quality of the audit and corporate governance. The audit committee concept and its best practices to achieve optimum auditing results were also deliberated. The chapter also discussed the elements of effective auditing as suggested by various literatures.

The researcher view is that, the South African legal framework that governs local government auditing is sufficient as literature proves that it is based on best practises. However, the prior year audit reports as highlighted in chapter one of the study indicate that one of the reasons for poor audit outcomes in local government is none compliance to the stipulated auditing legal frame work. The reports also highlight weaknesses in the municipalities’ performance audit due to poor performance management. It also reflects that the municipalities’ internal audit functions are not properly staffed whilst audit committees are not taken serious. The above none compliance with the auditing legal framework defeat its intended purpose.

Chapter three will discuss the literature review of the independent variables (leadership, governance, systems and internal control as well as human capital management) of the hypothesised model.
CHAPTER 3

THEORETICAL FOUNDATION FOR THE HYPOTHESESIED MODEL ON INVESTIGATING VARIABLES THAT IMPACT ON THE AUDIT REPORT OUTCOMES

3.1 INTRODUCTION

Chapter two presented the literature review of the auditing process in an effort to put the research problem into perspective. This chapter discusses the theoretical foundation of the hypothesised model. It gives the literature review of the study’s independent variables.

Leadership, governance, systems and internal controls as well as human capital management are independent variables that literature tends to suggest are having an effect in organisation’s performance and its audit report. Various auditor general reports on Eastern Cape municipal audit outcomes, as discussed in chapter one of this report have indicated that weaknesses in the above variables are the major contributing factors to unfavourable annual financial statements audit reports. These reports further suggest that strong ethical leadership and monitoring, well-established policies, processes and procedures for supply chain management (SCM) and fraud prevention and detection as well as active governance by internal audit and audit committees can solve the problem. This chapter of the report looks at the literature review of these variables and also formulates hypotheses.

3.2 LEADERSHIP

Leadership is very critical in an organisation both, in the private and public sector, as it is the component that is driving and guiding the organisation towards attaining its objectives. According to Holtzhausen and Naidoo (2011), local government does not only need sound management, but also requires effective leadership at all levels of the service delivery chain.
3.2.1 Leadership definition and purpose

Leadership is generally defined as the social process of influencing people to work voluntarily, enthusiastically and persistently towards a purposeful group or organisational goal (Werner, 2011). According to Stoner (1999 cited in Adamoniene and Ciutiene, 2011), leadership is the diversion of group members’ activity needed to perform the task and process of the leader’s effect on them. The writer further states that leadership involves others (employees and followers); means unequal distribution of power (strength) between the leader and group members; is an ability to use different forms of power by affecting behaviour of own followers in different ways; related to valuables.

According to de Villiers (2002), a leader must get the task done through the team whilst at the same time satisfying the short and the long term need of the individuals. The writer further states that this can only be achieved by gaining and keeping the complete trust of the individuals and the team. The leader needs to focus on trying to obtain the greatest degree of overlap in the three circles shown in figure 3.1 below, which outlines the leader’s functional domain (Adair, 2002 cited in de Villiers, 2002).

FIGURE 3.1: THE LEADER’S DOMAIN

Source: de Villiers (2002)
Hernez-Broome (2002, cited in Adamoniene and Ciutiene, 2011), states that the leadership style in the management context usually is a way of the leader’s behavior with subordinates in order to influence them and to encourage their desire to fight for the goals of the organisation. Naidoo (2009, cited in Holtzhausen and Naidoo, 2011) states that the leader, the followers, the situation, values, ethics, cultural factors and the task are also all important factors in effective leadership. According to Holtzhausen and Naidoo (2011), leadership at local government level should be able to effectively serve multiple, complex and mutually exclusive goals. They further state that the leadership should cater for sensitivities of culture, gender, religion, ethnic origin, socioeconomic and political differences in such a way that the full potential of local government may be realised optimally. Leadership should aim, therefore, to utilise the divergent perspectives within local government in order to reach the highest possible levels of performance to improve and help optimise public service delivery at local government in South Africa (Holtzhausen and Naidoo, 2011).

3.2.2 Leadership types and important characteristics

There are various types and characteristics of leadership including transformational leadership. According to Wang, Chich-Jen and Mei-Ling (2010), most research results showed that the leadership style has a significant relationship with organisational performance, and different leadership styles may have a positive or negative correlation with organisational performance. According to Steytler and Ayele (2011), it would appear that municipal leadership plays an important role in pursuing audit issues of earlier years. They further state that honest leadership is required to prevent municipal officials, councillors and their family members from contracting with the Municipality.

The study conducted by Mokgolo, Mokgolo and Modiba (2012) in the public sector revealed that there is a positive correlation between transformational leadership, subordinate leadership acceptance, job performance and job satisfaction. This means transformational leadership receives acceptance by its subordinates, and this also leads to high job performance and satisfaction. This indicates the importance of leadership in
an organisation as employee job satisfaction and performance has an effect on organisational performance. With regard to those responsible for leading provincial government departments, the research conducted by Mokgolo, Mokgolo and Modiba (2012) suggests that they do not have transformation as leadership skills to manage their departments effectively and efficiently. This study was however limited to the provincial departments head offices with professional and educated employees. Walumbwa et al. (2004, cited in Sharma and Bajpai, 2010) found that transformational leadership is positively related to organisational commitment and job satisfaction, and negatively related to job and work withdrawal. They also found that collective efficacy mediated the contribution of transformational leadership to job and work withdrawal and partially mediated the contribution of transformational leadership to organisational commitment and job satisfaction. Transformational leadership is responsible for generating positive work related outcomes (Sharma and Bajpai, 2010). Walumbwa and Lawler (2003 cited in Sharma and Bajpai, 2010) found support for the moderating effect of collectivism on the relationship between transformational leadership and work-related outcomes, such as facets of job satisfaction, organisational commitment and perceptions of organisational withdrawal behaviours and transformational leadership might be effective across cultures. Bryman (1992 cited in Sharma and Bajpai, 2010) found that transformational leadership behaviours are positively related to a number of important organisational outcomes including perceived extra effort, organisational citizenship behaviours and job satisfaction.

According to the study conducted by Rua (2011), a participative leader confers higher relevance to the quality of service, through motivation, satisfaction, empowerment and human resources positive results, than an exploitative autocratic leader. Holtzhausen and Naidoo (2011) argue in their study that there is a critical need to build leadership, to produce critical thinkers at local government. According to Naidoo (2009 cited in Holtzhausen and Naidoo, 2011), there is relative agreement among Directors-General that senior managers ought to have a number of qualities, such as interpersonal, communication, creative cooperation, financial and human resource skills. Cloete, Wissink and De Coning (2006 cited in Holtzhausen and Naidoo, 2011) argue that the
ability to analyse policy has also been identified as a critical skill for senior management in local government. Miller (2005, cited in Holtzhausen and Naidoo, 2011) maintains that it is necessary to empower, challenge and motivate managers at all levels to be visionaries, initiators, effective communicators and decision-makers, capable of responding proactively to the challenges of the change process, rather than acting as administrators of fixed rules and procedures in government.

Purcell and Hutchinson’s (2007 cited in Sharma and Bajpai, 2010) study revealed that employee commitment towards their employer and their job are strongly influenced by the quality of leadership behaviour and by satisfaction with human resources (HR) practices. The study conducted by Madlock (2008, cited in Sharma and Bajpai, 2010) revealed that there is a strong relationship between supervisors’ communicator competence and their task and relational leadership styles, with supervisor communicator competence being a stronger predictor of employee job and communication satisfaction. The study of Mayfield and Mayfield (2006, cited in Sharma and Bajpai, 2010) indicates that leader communication, as measured through motivating language use, has a significant and positive effect on job satisfaction. They further state that delay in responding, generates unnecessary confusion in the organisation. Shore and Strauss (2006, cited in Sharma and Bajpai, 2010) found that leader’s responsiveness related significantly to job satisfaction, organisational commitment, and organisational citizenship behaviour and furthermore, equity sensitivity moderated the relationships between leader responsiveness and job satisfaction.

It would be worth investigating this phenomenon in municipalities in an effort to improve performance and audit reporting. Having reviewed the above literature, it is therefore hypothesized that:

H1: Leadership has a positive influence on a municipality’s audit report.
3.3 GOVERNANCE

According to Mle and Maclean (2011), local government is plagued by unethical behaviour, lack of integrity and zero good governance in the execution of its constitutional mandate as evidenced by violent service delivery protests by communities throughout the country, and adverse audit opinion. This indicates that a lack of good governance results in failure in achieving service delivery objectives which lead in resistance and protest from external stakeholders (public). It further leads to an unfavourable audit due to non-performance. This also means that if services are provided they have been of substandard due to non-compliance to set norms and standards and this would also lead to protest by the public and also lead to unfavourable audit outcome.

3.3.1 Governance types and important characteristics

Tirole (2001 cited in Andrews, Hay and Myers, 2010) defines corporate governance as the design of institutions that induce or force management to internalise the welfare of stakeholders. Hill and Lynn (2004 cited in Andrews, Hay and Myers, 2010) describe public sector governance from a management perspective, as regimes of laws, rules, judicial decisions, and administrative practices that constrain, prescribe, and enable the provision of publicly supported goods and services through associations with agents in public and private sectors. In the public sector context governments are the agents to whom authority is delegated, by citizens (as principals), with the explicit goal of maximising various kinds of social welfare (as the outcome).

Fourie (2009) defines good governance in the public sector as consisting of the various operational processes and systems which a public organisation requires to deliver services to the public. The Institute of Internal Auditors (IIA) (2006), states that public sector governance encompasses the policies and procedures used to direct an organisation’s activities to provide a reasonable assurance that objectives are met and operations are carried out in an ethical and accountable manner. It further states that, in
the public sector, governance relates to the means by which goals are established and accomplished, which also includes activities that ensure a government’s credibility, established equitable provision of services, and assures appropriate behaviour of government officials, thus reducing the risk of public corruption. According to Siswana (2007), governance is a process in which state institutions and departmental structures co-ordinate government processes and implements public policies by complying with norms and standards set up by the government. Fourie’s definition of governance includes an important aspect delivery of service to the public which is the organisational goal of a Municipality. Siswana’s definition included another important aspect of compliance which is one of the elements that is often negatively highlighted in municipalities audit reports. The IIA brings the important aspect of assurance and credibility in public sector governance. Apreda (2011) gives a comprehensive definition of corporate governance as a task which consists of a manifold and intertwined set of variables of analysis, comprising decision-making processes, organisational structures and long-term goals, namely:

- The ownership structure of the organisation as well as owners’ rights;
- The board of directors’ goals, as well as the fulfilment of their fiduciary duties and the scope of their control rights;
- The senior management tasks, as well as the fulfilment of their fiduciary duties and the scope of their decision rights;
- The relationship with creditors and the design of covenants on behalf of them;
- The fostering of both accountability and transparency;
- How to cope with conflicts of interests, their avoidance or resolution;
- Incentives and rewards towards senior management and directors;
- Looking after compliance risks; and
- Relationships with stakeholders comprising their rights and duties.
3.3.2 Generic principles of governance

According to the King Report on Governance for South Africa (King III) (2009), good governance is essentially about effective leadership and leaders should rise to the challenges of modern governance. The report further states that such leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency and based on moral duties that find expression in the concept of Ubuntu.

According to IIA (2006), the following elements of governance principles are relevant in both private and public sector organisations:

- Setting direction - good governance establishes policies to guide an organisation’s actions. In government, policy may be directed through broad national goals, strategic plans, performance goals, legislative guidance, designated oversight organisations, or legislative oversight committees. A government’s policies or at least its priorities can generally be found in its budget, which allocates limited resources to specific activities.

- Instilling ethics and integrity - good governance includes clearly articulated ethical values, objectives, and strategies; proper tone at the top; and internal control. It should align policies and procedures to encourage behaviour that is consistent with the government organisation’s ethics and integrity values. An important element necessary to achieve behaviour that is consistent with good ethics and integrity is setting and enforcing clear lines of accountability that hold people responsible for doing the right thing.

- Overseeing results - good governance requires continuing oversight to ensure that policy is implemented as intended, strategies are met, and the overall performance of the government meets expectations and needs within policy, laws, and regulations.
• Accountability reporting - because government organisations act as “agents” to use resources and authority to accomplish established goals, governments must account for how they used the resources and what they accomplished. Accordingly, good governance requires regular financial and performance reporting that is validated for accuracy by an independent auditor. Accountability also implies imposing penalties or sanctions against those who have misapplied the resources for purposes other than intended.

• Correcting course - when the organisation has not achieved its financial or operational performance goals, or when problems are detected in operations or the use of funds, a good governance system will identify the cause of the problems, determine the corrective actions needed, and follow up to determine whether those actions were implemented effectively. Auditors’ findings and recommendations represent critical inputs to good governance that can lead organisations to take prompt and appropriate corrective actions to remedy identified weaknesses and deficiencies.

3.3.3 Principles of governance critical to the public sector

According to IIA (2006), the unique nature of government compels unique principles of governance:

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

• Transparency - the principle of transparency relates to the openness of government to its citizens. Good governance includes appropriate disclosure of key information to stakeholders so that they have the necessary facts about the government’s performance and operations. Accordingly, the government’s
decisions, actions, and transactions are conducted in the open. Many governments require public documents to be disseminated or made available upon request or mandate that meetings of elected officials be publicised, with information on the decisions to be made. Although the public’s interest is sometimes served by protecting information from disclosure such as instances where national security, criminal investigations, or the proprietary information of a private company would be compromised, the transparency of government actions and information plays a significant role in public oversight. Auditors can provide a direct link between transparency and the credibility of the government. Lawmakers and the public look to audits for assurance that government actions are ethical and legal, and that financial and performance reporting accurately reflects the true measure of operations.

- **Probity** – the principle of probity calls for public officials to act with integrity and honesty. The erosion of public trust if public information and actions are not reliable undermines a government’s legitimacy and ability to govern. The political, social, economic, and environmental costs to society can be extensive. The principle of probity also applies when information is disseminated to lending authorities or other principals who have an interest other than an ownership share. The consequences of violating the expectation for probity can be swift and shattering when the people’s trust in the government, its institutions, and leadership is undermined.

- **Equity** - the principle of equity relates to how fairly government officials exercise the power entrusted to them. Citizens grant their agents which are government officials, both money and power to carry out their responsibilities. However, citizens are concerned with the misuse of government power, waste of government resources, and any other issues involving corruption or poor management that could negatively impact the government’s obligations and service delivery to its citizens. Governmental equity can be measured and evaluated across four dimensions: service costs, service delivery, police power, and the exchange of information.
According to the African Association for Public Administration and Management (AAPAM) (2000 cited in Holtzhausen and Naidoo, 2011), good governance has eight major features:

- Participatory;
- Consensus oriented;
- Accountable;
- Transparent;
- Responsive;
- Effective and efficient; and
- Equitable and inclusive following the rule of law.

Holtzhausen and Naidoo (2011) state that these features overlap with the principles as contained in chapter ten of the South African Constitution of 1996.

Andrews, Hay and Myers (2010) argues that the presence of particular sets of institutional forms does not necessarily indicate or reflect good governance nor does presence (or absence) of particular types of processes and mechanisms necessarily indicates whether governance is good or bad. This indicates the importance of ensuring that the governance processes and mechanisms that are in place are effective and most importantly are adhered to. Auditing provides a bridge into this gap by assessing if the mechanism and processes are in place and effective as well as assessing if they are adhered to in the daily operations of the organisation.

Government auditing is a cornerstone of good public sector governance through providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results. Auditors help government organisations achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders (IIA, 2006). Based on the above literature review, it is therefore hypothesised that:

H2: Governance has a positive influence on a municipality’s audit report.
3.4 INTERNAL CONTROL

Internal controls are one of the key factors that are paramount in managing the affairs of an organisation both in the private and public sector. According to the Municipal Finance Management Act No. 56 of 2003.s.62, (c.8), the accounting officer of a Municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems-

- Of financial and risk management and internal controls; and
- Of internal audit operating in accordance with any prescribed norms and standards.

3.4.1 Definition of internal control and its purpose

The Committee of Sponsoring Organisations (COSO) (2011) defines internal controls as processes effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of reporting; and
- Compliance with applicable laws and regulations.

In concurrence with the above, Babos (2009) states that the main objectives of the internal control process are:

- The operational objectives, which assure the efficient use of actives and other entity’s resources;
- The informational objectives, which assure the preparation of the reports, in time and in a credible manner, which can permit the decision making process in organisations; and
- The conformity objectives, which assure that the entire control activity is led according to the laws and applicable regulations, with internal politics and procedures requirements.
Botha (2003) states that internal controls refer to and involve all policies, procedures, tasks, actions, techniques, etcetera intertwined in all organisational and operational processes to help ensure the achievement of management objectives.

The International Organisation of Supreme Audit Institutions (INTOSAI) (2006 cited in Luminita, 2009) state that internal control in the public sector should be understood within the context of the specific characteristics of this sector which is focusing on meeting social or political objectives; the use of public funds; the importance of the budget cycle; the complexity of their performance that requires a balance between traditional values like legality, integrity and transparency and modern, managerial values like efficiency and effectiveness; and the correspondingly broad scope of their public accountability. It further claims that internal control is not one event or circumstance, but a series of actions that permeate an entity’s activities, which occur throughout an entity’s operations on an on-going basis, and that are pervasive and inherent in the way management runs the organisation.

The Public Company Accounting Oversight Board (PCAOB) (2007 cited in Luminita, 2009) states that the effective internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. It further states that the audit of internal control over financial reporting should be integrated with the audit of the financial statements.

3.4.2 Components of internal controls

According to COSO (2011), there are five (5) components of internal control that support the organisation in its efforts to achieve its objective:

- Control environment;
- Risk environment;
- Control activities;
- Information and communication; and
- Monitoring activities.
3.4.2.1 Control environment

According to the COSO (2011) framework of internal control, the control environment is the foundation of the entire internal control component and it provides discipline, process and structure. The framework further states that the control environment component of internal control has the following five (5) principles:

- The organisation demonstrates a commitment to integrity and ethical values;
- The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control;
- Management establishes, with board oversight, structures, reporting lines, appropriate authorities and responsibilities in the pursuit of objectives;
- The organisation demonstrates a commitment to attract, develop and retain competent individuals in alignment with objectives; and
- The organisation holds individuals accountable for their internal control responsibilities in the pursuit objectives.

3.4.2.2 Risk assessment

The COSO (2011) framework describes risk assessment as involving a dynamic process of identifying and analysing risks that can be encountered in achieving the organisation’s objectives and therefore forms bases for managing those risks. It further states that there are four principles of risk assessment, namely:

- The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives;
- The organisation identifies risks to the achievement of its objectives across the organisation and analyses risks as a basis for determining how the risks should be managed;
- The organisation considers the potential fraud in assessing risks to the achievement of objectives; and
- The organisation identifies and assesses changes that could significantly impact the system of internal control.
3.4.2.3 Control activities

According to the COSO (2011) framework, control activities are actions that are established by policies and procedures to ensure that management’s directives of mitigating risks on achievement of objectives are carried out at all levels of the organisation including all business processes and the technology environment. The framework identifies three (3) principles that relate to control activities, namely:

- The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels;
- The organisation selects and develops general control activities over technology to support the achievement of objectives; and
- The organisation deploys control activities as manifested in policies that establish what is expected and in relevant procedures to effect the policies.

3.4.2.4 Information and communication

The COSO (2011) framework of internal control states that information and communication are necessary and must occur internally and externally to provide the organisation with the information needed for daily internal control activities. It further states that information and communication enables personnel to understand internal control responsibilities and its importance on achievements of objectives. The framework indicates three (3) principle of information and communication component of internal control:

- The organisation obtains or generates and uses relevant, quality information to support the functioning of other components of internal control;
- The organisation internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of internal control; and
- The organisation communicates with external parties regarding matters affecting the functioning of other components of internal control.
3.4.2.5 Monitoring activities

According to the COSO (2011) framework, there must be ongoing evaluations, separate evaluations or a combination of the two to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, are present and functioning. Findings must be evaluated and deficiencies communicated timeously with serious matters reported to senior management and the board (COSO, 2011). The framework depicts two (2) principles of monitoring activities, namely:

- The organisation selects, develops and performs ongoing and or separate evaluations to ascertain whether the components of internal control are present and functioning; and
- The organisation evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

3.4.3 Internal control limitations

The exploratory study conducted by Botha (2003) revealed even though internal controls are critical in respect of South African government officials, they are however subject to inherent internal control limitations or risks. In concurrence with the above COSO (2011) states that though internal control provides important benefits, limitations do exist and may result from:

- The quality and suitability of objectives established as a precondition to internal control;
- The realities that human judgment in decision making can be faulty;
- Knowing that decisions on responding to risk and establishing controls must consider the relative costs and benefits;
- Breakdowns that can occur because of human failures such as simple errors or mistakes;
- Controls that can be circumvented by collusion of two or more people; and
• The ability of management to override internal control decisions.

It becomes crucial that the possible inherent internal control limitation be investigated in the local government so that mitigating factor can be implemented. Failure to do this exposes the municipality to an unfavourable audit outcome. According to Cristian (2012), the following are alternative strategies that can be adopted for risk control:

• Acceptance (risks tolerance) - in such a situation, no measurement has to be taken, even if permanent monitoring of risk is necessary in order to find out if the exposure level is increased;

• Risks transfer - is the possibility of transferring the risk to a destination outside the organisation by signing an insurance policy;

• Risk mitigation - it involves risk control system appropriate application for reducing the identified inherent risk at a minimum level;

• Risk avoidance - this strategy consists of eliminating activities that generate risks. We must mention the fact that the option of avoiding risks is limited in the public sector compared to the private one;

• Ending risks - is achieved by stopping the activity that is generating the risk but it can affect the objectives achievement; and

• Handling difficult situations - risk response is the action phase of the risk management cycle, in which it aims for: elimination of risks, risks mitigation or to split risks. Handling difficult situations consists of a plan elaboration that aims for the impact reduction of risks that cannot be avoided.

INTOSAI (2006 cited in Luminita, 2009) holds that the creation of an internal audit unit as part of the internal control system is a strong signal by management that internal control is important. The internal audit function of government institutions must add value by contributing to the improvement of service delivery through the providing of assurance to management that risks are addressed appropriately, control systems are effective and efficient, and that governance and business practices are sound (Carhill and Kincaid 1989; Coupland 1993; Lapointe 2004; Van Gansberghe 2005, cited in Janse van Rensburg and Coetzee, 2011). Effective internal audit function in a
municipality would be of great assistance in reducing inherent internal control limitations. INTOSAI (2006 cited in Luminita, 2009) asserts that organisational changes and management attitude can have a profound impact on the effectiveness of internal control and the personnel operating the system.

It is therefore imperative that management of an organisation puts systems and internal controls in place to assist the organisation in achieving its objective effectively and efficiently and therefore achieves a favourable audit opinion. Based on the above literature it can be hypothesized that:

H3: Internal control has a positive influence on a municipality’s audit report

3.5 HUMAN RESOURCE / CAPITAL MANAGEMENT

Human capital management is one of the critical components in an organisation as it deals with its most valuable assets: employees. The human resource management (HRM) function requires the attention it deserves in the structure of the organisation which is being a strategic partner. Eastern Cape MFMA 2009-10 – General Report (2011), states that to this end the recruitment and retention of appropriately skilled financial staff should remain high on the agenda of Eastern Cape municipalities. The HRM functions of the municipalities need to respond to this challenge.

3.5.1 Definition of human resource management

According to Lahoti (2013), Human Resource Management (HRM) is the organisational function that deals with issues related to people such as compensation, hiring, performance management, organisational development, safety, wellness, benefits, employee motivation, communication, administration, and training. The writer further states that HRM is also a strategic and comprehensive approach to managing people and the work place culture and environment. Effective HRM enables employees to
contribute effectively and productively to the overall company direction and the accomplishment of the organisation’s goals and objectives (Lahoti, 2013).

Vermeulen (2008) states that HRM should affirm its influence over the institution’s strategy and provide reliable and proactive counsel and support for management unlike more than a decade ago where it was mainly responsible for standard processes such as recruitment, training, compensation, and performance management. He further states that HRM is responsible for transforming a business strategy into detailed talent management strategy. In concurrence with Vermeulen, Brewster, Carey, Dowling, Grobler, Holland and Warnich, (2010) states that organisations now require HRM to play an active role in the fight to be successful and remain competitive by cutting costs and finding creative ways to add value to the business.

3.5.2 Current human resource landscape in public sector

The study undertaken by Vermeulen (2008) revealed that the public sector portrays the reality of a skills shortage and a high turnover of staff, due to high demand for skilled and competent staff. According to Tewary (2011), the day to day activities are hampered by poor quality of staff at all levels in some municipalities. This indicates that public sector seriously needs to have a human capital management strategy as part of the organisational strategy as it cannot achieve its objective without competent human capital.

According to Kochanowski (2011), retirement by government employees has resulted in government organisations often struggling to maintain the knowledge base of previous processes and results while promoting people who are truly interested in being leaders in an agency. The writer also states that the fact that the upcoming generations of public sector workers do not share the same motivation and workplace characteristics of current exiting civil servants further complicates smooth transitions of leadership. The writer proceeds to state that government personnel systems for the most part are inflexible and slow to hire, and retention methods for workers do not encourage
succession planning. The above factors result in institutional memory being lost about how processes have evolved and where best to allocate scarce resources (Kochanowski, 2011).

Franzel (2009 cited in Kochanowski, 2011) state that, not only is government competing with the private sector for the knowledge workers needed today, but also government agencies at different levels are in competition with each other. The writer further states that issues such as the geographic location of the government position and the quality of life in an area add another layer of complexity in attracting talent. In concurrence with the above, Tewary (2011) states that most municipalities by their nature are required to be situated throughout the country and many locations do not have the necessary infrastructure to attract good quality staff and this result in workers at the lower end of the efficiency spectrum being employed to make up the numbers.

3.5.3 Human resource management strategies

Kochanowski (2011) suggests that one proven method of human capital management from the private sector is a system of succession planning and talent management. Talent management deals with the human capital of an institution and how this human capital should be retained, developed and motivated to optimise institutional performance (Vermeulen, 2008). The practices of succession planning, or planning to fill vacant positions by preparing those who are promotable, and talent management, or recognizing and nurturing employees for upward mobility, differ when applied in the public sector and as such have not been effective (Kochanowski, 2011). Qwabe and Pillay (2009), propose an innovative and learning approach where the culture of learning, innovation and development is enhanced which leads a to high performance public service. Ingraining a culture of learning requires senior managers to communicate the learning-oriented values of the organisation to employees (Govender, 2009). This is important in keeping public employees highly skilled.
The study conducted by Michie and Sheehan-Quinn (2001, cited in Ali, 2012) in the UK revealed that 'low-road' HRM practices - including short-term contracts, lack of employer commitment to job security, low levels of training and unsophisticated human resource practices - were negatively correlated with corporate performance. The study also revealed that in contrast, there is a positive correlation between good corporate performance and 'high-road' work practices - 'high-commitment' organisations or 'transformed' workplaces. This indicates the importance of implementing good human resource management practice in order to achieve high corporate performance.

According to Ali (2012), the major four stages of growth and evolution of the HRM function are:

- **Reactive Function** - here the main purpose is seen as maintaining harmony and avoiding disruption through things like strikes, and exists generally where organisations are operating in near monopoly situations with assured growth - the interactions between Human Resource and operating managers being assured under normal situations at this stage of reactive HRM.

- **Independent Function** - this function is recognised as an independent entity which means, while HR is survived in setting up industrial systems and procedures for operating managers, but is not fully responsible for the monitoring or correcting the problems in the systems - only being marginally involved in various processes and other functions or results. Other functions would mostly seek Human Resource’s help in administrative or on some specific issues, and line managers do not see Human Resource as a repository of expertise.

- **Supportive Function** - this has its own direction with distinct status within the organisation, and actively contributes to the efforts of other functions in producing results. Organisations requiring product or technology changes rapidly in a competitive scenario generally need such HR involvement with high demands for qualified and competent manpower, often in a high turnover or mobility situation. Emphasis on people development and motivation generation comes from such HR, but their understanding or involvement in the total business perspective remains limited or inadequate, even with higher functional participation.
- Integrative function - this is the stage when the competitive success of the organisation involves HRM significantly in an integrated manner, and demands such capabilities from the HR specialists. Their roles shift from a facilitator to a functional peer with competencies in other functions, and are recognized as an equal partner by the others. The typical HRM in this case is geared to contribute to organisational objectives of profitability for monitoring employees’ satisfaction, since it is seen as surrogate to customer satisfaction.

It is imperative that the human resource management function in the municipalities must function in an integrative manner to ensure effective and efficient attainment of the municipal objectives. The head of a government organisation must, through education and training of its employees, develop its human resource capacity to a level that enables it to perform its functions in an efficient, collaborative and accountable way (Holtzhausen and Naidoo, 2011).

The investigation to determine whether human capital management in the municipalities is fulfilling its role as envisaged by this literature is required. Therefore it is hypothesized that:

H4: Human capital management is has a positive influence on a municipality’s audit report.

3.6 CHAPTER SUMMARY

Literature tends to suggest that leadership, governance, systems and internal controls as well as human capital management are variables that have an effect on the organisation’s performance and its audit report outcomes. This chapter looked at these variables to give a theoretical foundation for the hypothesised model on investigation whether these have an impact on the audit report outcomes.
Leadership has been defined as the social process of influencing people to work as a team voluntarily and persistently towards purposeful organisational goals through use of a certain style. The chapter discussed various types of leadership and indicated that most research results showed that the leadership style has a significant relationship with organisational performance. The chapter also looked at critical characteristics that are essential to leadership.

The chapter looked at various definitions of governance which can be summarised as regimes of laws, rules, judicial decisions, and administrative practices that constrain, prescribe, and enable the provision of publicly supported goods and services through associations with agents in public and private sectors. Principles of governance that are critical to the public sector are also identified and explained. The chapter also indicated the eight major features of good governance.

The chapter looked into the definition of internal control which is best define by COSO (2011), as processes effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement operations, reporting and compliance objectives. Components of internal control are explained in the chapter. Internal control limitations as well as possible strategies of dealing with the limitation were also explained in the chapter.

The chapter looked at various definition of HRM by different authors which can be summarised as the organisational function that deals with issues related to people of ensuring that the organisation is provided with the right quality and quantity of personnel at the appropriate time, whilst also ensuring that such personnel is properly compensation, management, developed, safe, well, and motivation. HRM strategies were also discussed in the chapter.

The researcher’s view is that, there is no proper leadership in the South African local government environment and this is attested by the Auditor General as discussed in chapter one of the report. Governance structures are poorly formed and not properly
equipped and therefore non-functional. The internal controls are generally weak in local
government and in some municipalities, they are non-existence. The local government
HRM landscape describes a negative picture of personnel that is not having requisite
skills and lack of proper training and development. According to the researcher’s view
these are the main reasons that local government sphere has been clouded by negative
audit report outcomes.

Chapter four of the study will discuss the research design and methodology. It will look
into the definition of research, discuss various research paradigm as well the chosen
research paradigm of the study. It will also discuss how the study sample was selected.
It will further discuss the design and development of the measuring instrument as well
as its validity and reliability.
CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

The research problem statement was introduced in chapter one, together with the sub problems that the study is intending to solve. Chapter two introduced the literature review on the auditing process. Chapter three gave a theoretical foundation for the hypothesised model on investigating variables that impact the audit report outcomes.

This chapter gives an overview of the research method used in conducting the study as well as the factors that have been considered in selecting the methodology. It also looks at the research paradigm, sampling and measuring instrument that was used in conducting the study.

4.2 RESEARCH DEFINITION

4.2.1 Research definition

According to the Higher Education Research Data Collection (HERDC) (2013) of Australia, research is defined as the creation of new knowledge and or the use of existing knowledge in a new and creative way so as to generate new concepts, methodologies and understandings which could include synthesis and analysis of previous research to the extent that it leads to new and creative outcomes. The Longman dictionary (1995, cited in Kim, 2003) defines research as the studious study of a subject, which is intended to discover new facts or test new ideas; the activity of finding information about something that one is interested in or needs to know about.
Dash (1993, cited in Dash, 2005) states that educational research is essentially concerned with exploring and understanding social phenomena which are educational in nature, mainly pertaining to formalised and or spontaneously occurring social, cultural, psychological processes which could be termed as education. The writer further states that, it deals with educational questions that can be investigated in a satisfactory manner and the methods which enable such satisfactory investigation as well as the utility of results emanating from such investigation.

According to Sekaran (1992, cited in Williams, 1998) there is general agreement that research is a systematic and methodical process of inquiry and investigation that increases knowledge and/or solves a particular problem. The purpose of research, as opposed to the process, can be summarised as: to review and synthesise existing knowledge, to investigate existing situations or problems, to provide solutions to a problem, to explore and analyse more general issues, to construct or create a new procedure or system, to explain a new phenomenon or to generate new knowledge (Williams 1998).

Howard and Sharpe (1983, cited in Opie, n.d.) defines research as seeking through methodical processes to add to one’s body of knowledge and, hopefully, to that of others, by the discovery of non-trivial facts and insights. OED (2001, cited in Opie, n.d.) furthermore, defines research as a search or investigation directed to the discovery of some fact by careful consideration or study of a subject; a course of critical or scientific inquiry. It appears that there is consensus on the definition of research as indicted above.
4.3 RESEARCH PARADIGM

According to Guba and Lincoln (1994, cited in Sobh and Perry, 2006) there are three elements of paradigms that researchers either explicitly or implicitly work within, namely:

- Ontology – the reality;
- Epistemology – the relationship; and
- Methodology – the technique used by the researcher to discover reality.

In brief, a paradigm is an overall conceptual framework within which a researcher may work; that is, a paradigm can be regarded as the basic belief system or worldview that guides the investigator (Guba and Lincoln, 1994 cited in Sobh and Perry, 2006). In addition, several issues or themes which run across and through all of the classes of inquiry paradigms considered are defined and examined. These themes include (Lincoln and Guba, 2000 cited in Brennan, Voros and Brady, 2011):

- The aim or purpose of the inquiry;
- Assumptions about the nature of how knowledge accumulates;
- The voice or posture of the inquirer;
- The roles of values in inquiry; and
- The criteria for assessing the quality of work, and so on.

According to Brennan, Voros and Brady (2011), in Lincoln and Guba’s view, the different answers which are given to the basic fundamental questions actually define an inquiry paradigm, and hence characterise the stances taken on each of the main themes or issues. Paradigmatic assumptions affect, as a result, the overall methodological approach taken, the types of methods, techniques and tools that are considered appropriate, and the meanings and interpretations which are assigned to the results or data that have been generated by these practices (Brennan, Voros and Brady, 2011).
Brennan, Voros and Brady (2011) further state that there are different inquiry paradigms, which have fundamental distinctions and differences and the variations between them are apparent when the paradigms are examined side by side. The five main classes of paradigm which Lincoln and Guba consider are:

- Positivism;
- Post-positivism;
- Critical theory and its variants, or criticalism;
- Constructivism; and
- The participatory paradigm.

Sobh and Perry (2006), refer to four different paradigms of science, namely:

- Positivism;
- Realism / participatory paradigm;
- Critical theory; and
- Constructivism.

These authors argue that, underlying these four paradigms is the question of knowledge creation; that is how can the findings of one research project be generalised to other situations? Sobh and Perry (2006), explain the four paradigms as follows:

In the first of the four paradigms, positivism, knowledge is statistically generalised to a population by statistical analysis of observations about an easily accessible reality. In the second paradigm of realism, the findings of one study are extended by analytical generalisation that show how the empirical findings of a research project nestle within theories. In other words, the aim of the realism paradigm is to generalise to theoretical propositions and not to populations (Yin, 1989, cited in Sobh and Perry, 2006). In the other two paradigms of constructivism and critical theory, reality is perception and so generalisation of one research finding about someone’s perceptions to another person’s theory about reality, cannot be done. For example, in constructivism, findings are related to individual views of the world and create a world of multiple constructed realities.

To further elaborate on the four research paradigms, refer to table 1 below.
<table>
<thead>
<tr>
<th>Paradigm</th>
<th>Element</th>
<th>Positivism</th>
<th>Constructivism</th>
<th>Critical theory</th>
<th>Realism</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ontology</td>
<td>Reality is real and apprehensible</td>
<td>Multiple local and specific “constructed” realities</td>
<td>“Virtual” reality shaped by social, economic, ethnic, political, cultural, and gender values, crystallised over time</td>
<td>Reality is “real” but only imperfectly and probabilistically apprehensible and so triangulation from many sources is required to try to know it</td>
</tr>
<tr>
<td></td>
<td>Epistemology</td>
<td>Findings true – researcher is objective by viewing reality through a “one-way mirror”</td>
<td>Created findings – researcher is a “passionate participant” within the world being investigated</td>
<td>Value mediated findings – researcher is a “transformative intellectual” who changes the social world within which participants live</td>
<td>Findings probably true – researcher is value-aware and needs to triangulate any perceptions he or she is collecting</td>
</tr>
<tr>
<td></td>
<td>Common methodologies</td>
<td>Mostly concerns with a testing of theory. Thus mainly quantitative methods such as: survey, experiments, and verification of hypotheses</td>
<td>In-depth unstructured interviews, participant observation, action research, and grounded theory research</td>
<td>Action research and participant observation</td>
<td>Mainly qualitative methods such as case studies and convergent interviews</td>
</tr>
</tbody>
</table>

Source: Sobh and Perry (2006)
Dash (2005), states that since theoretical questions in education emerge from different conceptions and interpretations of social reality, different paradigms have been evolved to determine the criteria according to which one would select and define problems for inquiry. He further states that in the past century various paradigms evolved. However, there are two main paradigms to the verification of theoretical propositions, namely:

- **Positivism** (qualitative) paradigm; and
- **Anti-positivism** (interpretivism or phenomenological or qualitative) paradigm.

**Positivism paradigm** - is based on the belief that the researchers perceive the world as external and objective, and science as value free and as observers they are independent and values can be suspended in order to understand (Williams, 1998). According to Krauss (2005), positivism believes in empiricism, the idea that observation and measurement are the basis of science venture. Wardlow, (1989) as cited in Kim (2003), state that Positivism is based on the assumption that there are universal laws that govern social events, and uncovering these laws enables researchers to describe, predict, and control social phenomena.

**Anti-positivism paradigm** - is based on the belief that the researcher views the world as a socio-psychological construct where there are multiple realities forming an interconnected whole that can only be understood as these multiple realities (Williams, 1998). According to Dash (2005), anti-positivism emphasises that social reality is viewed and interpreted by the individual herself according to the ideological positions she possesses. The research paradigm will determine the approach that the researcher will follow in his or her study. The researcher might decide to make use of both approaches.

To further elaborate on the two main research paradigms, refer to table 2 below.
### TABLE 4.2: RESEARCH PARADIGM, APPROACH, METHODS AND EXAMPLES

<table>
<thead>
<tr>
<th>Research paradigms</th>
<th>Research approach</th>
<th>Research methods</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Positivism         | Quantitative      | Surveys: longitudinal, cross-sectional, correlational; experimental, and quasi-experimental and ex-post facto research | - Attitude of distance learners towards online based education  
- Relationship between students’ motivation and their academic achievement.  
- Effect of intelligence on the academic performances of primary school learners |
| Anti-positivism    | Qualitative       | Biographical, Phenomenological, Ethnographical case study | - A study of autobiography of a great statesman.  
- A study of dropout among the female students  
- A case study of an open distance learning Institution in a country. |

Source: Dash (2005)

#### 4.3.1 Chosen paradigm

The study is located in the positivism paradigm and a quantitative approach was followed in conducting the study. The writer was objective in conducting the study and did not allow his perceptions to influence the findings. The writer is of the view that the topic under research is a subject of interest to all employees let alone those at senior level in local government and therefore does not require participants that are specialists where a phenomenological paradigm would have been preferred. The quantitative approach will also allow for cross-sectional correlation testing between variable.
4.4 THE SAMPLE

According to Collis and Hussey (2009), a sample is an unbiased subset that represents the population and a population is a body of people or collection of items under consideration for statistical purposes. They further state that if the population is relatively small, you can select the whole population, otherwise you will need to select a random sample. Wegner (2010), states that a sample must be representative of all the members of the target population if it is to produce valid and precise statistical inference of population parameters based on sample evidence.

According to Wegner (2010), there are two basic methods of sampling, namely:

- Probability sampling – is where the sampling members are selected from the target population purely on a random bases; and
- Non-probability sampling is where criteria other than random selection are used as the basis for choosing the sample members of the population.

Probability sampling methods are simple random sampling, systematic random sampling, stratified random sampling and cluster random sampling. Non-probability sampling methods are convenience sampling, judgment sampling, quota sampling and snowball sampling (Wegner, 2010).

The convenience sampling method was used in the study to select management and other middle level officials of all municipalities that are in the Alfred Nzo District. The Alfred Nzo District was selected for convenience to avoid time delays and high costs. The level of official that participated in the study is critical in ensuring that the information they provide is reliable and valid.
4.5 MEASURING INSTRUMENT

Collis and Hussey (2009), state that there are two main collection methods that are commonly used in positivist studies, namely:

- **Questionnaire** – a list of carefully structure questions, which have been chosen after considerable testing with the view to eliciting reliable responses from a particular group of people; and
- **Interview** – where selected participants are asked questions to find out what they think or feel.

According to Malhotra (2012), a questionnaire is a formalised set of questions for obtaining information from respondents with the objective of translating the researcher’s information needs into a set of specific questions that respondents are willing and able to answer. A questionnaire enables quantitative data to be collected in a standardised way so that the data are internally consistent and coherent for analysis (Malhotra, 2012). In this study primary data are collected through a self-constructed questionnaire whereas secondary data are collected through a literature review.

4.5.1 Questionnaire design and development

The design of a questionnaire is critical in ensuring that questions asked are relevant to the research objective that accurate and appropriate data is collected for analysis (Wegner, 2010). According to Malhotra (2012), the researcher can use either:

- Unstructured questions open-ended questions that respondents answer in their own words and they are also referred to as free-response or free-answer questions; or
- Structured questions that specify the set of responses as well as their format, which may be multiple-choices, or a scale.
According to Malhotra (2012), the language used and the context of the questions must all be familiar to the respondents as failure to keep in mind the characteristics of the respondents, particularly their educational level and experience may lead to a high incidence of uncertain or no opinion responses. Malhotra (2012) also argues that, even if respondents are able to answer a particular question, they may be unwilling to do so due to a variety of circumstances; for example, the respondent may feel there is simply too much effort involved, or that the information requested is too sensitive. The writer further states that questions, which may be nice to know but that do not directly, address the research problem should be eliminated.

Malhotra (2012) goes on to state that, on forced rating scales the respondents are forced to express an opinion, because a “no opinion or neutral” option is not provided whereas, on non-forced scale the respondents are expected to have no opinion, as opposed to simply being reluctant to disclose it, the accuracy of data may be improved by including a “no opinion” category.

The questionnaire of this study consisted of a covering letter that explained the purpose of the study as well as requesting the participation of the respondent. Following the covering letter were the questionnaire instructions. The structure of the questionnaire encompassed the first four sections that relate to the study’s independent variables with a Likert rating scale of strongly disagree (1) to strongly agree (5). The fifth section of the questionnaire pertained to a biographical questionnaire and lastly, the sixth section has identification. The following illustrates the structure of the questionnaire:

Section A: Leadership
Section B: Governance
Section C: Internal Controls
Section D: Human Capital (Resource) Management
Section E: Biographical Profile
Section F: Identification
Though all the respondents are expected to have an opinion the no opinion or neutral rating has been provided in the questionnaire to accommodate those employees that might have newly joined the municipalities and therefore do not have an opinion. The language used in the development of the questionnaire as well as the type of questions asked have been aligned to education and work experience level of the respondents. Its design has been informed by the purpose of the study and the type of data that is required to address the objective of the study. The questionnaire has been designed to be only composed of critical and must have questions required to address the research objectives. The questionnaire was physically distributed to and from the selected participants. The tools utilised in the study to perform statistical analysis are Microsoft Excel and Statistica.

4.6 VALIDITY AND RELIABILITY OF THE MEASURING INSTRUMENT

According to Kimberlin and Winterstein (2008), key indicators of the quality of a measuring instrument are the reliability and validity of the measures and the process of developing and validating an instrument is in large part focused on reducing error in the measurement process. They further state that reliability estimates evaluate the stability of measures, internal consistency of measurement instruments, and interpret reliability of instrument scores. On the other hand Kimberlin and Winterstein (2008), state that validity is the extent to which the interpretations of the results of a test are warranted, which depends on the particular use the test is intended to serve. It is critical for the researcher to make use of the correct data collection method in order to obtain reliable and valid information.

4.6.1 Validity of the measuring instrument

According to Tavakol and Dennick (2011), validity is concerned with the extent to which an instrument measures what it is intended to measure. According to Lancaster (2005), the pilot study assists in refining the questionnaire as a collecting instrument and thus tests its suitability. The pilot study was conducted with twelve Eastern Cape Provincial
Planning and Treasury employees that are responsible for supporting municipalities in an effort to improve its audit report outcomes. The intention of the pilot study was to validate the questionnaire as the data collecting tool of the study. The feedback received from the pilot study on the questionnaire gave the researcher an opportunity to improve the data collecting instrument. The questionnaire that was used in the pilot study was improved using feedback from the pilot study resulting in the final questionnaire that was used in the actual data collection.

4.6.2 Reliability of the measuring instrument

According to Tavakol and Dennick (2011), reliability is concerned with the ability of an instrument to measure consistently. The writers further state that Alpha was developed by Lee Cronbach in 1951 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1. In concurrence with the above, Ho Yu (n.d.), reliability can be expressed in terms of stability, equivalence, and consistency which is commonly expressed in the form of Cronbach Coefficient Alpha. Internal consistency describes the extent to which all the items in a test measure the same concept or construct and hence it is connected to the inter-relatedness of the items within the test (Tavakol and Dennick, 2011). It is also important to note that Alpha is a property of the scores on a test from a specific sample and therefore investigators should not rely on published Alpha estimates but should measure Alpha each time the test is administered (Tavakol and Dennick, 2011). According to Gliem and Gliem (2003), when using Likert-type scales it is imperative to calculate and report Cronbach’s Alpha coefficient for internal consistency reliability for any scales or subscales used in the study. Arnolds and Boshoff (2001) suggest that a Cronbach Alpha of 0.5 is regarded in as acceptable for basic research and a scale that produces a reliability coefficient of above 0.7, is regarded as a reliable instrument.
The reliability of the measuring instrument in the study was measured through Cronbach Coefficient Alpha and the results are reflected in table 4.3 below. It reflects that all the measuring instruments have Cronbach Alpha coefficients that are above 0.7 and close to 1.

**TABLE 4.3: CRONBACH COEFFICIENT ALPHA OF MEASURING INSTRUMENTS**

<table>
<thead>
<tr>
<th>Measuring Instrument</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>0.97</td>
</tr>
<tr>
<td>Governance</td>
<td>0.95</td>
</tr>
<tr>
<td>Internal Controls</td>
<td>0.96</td>
</tr>
<tr>
<td>Human Capital Management</td>
<td>0.94</td>
</tr>
</tbody>
</table>

Source: Author’s own construction

**4.7 CHAPTER SUMMARY**

The chapter provided discussion on the methodology used to conduct the research study. It started by defining research as well as the research paradigm, giving available main classes of the research paradigm. The chapter indicated that this study is located in the positivism paradigm and it followed a quantitative approach. Sampling and its types were discussed in the chapter. The chapter also gave an indication that convenience sampling method was used in the study.

The chapter further discussed the possible measuring instruments. The study used questionnaire as the instrument of measure. The design and structure of the questionnaire was also discussed in the chapter. Lastly, the chapter discussed the validity and reliability of the measuring instrument wherein results of measuring reliability of the measuring instrument were presented.

The following chapter (Chapter Five) will provide analysis and discussion of the descriptive statistics as well as the empirical results.
CHAPTER 5

THE ANALYSIS AND DISCUSSION OF DESCRIPTIVE STATISTICS AND EMPIRICAL RESULTS

5.1 INTRODUCTION

Chapter four discussed the research methodology of the study. This chapter presents analysis and discussion of the study’s empirical results.

The primary objective of the study was to investigate variables that have an impact on the audit report outcomes on annual financial statements of the Municipalities that are within the Alfred Nzo District Jurisdiction, including Alfred Nzo District Municipality. This entailed investigating the root causes of the audit report outcomes with a specific focus on the relationship that exists between the management role and audit outcomes of the selected Municipalities. The approach was to measure the following variables that have been identified through literature review: leadership, governance, internal controls and human capital management, and to measure these at the municipalities.

The Microsoft computer programme was used to perform data analysis of responses to questionnaires that were sent to municipal employees in the Alfred Nzo District.
The results reveal that, out of the 150 questionnaire that were sent out to the selected sample, 103 were received back, giving a response rate of 69% as depicted in Figure 5.1 below.

**FIGURE 5.1: GRAPHIC PRESENTATION OF RESPONSE RATE**

![Response Rate Pie Chart]

Source: Author’s own construction
5.2 ANALYSIS AND INTERPRETATION OF BIOGRAPHICAL PROFILE

Figure 5.2 depicts that 47% of the respondents were males whilst 53% were females giving an almost balanced gender response rate.

FIGURE 5.2: GRAPHIC PRESENTATION OF RESPONSE RATE BY GENDER

Source: Author’s own construction
Figure 5.3 illustrates the employment level breakdown of the respondents who participated in the survey. It indicates that 49% of the respondents are employed below the supervisor level, followed by 20% of respondents that are at supervisor level, followed by employees that are employed as managers at 17% and lastly senior management employees at 15%. Thus, 52% of the respondents have a leadership responsibility to play in their area of employment ranging from supervisory to senior management level.

FIGURE 5.3: GRAPHIC PRESENTATION OF RESPONSE RATE BY EMPLOYMENT LEVEL

Source: Author’s own construction
Figure 5.4 gives a graphic presentation of the work experience of the 103 respondents who participated in the study. It reflects that 42% of the respondents have work experience of above 5 to 10 years working experience, followed by employees that have work experience of 0 to 5 years, making up 31% of the total respondents. This is followed by employees that have work experience of 10 to 15 years at 16% and lastly 11% of the respondents have work experience of above 15 years. Thus, 69% of the respondents have work experience that is above 5 years and these are employees who should be well experienced to make an informed opinion about the study.

FIGURE 5.4: GRAPHIC PRESENTATION OF RESPONSE RATE BY WORK EXPERIENCE

Source: Author’s own construction
Figure 5.5 depicts the academic level of the 103 respondents who participated in the study. The employees with Diploma/Degree academic level made up the majority of the respondents making up 63% of the 103 respondents. Employees with an academic level of Matric to N6 is the second highest category, making up 25%, followed by employees that have an Honours academic level making up 9% of the total respondents and lastly, employees that have Masters and above academic level make up 4% of the total respondents.

FIGURE 5.5: GRAPHIC PRESENTATION OF RESPONSE RATE BY ACADEMIC LEVEL

<table>
<thead>
<tr>
<th>Academic Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matric to N6</td>
<td>25%</td>
</tr>
<tr>
<td>Diploma/Degree</td>
<td>63%</td>
</tr>
<tr>
<td>Honours</td>
<td>9%</td>
</tr>
<tr>
<td>Masters and above</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
Figure 5.6 gives the breakdown per employer of the 103 respondents who participated in the study. It indicates that 26% of the respondents are employed by Matatiele Local Municipality, followed by employees of Alfred Nzo District Municipality who make up 24%, followed by Mbizana Local Municipality at 18%, Umzimvubu Local Municipality at 17% and Ntabankulu Local Municipality at 15% of the total respondents.

**FIGURE 5.6: GRAPHIC PRESENTATION OF RESPONSE RATE BY EMPLOYER**

![Bar chart showing response rates by employer]

Source: Author’s own construction
The table below (Table 5.1) gives the breakdown of the 103 respondents who participated in the study according to the departments they work for in their respective municipalities. The majority of the respondents are working in the budget and treasury (finance) department (37%). This was the targeted department as this is where the AFS are residing in the municipalities and therefore its employees are more interested in the audit report outcome of the AFS. The rest of the departments each comprised between 11% and 15% of the respondents.

**TABLE 5.1: RESPONSE RATE BY DEPARTMENT**

<table>
<thead>
<tr>
<th>Department</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget and Treasury/Finance</td>
<td>37%</td>
</tr>
<tr>
<td>Infrastructure/Technical</td>
<td>12%</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>13%</td>
</tr>
<tr>
<td>Planning &amp; Economic Development</td>
<td>11%</td>
</tr>
<tr>
<td>Community/Social Services</td>
<td>15%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author's own construction

**5.3 DESCRIPTIVE STATISTICS, EMPIRICAL RESULTS ANALYSIS AND INTERPRETATION**

Based on the literature study conducted, four independent variables that could have an impact on the AFS audit report outcomes were identified, namely: leadership, governance, internal controls and human capital management. An empirical study was also conducted to test if indeed the above identified independent variables have an impact on the AFS audit report outcomes. This section of the chapter presents the findings of the empirical study.
The two (Matatiele and Umzimvubu) of the five municipalities that were used to conduct the empirical study have received unqualified audit report outcomes for the past two audited financial years. Alfred Nzo received a disclaimer audit opinion for the past two audited financial years. Mbizana received a disclaimer and an adverse audit opinion respectively. Ntabankulu received a qualified audit opinion.

According to Wegner (2010), a central location statistic is a single number that gives a sense of the concentration of data values is a sample. The writer states that an arithmetic mean is one of the three commonly used central location statistics. An arithmetic mean (mean) is that value that lies at the centre of a set of data values. The mean is used below to analyse and interpret the empirical results of the study.

Dispersion or spread refers to the extent to which the data values scatter about the central location values and this influences the confidence that an analyst can have in the representativeness and reliability or stability of the central location measures (Wegner, 2010). Standard deviation as one of the methods of expressing dispersion is used in the analysis and interpretation of the empirical results.

According to Wegner (2010), the p-value is the probability of observing the sample statistic or a more extreme value of it if the null hypothesis were true. The writer further states that, a small p-value (that is closer to zero) indicates a low probability of observing the computed sample statistic if the null hypothesis were true, therefore providing stronger evidence to reject the null hypothesis in favour of an alternative hypothesis. The writer also states that a large p-value (that is closer to one) indicates a high probability of observing the computed sample statistic if the null hypothesis were true, therefore providing stronger evidence to support the null hypothesis. The p-value is used in the analysis and interpretation of the empirical results.
On analysis of the empirical results it has been observed that there is a general tendency of employees that are at lower levels (below supervisor to supervisor) to disagree if there is appropriate leadership in their municipalities, whilst employees that are at higher level (supervisor to senior management) agree that there is appropriate leadership in their municipalities. This could be due to the fact that that employees that are at high level are responsible for ensuring that there is proper leadership, governance, internal controls and human capital management in their municipalities and therefore are unlikely to rate themselves poorly.

5.3.1 Leadership

Table 5.2 and figure 5.7 below gives a breakdown and snap shot overview of the responses on leadership per question. The average response rate on leadership was: disagreed = 44%, neutral = 11% and lastly agree = 45%.

**TABLE 5.2: DESCRIPTIVE STATISTICS ON LEADERSHIP**

<table>
<thead>
<tr>
<th>LEADERSHIP</th>
<th>Disagree to Strongly Disagree</th>
<th>Neutral</th>
<th>Agree to Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>There is strong leadership in my municipality</td>
<td>40%</td>
<td>11%</td>
<td>50%</td>
<td>3.17</td>
</tr>
<tr>
<td>A2</td>
<td>Leadership in my municipality is leading by example</td>
<td>42%</td>
<td>9%</td>
<td>50%</td>
<td>3.11</td>
</tr>
<tr>
<td>A3</td>
<td>Leadership in my municipality follows set procedures and policies</td>
<td>45%</td>
<td>10%</td>
<td>46%</td>
<td>3.07</td>
</tr>
<tr>
<td>A4</td>
<td>Leadership in my municipality is taking responsibility by ensuring that set targets are achieved</td>
<td>34%</td>
<td>15%</td>
<td>51%</td>
<td>3.33</td>
</tr>
<tr>
<td>A5</td>
<td>Leadership in my municipality encourages and motivates employees</td>
<td>57%</td>
<td>11%</td>
<td>32%</td>
<td>2.63</td>
</tr>
<tr>
<td>A6</td>
<td>Leadership in my municipality is ethical and transparent</td>
<td>49%</td>
<td>13%</td>
<td>39%</td>
<td>2.81</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
FIGURE 5.7: OVERVIEW OF RESPONSE RATE ON LEADERSHIP

Source: Author’s own construction
Table 5.3 below gives the breakdown of the respondents on leadership by employment level. It depicts a mean of 2.44 for employees that are below supervisor level, 3.02 for supervisor level, 3.53 for managers and 4.39 for senior managers. It also indicates that the lower level employees represent the highest number of respondents (49 below supervisor and 20 supervisor employees out of the total 101 employees that indicated their employment level). Therefore the low level employees score had a huge effect on the overall mean of 3.03 as they make up the majority of the sample. The table also depicts a higher standard deviation in the lower employment levels (below supervisor 1.05, supervisor 1.04) whilst it is lower in the higher employment levels (manager 0.92, senior manager 0.43).

**TABLE 5.3: MEAN AND STANDARD DEVIATION BY EMPLOYMENT LEVEL ON LEADERSHIP**

<table>
<thead>
<tr>
<th>Employment Level</th>
<th>A_score Mean</th>
<th>A_score N</th>
<th>A_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Supervisor</td>
<td>2.44</td>
<td>49</td>
<td>1.05</td>
</tr>
<tr>
<td>Supervisor</td>
<td>3.02</td>
<td>20</td>
<td>1.04</td>
</tr>
<tr>
<td>Manager</td>
<td>3.53</td>
<td>17</td>
<td>0.92</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>4.39</td>
<td>15</td>
<td>0.43</td>
</tr>
<tr>
<td><strong>All Groups</strong></td>
<td><strong>3.03</strong></td>
<td><strong>101</strong></td>
<td><strong>1.18</strong></td>
</tr>
</tbody>
</table>

Source: Author’s own construction
Table 5.4 above depicts a mean of 3.02 on responses provided by the municipalities in the Alfred Nzo District on leadership questions which indicate a neutral response. It also reflects a standard deviation of 1.18 which indicates low dispersion. When looking on each municipality, Umzimvubu and Matatiele Local Municipalities indicate means that are above 3 (3.51 and 3.36 respectively) which indicates that employees in these municipalities agree that there is appropriate leadership. The three municipalities, Alfred Nzo District Municipality, Mbizana and Ntabankulu Local Municipalities have a mean that is below 3 (2.96, 2.30 and 2.89 respectively) giving an indication that respondents think that there is no appropriate leadership in their municipalities.

The above suggests that there is evidence though not strong that leadership has an impact on audit report outcomes as the two municipalities that have been receiving favourable (unqualified) audit report outcomes have appropriate leadership whilst three municipalities that have been receiving unfavourable (qualified, adverse and disclaimer) audit report outcomes have no appropriate leadership.
Hypothesis H1 stated that leadership has a positive influence on a municipality’s audit report. The null hypothesis formulated in this regard was:

H01: Leadership has no influence on a municipality’s audit report.

According to the respondents, leadership has a strong (p-value = 0.0131 < 0.05) influence on Municipality’s audit report. The hypothesis H1 is therefore supported, while the null hypothesis H01 is not supported. This means improving leadership will result in an improved audit report.

5.3.2 Governance

Table 5.5 and figure 5.8 below gives a breakdown and snapshot overview of the responses on governance per question. The average response rate on governance was: disagreed = 41%, neutral = 13% and lastly agree = 46%.

**TABLE 5.5: DESCRIPTIVE STATISTICS ON GOVERNANCE**

<table>
<thead>
<tr>
<th>GOVERNANCE</th>
<th>Disagree to Strongly Disagree</th>
<th>Neutral</th>
<th>Agree to Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1 [There are clear rules and guideline that are followed in my municipality]</td>
<td>40%</td>
<td>7%</td>
<td>53%</td>
<td>3.18</td>
<td>1.21</td>
</tr>
<tr>
<td>B2 [There is effective and efficient organisational structure in my municipality]</td>
<td>37%</td>
<td>8%</td>
<td>52%</td>
<td>3.29</td>
<td>1.20</td>
</tr>
<tr>
<td>B3 [There are effective and efficient systems in place in my municipality]</td>
<td>44%</td>
<td>10%</td>
<td>47%</td>
<td>3.02</td>
<td>1.16</td>
</tr>
<tr>
<td>B4 [The systems in my municipality ensure that rules are followed]</td>
<td>54%</td>
<td>12%</td>
<td>34%</td>
<td>2.74</td>
<td>1.14</td>
</tr>
<tr>
<td>B5 [The audit committee in my municipality is efficient and effective]</td>
<td>30%</td>
<td>29%</td>
<td>41%</td>
<td>3.07</td>
<td>1.06</td>
</tr>
<tr>
<td>B6 [Political oversight is vigorously undertaken in my municipality]</td>
<td>39%</td>
<td>15%</td>
<td>47%</td>
<td>3.04</td>
<td>1.21</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
FIGURE 5.8: OVERVIEW OF RESPONSE RATE ON GOVERNANCE

Governance

- B1 There are clear rules and guideline that are followed in my municipality
- B2 There is effective and efficient organisational structure in my municipality
- B3 There are effective and efficient systems in place in my municipality
- B4 The systems in my municipality ensure that rules are followed
- B5 The audit committee in my municipality is efficient and effective
- B6 Political oversight is vigorously undertaken in my municipality

Source: Author’s own construction
Table 5.6 below gives the breakdown of the respondents on governance by employment level. It depicts a mean of 2.54 for employees that are below supervisor level, 3.22 for supervisor level, 3.48 for managers and 4.08 for senior managers. It also indicates that the lower level employees represent the highest number of respondents (49 below supervisor and 20 supervisor employees out of the total 101 employees that indicated their employment level). Therefore the low level employees had a huge effect on the overall mean of 3.06. The table also depicts a higher standard deviation in the lower employment levels (below supervisor 0.96, supervisor 0.96) whilst it is lower in the higher employment levels (manager 0.84, senior manager 0.35). The standard deviation is generally low in all the employment levels as it is below 1. This indicates low dispersion in all levels of employment.

**TABLE 5.6: MEAN AND STANDARD DEVIATION BY EMPLOYMENT LEVEL ON GOVERNANCE**

<table>
<thead>
<tr>
<th>Emp_Level</th>
<th>B_score Mean</th>
<th>B_score N</th>
<th>B_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Supervisor</td>
<td>2.54</td>
<td>49</td>
<td>0.96</td>
</tr>
<tr>
<td>Supervisor</td>
<td>3.22</td>
<td>20</td>
<td>0.96</td>
</tr>
<tr>
<td>Manager</td>
<td>3.48</td>
<td>17</td>
<td>0.84</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>4.08</td>
<td>15</td>
<td>0.35</td>
</tr>
<tr>
<td><strong>All Groups</strong></td>
<td><strong>3.06</strong></td>
<td><strong>101</strong></td>
<td><strong>1.04</strong></td>
</tr>
</tbody>
</table>

Source: Author’s own construction
TABLE 5.7: P-VALUE, MEAN AND STANDARD DEVIATION BY EMPLOYER ON GOVERNANCE

<table>
<thead>
<tr>
<th>Employer</th>
<th>B_score Mean</th>
<th>B_score N</th>
<th>B_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfred Nzo</td>
<td>3.01</td>
<td>25</td>
<td>1.11</td>
</tr>
<tr>
<td>Matatiele</td>
<td>3.32</td>
<td>27</td>
<td>1.00</td>
</tr>
<tr>
<td>Mbizana</td>
<td>2.34</td>
<td>19</td>
<td>0.82</td>
</tr>
<tr>
<td>Ntabankulu</td>
<td>2.99</td>
<td>15</td>
<td>1.00</td>
</tr>
<tr>
<td>Umzimvubu</td>
<td>3.57</td>
<td>17</td>
<td>0.90</td>
</tr>
<tr>
<td>All Groups</td>
<td>3.06</td>
<td>103</td>
<td>1.04</td>
</tr>
</tbody>
</table>

Source: Author’s own construction

Table 5.7 above depicts a mean of 3.06 on responses provided by the municipalities in the Alfred Nzo District on governance questions which indicates a neutral response. It also reflects a standard deviation of 1.04 which indicates low dispersion. However, the two municipalities, Umzimvubu and Matatiele indicate means that are above 3 (3.57 and 3.32 respectively) which indicate that employees in these municipalities agree that there is appropriate governance. Alfred Nzo District Municipality reflects a mean of 3.01 whilst Mbizana and Ntabankulu Local Municipalities have a mean that is below 3 (2.34 and 2.99 respectively) giving a neutral feeling on governance for Alfred Nzo District Municipality and an indication of no appropriate governance in Mbizana and Ntabankulu Local Municipalities.

The above suggests that there is evidence, though not strong that governance has an impact on audit report outcomes as the two municipalities that have been receiving favourable (unqualified) audit report outcomes have appropriate governance whilst three municipalities that have been receiving unfavourable (qualified, adverse and disclaimer) audit outcomes indicate either a neutral feeling or disagreement that there is appropriate governance in their municipalities.
Hypothesis H2 stated that governance has a positive influence on a municipality’s audit report. The null hypothesis formulated in this regard was:

H02: Governance has no influence on a municipality’s audit report.

According to the respondents, governance has a strong (p-value = 0.0035 < 0.05) influence on a municipality’s audit report. The hypothesis H2 is therefore supported, while the null hypothesis H02 is not supported. This means improving governance will result in an improved audit report.

5.3.3 Internal controls

Table 5.8 and figure 5.9 below give a breakdown and snap shot overview of the responses on internal controls per question. The average response rate on internal controls was: disagreed = 45%, neutral = 9% and lastly agree = 46%.

**TABLE 5.8: DESCRIPTIVE STATISTICS ON INTERNAL CONTROLS**

<table>
<thead>
<tr>
<th>INTERNAL CONTROLS</th>
<th>Disagree to Strongly Disagree</th>
<th>Neutral</th>
<th>Agree to Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1 There are sound internal controls in my municipality</td>
<td>41%</td>
<td>8%</td>
<td>50%</td>
<td>3.10</td>
<td>1.16</td>
</tr>
<tr>
<td>C2 There is internal audit function that is efficient and effective in my municipality</td>
<td>43%</td>
<td>7%</td>
<td>47%</td>
<td>3.05</td>
<td>1.15</td>
</tr>
<tr>
<td>C3 Internal controls are practiced in all departments in my municipality</td>
<td>46%</td>
<td>6%</td>
<td>42%</td>
<td>2.92</td>
<td>1.16</td>
</tr>
<tr>
<td>C4 Internal controls are obeyed at all levels of employees in my municipality</td>
<td>50%</td>
<td>6%</td>
<td>35%</td>
<td>2.79</td>
<td>1.15</td>
</tr>
<tr>
<td>C5 Failure to obey internal controls result into a disciplinary action in my municipality</td>
<td>47%</td>
<td>10%</td>
<td>41%</td>
<td>2.90</td>
<td>1.27</td>
</tr>
<tr>
<td>C6 Policies and procedure are in place in my municipality</td>
<td>39%</td>
<td>17%</td>
<td>54%</td>
<td>3.28</td>
<td>1.24</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
FIGURE 5.9: OVERVIEW OF RESPONSE RATE ON INTERNAL CONTROLS

Internal Controls

- C1 There are sound internal controls in my municipality
- C2 There is internal audit function that is efficient and effective in my municipality
- C3 Internal controls are practiced in all departments in my municipality
- C4 Internal controls are obeyed at all levels of employees in my municipality
- C5 Failure to obey internal controls result into a disciplinary action in my municipality
- C6 Policies and procedure are in place in my municipality

Source: Author’s own construction
Table 5.9 below gives the breakdown of the respondents on internal controls by employment level. It depicts a mean of 2.47 for employees that are below supervisor level, 3.19 for supervisor level, 3.50 for managers and 3.90 for senior managers. It also indicates that the lower level employees represent the highest number of respondents (49 below supervisor and 20 supervisor employees out of the total 101 employees that indicated their employment level). Therefore the low level employees had a huge effect on the overall mean of 3.00. The table also depicts a higher standard deviation in the lower employment levels (below supervisor 1.09, supervisor and manager 0.92) whilst it is lower in the higher employment level (senior manager 0.41). The standard deviation is generally low in all the employment levels as it is below 1 from supervisor to senior manager level and 109 for below supervisor level. This indicates low dispersion in all levels of employment.

**TABLE 5.9: MEAN AND STANDARD DEVIATION BY EMPLOYMENT LEVEL ON INTERNAL CONTROLS**

<table>
<thead>
<tr>
<th>Emp_Level</th>
<th>C_score Mean</th>
<th>C_score N</th>
<th>C_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Supervisor</td>
<td>2.47</td>
<td>49</td>
<td>1.09</td>
</tr>
<tr>
<td>Supervisor</td>
<td>3.19</td>
<td>20</td>
<td>0.92</td>
</tr>
<tr>
<td>Manager</td>
<td>3.50</td>
<td>17</td>
<td>0.92</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>3.90</td>
<td>15</td>
<td>0.41</td>
</tr>
<tr>
<td>All Groups</td>
<td>3.00</td>
<td>101</td>
<td>1.10</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
TABLE 5.10: P-VALUE, MEAN AND STANDARD DEVIATION BY EMPLOYER ON INTERNAL CONTROLS

<table>
<thead>
<tr>
<th>Employer</th>
<th>C_score Mean</th>
<th>C_score N</th>
<th>C_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfred Nzo</td>
<td>2.96</td>
<td>25</td>
<td>1.04</td>
</tr>
<tr>
<td>Matatiele</td>
<td>3.44</td>
<td>27</td>
<td>1.06</td>
</tr>
<tr>
<td>Mbizana</td>
<td>2.09</td>
<td>19</td>
<td>0.71</td>
</tr>
<tr>
<td>Ntabankulu</td>
<td>3.00</td>
<td>15</td>
<td>1.06</td>
</tr>
<tr>
<td>Umzimvubu</td>
<td>3.41</td>
<td>17</td>
<td>1.04</td>
</tr>
<tr>
<td><strong>All Groups</strong></td>
<td><strong>3.01</strong></td>
<td><strong>103</strong></td>
<td><strong>1.09</strong></td>
</tr>
</tbody>
</table>

Source: Author’s own construction

Table 5.10 above depicts a mean of 3.01 on responses provided by the municipalities in the Alfred Nzo District on the internal controls questions, which indicate a neutral response. It also reflects a standard deviation of 1.09 which indicates low dispersion. When examining each municipality, the two municipalities, Umzimvubu and Matatiele indicate means that are above 3 (3.41 and 3.44 respectively) which indicate that employees in these municipalities agree that there are appropriate internal controls. Ntabankulu Local Municipality reflects a mean of 3.00 whilst Alfred Nzo District Municipality and Mbizana Local Municipalities have a mean that is below 3 (2.96 and 2.09 respectively) giving a neutral feeling on internal controls for Ntabankulu Local Municipalities and an indication of no appropriate internal controls in Alfred Nzo District Municipality and Mbizana Local Municipality.

The above suggests that there is evidence, though not strong, that internal controls have an impact on audit report outcomes as it indicates that the two municipalities that have been receiving favourable (unqualified) audit report outcomes have appropriate internal controls whilst the three municipalities that have been receiving unfavourable (qualified, adverse and disclaimer) audit report outcomes have either a neutral feeling or disagree that there are appropriate internal controls in their municipalities.
Hypothesis H3 stated that internal controls have a positive influence on a municipality’s audit report. The null hypothesis formulated in this regard was:

\[ H_0^3: \text{internal controls have no influence on a municipality’s audit report.} \]

According to the respondents, internal controls have an overwhelming (p-value = 0.0002 < 0.05) influence on a municipality’s audit report. The hypothesis H3 is therefore supported, while the null hypothesis H03 is not supported. This means improving internal controls will result into improved audit report.

### 5.3.4 Human capital management

Table 5.11 and figure 5.10 below gives a breakdown and snap shot overview of the responses on human capital management per question. The average response rate on human capital management was: disagreed = 45%, neutral = 11% and lastly agree = 44%.

#### TABLE 5.11: DESCRIPTIVE STATISTICS ON HUMAN CAPITAL MANAGEMENT

<table>
<thead>
<tr>
<th>HUMAN CAPITAL (RESOURCE) MANAGEMENT</th>
<th>Disagree to Strongly Agree</th>
<th>Neutral</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>D1 There is effective human resource management function or department in my municipality.</td>
<td>36%</td>
<td>8%</td>
<td>3.21</td>
</tr>
<tr>
<td>D2 Human resource department ensures that employees are efficiently utilised to achieve the municipality’s goal.</td>
<td>51%</td>
<td>12%</td>
<td>2.80</td>
</tr>
<tr>
<td>D3 There are competent employees to perform all the required tasks in my municipality.</td>
<td>40%</td>
<td>9%</td>
<td>3.14</td>
</tr>
<tr>
<td>D4 The remuneration offered by my municipality is fairly competitive.</td>
<td>40%</td>
<td>16%</td>
<td>2.97</td>
</tr>
<tr>
<td>D5 There is proper training offered in my municipality.</td>
<td>49%</td>
<td>7%</td>
<td>2.86</td>
</tr>
<tr>
<td>D6 There are employee personal growth opportunities in my municipality.</td>
<td>53%</td>
<td>16%</td>
<td>2.61</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
FIGURE 5.10: OVERVIEW OF RESPONSE RATE ON HUMAN CAPITAL MANAGEMENT

Source: Author’s own construction
Table 5.12 below gives the breakdown of the respondents on human capital management by employment level. It depicts a mean of 2.34 for employees that are below supervisor level, 3.16 for supervisor level, 3.43 for managers and 3.99 for senior managers. It also indicates that the lower level employees represent the high number of respondents (49 below supervisor and 20 supervisor employees out of the total 101 employees that indicated their employment level). Therefore the low level employees had a huge effect on the overall mean of 2.93. The table also depicts higher standard deviation in the lower employment levels (below supervisor 0.98 and supervisor 0.91) whilst it is lower in the higher employment level (manager 0.87, senior manager 0.41). The standard deviation is generally low in all the employment levels as it is below 1 supervisor to senior manager level and 109 for below supervisor level. This indicates low dispersion in all levels of employment.

**TABLE 5.12: MEAN AND STANDARD DEVIATION BY EMPLOYMENT LEVEL ON HUMAN CAPITAL MANAGEMENT**

<table>
<thead>
<tr>
<th>Emp_Level</th>
<th>D_score Mean</th>
<th>D_score N</th>
<th>D_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Supervisor</td>
<td>2.34</td>
<td>49</td>
<td>0.98</td>
</tr>
<tr>
<td>Supervisor</td>
<td>3.16</td>
<td>20</td>
<td>0.91</td>
</tr>
<tr>
<td>Manager</td>
<td>3.43</td>
<td>17</td>
<td>0.87</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>3.99</td>
<td>15</td>
<td>0.41</td>
</tr>
<tr>
<td>All Groups</td>
<td>2.93</td>
<td>101</td>
<td>1.07</td>
</tr>
</tbody>
</table>

Source: Author’s own construction
TABLE 5.13: P-VALUE, MEAN AND STANDARD DEVIATION BY EMPLOYER ON HUMAN CAPITAL MANAGEMENT

<table>
<thead>
<tr>
<th>Employer</th>
<th>D_score Mean</th>
<th>D_score N</th>
<th>D_score Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfred Nzo</td>
<td>2.92</td>
<td>25</td>
<td>1.15</td>
</tr>
<tr>
<td>Matatiele</td>
<td>3.07</td>
<td>27</td>
<td>1.05</td>
</tr>
<tr>
<td>Mbizana</td>
<td>2.30</td>
<td>19</td>
<td>0.85</td>
</tr>
<tr>
<td>Ntabankulu</td>
<td>3.01</td>
<td>15</td>
<td>1.02</td>
</tr>
<tr>
<td>Umzimvubu</td>
<td>3.37</td>
<td>17</td>
<td>1.08</td>
</tr>
<tr>
<td>All Groups</td>
<td>2.93</td>
<td>103</td>
<td>1.08</td>
</tr>
</tbody>
</table>

Source: Author’s own construction

Table 5.13 above depicts a mean of 2.93 on responses provided by the municipalities in the Alfred Nzo District on human capital management questions which indicates an almost neutral response. It also reflects a standard deviation of 1.08 which indicates low dispersion. When on each municipality, the two municipalities, Umzimvubu and Matatiele indicate means that are above 3 (3.37 and 3.07 respectively) which indicates that employees in these municipalities agree that there is appropriate human capital management. Ntabankulu Local Municipality reflects a mean of 3.01 whilst Alfred Nzo District Municipality and Mbizana Local Municipalities have a mean that is below 3 (2.92 and 2.30 respectively) giving a neutral feeling on human capital management for Ntabankulu Local Municipalities and an indication of no appropriate human capital management in Alfred Nzo District Municipality and Mbizana Local Municipality.
The above suggests that there is evidence, though not strong, that human capital management has an impact on audit report outcomes as it indicates that the two municipalities that have been receiving favourable (unqualified) audit report outcomes have appropriate human capital management whilst the three municipalities that have been receiving unfavourable (qualified, adverse and disclaimer) audit report outcomes have either neutral a feeling or disagree that there is appropriate human capital management in their municipalities.

Hypothesis H4 stated that human capital management has a positive influence on a municipality’s audit report. The null hypothesis formulated in this regard was:

H04: human capital management has no influence on a municipality’s audit report.

According to the respondents, human capital has strong (p-value = 0.0375 < 0.05) influence on municipalities audit report. The hypothesis H4 is therefore supported, while the null hypothesis H04 is not supported. This means improving human capital management will result in an improved audit report.

5.4 CHAPTER SUMMARY

The chapter presented the descriptive statistics on 103 responses that were received out of the 150 questionnaires that were distributed to five municipalities in the Alfred Nzo District. It started by presenting the response rate and biographical profile of the respondents (gender, employment level, work experience, academic level, employer and department).

The individual responses that were received were analysed and statistical calculations were performed as part of the analysis. The results of the analysis were presented in the chapter. The chapter presented that empirical results indicate that all the independent variables (leadership, governance, internal controls and human capital management) have an influence on the municipalities’ audit report outcomes.
The results also indicated that respondents who are in the lower level of employment responded in a similar pattern that is generally negative to questions asked whilst respondents at the higher level of employment also responded in a similar pattern that is positive to questions asked.

Chapter six will discuss managerial implication of the empirical results, conclusion and recommendations. The chapter will also present problems experienced during the research as well as the study limitations.
CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

This chapter presents the managerial implications of the empirical results. This chapter also provides suggestions to management on how to address the problem statement based on the findings of the study. The problems and limitations of the study are also discussed. Recommendations based on the findings are also discussed in the chapter.

6.2 CONCLUSIONS

The following conclusion based on the literature review discussed in chapter two and three and empirical study results discussed in chapter 5 are as follows:

6.2.1 Auditing

The need for auditing has increased due to a rise in importance of the agent relationship in the running and operations of the businesses. The agent relationship is also important in the public sector due to the fact that the nature of the public sector can only operate through the agent relationship as it belongs to the public but can only be run by officials who are employed to do so. This agent relationship is required (employees or officials of the organisation) to account to the principal (owners of business) on how they have performed in accomplishing the tasks that they have been given. The auditor is required as an independent third party to verify and validate the assertions made by the agent and give report to the principal on whether the assertions made by the agent are correct. This report in commonly referred to as the audit opinion.
The literature suggested that auditing is very broad, with the main aim of providing the independent function that critically examines the assertions made by personnel or management of an organisation about economic activities in which they are engaged, and then to communicate the results in the form of a report to the users (Selehi, 2011). The literature also indicated that there has been a shift towards the business risk based audit methodology in recent years, which means auditors tend to rely more on internal controls and therefore perform more compliance testing than substantive testing (Ibanez, 2007).

Auditing is the most critical form of assurance for owners of business that management are effectively and efficiently managing the institutions that they have been tasked to manage. It also provides the assurance that management are complying with the set legislations, policies and procedures. It further provides assurance that management is achieving the set institutional objectives. It improves transparency and accountability. This assurance is most critical in the public sector as this is where the agency relationship most exists.

6.2.2 Leadership

Leadership has been defined as the social process of influencing people to work voluntarily, enthusiastically and persistently towards a purposeful group or organisational goal (Werner, 2011). The purpose of a leader is regarded as that of getting the task done through the team, whilst at the same time satisfying the short and the long-term need of the individuals (de Villiers, 2002). Hernez-Broome (2002, cited in Adamoniene and Ciutiene, 2011), states that the leadership style in the management context usually is a way of leader’s behaviour with subordinates in order to influence them and to encourage their desire to fight for the goals of organisation.
The literature further indicated that most research results showed that the leadership style has a significant relationship with organisational performance, and different leadership styles may have a positive or negative correlation with the organisational performance (Wang, Chich-Jen and Mei-Ling, 2010). The study conducted by Mokgolo, Mokgolo and Modiba (2012) in the public sector revealed that there is a positive correlation between transformational leadership, subordinate leadership acceptance, job performance and job satisfaction. The study conducted by Rua (2011) also revealed that a participative leader confers higher relevance to the quality of service, through motivation, satisfaction, empowerment and human resources positive results, than an exploitative, autocratic leader.

Holtzhausen and Naidoo (2011) argue that there is a critical need to build leadership, to produce critical thinkers at local government. On other hand, Naidoo (2009, cited in Holtzhausen and Naidoo, 2011) stated that there is relative agreement among Directors-General that senior managers ought to have a number of qualities, such as interpersonal skills, communication, creative cooperation, financial and human resource skills. Additional to the above characteristics, Cloete, Wissink and De Coning (2006, cited in Holtzhausen and Naidoo, 2011) argues that, the ability to analyse policy has also been identified as a critical skill for senior management in local government.

Leadership is entrusted to provide guidance in the organisation and ensure that all set rules and regulations are followed. It has the responsibility of motivating employees, and encouraging innovation in an effort to achieve and improve organisational objectives. The literature suggests that leadership must:

- Be strong and lead by example in an organisation;
- Follow the set procedures and policies;
- Take responsibility by ensuring that set targets are achieved;
- Encourage and motivate employees; and
- Ethical and transparent.
The empirical study results suggest that leadership has a strong influence on the municipalities’ audit report outcomes. This means if the municipality has no proper leadership, it will receive an unfavourable audit report outcome, whilst a municipality that has proper leadership will have favourable audit report outcome. The municipalities must therefore strive to have proper and strong leadership.

6.2.3 Governance

The literature defined governance as regimes of laws, rules, judicial decisions, and administrative practices that constrain, prescribe, and enable the provision of publicly supported goods and services through associations with agents in public and private sectors. In the public sector context, governments are the agents to whom authority is delegated, by citizens (as principals), with the explicit goal of maximising various kinds of social welfare (as the outcome) (Hill and Lynn, 2004 cited in Andrews, Hay and Myers, 2010). The generic principles of governance are explained in the chapter, which are: setting direction, instilling ethics and integrity, overseeing results, accountability and correcting cause (IIA, 2006). Those principles of governance that are critical to the public sector are also identified and explained, namely: accountability, transparency, probity and equity (IIA, 2006). The literature also indicated the eight major features of good governance (AAPAM, 2000 cited in Holtzhausen and Naidoo, 2011): participatory; consensus oriented; accountable; transparent; responsive; effective and efficient; equitable and inclusive; and follows the rule of law.

Governance is that critical component in the organisation that makes it possible for leadership to perform its functions. The literature suggests that to improve governance in an organisation there must be:

- Clear rules and guidelines followed;
- Effective and efficient organisational structure;
- Effective and efficient systems in place;
- Systems in place which ensures that rules are followed;
- Effective and efficient audit committee; and
• Vigorous political oversight in the public sector.

The empirical study results suggest that governance has a strong influence on the municipalities audit report outcomes. These empirical results suggest that governance has a strong influence on the municipalities audit report outcomes. This implies that if the municipality has poor governance structures in place, it will receive an unfavourable audit report outcome whilst a municipality that has good governance structures in place will have a favourable audit report outcome. It is critical that within governance structures, there must be means of ensuring that such structure do not just exist but are functional.

6.2.4 Internal controls

Internal control is defined in the study as processes effected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of operations, reporting and compliance objectives (COSO, 2011). Components of internal control that support the organisation in its efforts to achieve its objectives are explained in the chapter: control environment; risk environment; control activities; information and communication; and monitoring activities. Internal control limitations as well as possible strategies of dealing with them are also explained in the chapter.

Internal controls are crucial in limiting the risk of the exposure by the organisation in all respects. The literature suggests the following on improvement of the internal controls environment:

• Sound internal controls must be put in place in all operations of the organisation;
• Internal controls must be practiced by all departments in an organisation;
• Internal controls must be obeyed at all levels of employment;
• Failure to obey internal controls must result into a disciplinary action; and
• There must be policies and procedure in place in an organisation.
The empirical results propose that internal controls have a significant influence on the municipalities’ audit report outcomes. The implication for management is that, if the municipality has no proper internal controls, it will receive an unfavourable audit report outcome whilst a municipality that has proper internal controls will have a favourable audit report outcome. The municipalities must therefore improve their control environment in their operations as that will improve their audit report outcomes.

6.2.5 Human capital management

The literature in the study defined human capital management as the organisational function that deals with issues related to people, such as compensation, hiring, performance management, organisational development, safety, wellness, benefits, employee motivation, communication, administration, and training. The literature further states that HRM is also a strategic and comprehensive approach to managing people and the workplace culture and environment (Lahoti, 2013). It also looked at the current landscape of the South African public sector where the study undertaken by Vermeulen (2008) revealed that the public sector portrays the reality of a skills shortage and a high turnover of staff, due to high demand for skilled and competent staff. Tewary (2011) further indicated that the day to day activities are hampered by poor quality of staff at all levels in some municipalities. HRM strategies were discussed and Qwabe and Pillay (2009) proposed an innovative and learning approach where the culture of learning, innovation and development is enhanced as it leads to a high performance public service. It is suggested that the human resource management function in the municipalities must function in an integrative manner to ensure effective and efficient attainment of the municipal objectives. An integrative HRM function is explained as the stage when the competitive success of the organisation involves HRM significantly in an integrated manner, and demands such capabilities from the HR specialists.
Human capital management is critical as human capital is the most critical asset of the organisation that drives and implements organisational plans. The literature further suggests the following to improve human capital management:

- Effective human resource management function or department must be in place;
- Human resource department must ensure that employees are efficiently utilised to achieve the Municipality’s goal;
- Human resource department must ensure that there are competent employees to perform all the required tasks in my municipality;
- The remuneration offered by the organisation must be fairly competitive;
- There must be proper training offered in an organisation; and
- There must be employee personal growth opportunities in an organisation.

The empirical study results suggest that human capital management has a strong influence on the municipalities’ audit report outcomes. These results suggest that human capital management has a strong influence on the municipalities’ audit report outcomes. The managerial implications are that if the municipality has no proper human capital management function, it will receive an unfavourable audit report outcome whilst a municipality that has effective human capital management function will have a favourable audit report outcome. The municipalities must therefore ensure proper human capital management and that will improve their audit report outcomes.

6.3 PROBLEMS AND LIMITATIONS

The following problems and limitations were encountered while conducting the study:

- The respondents based their answers on the current leadership that is in their respective municipalities whilst the audit report outcomes that are used in the study related to the previous years and therefore things could have changed;
- The management of the municipalities tended to paint a glowing picture when responding to the questionnaires as they are responsible for the independent variables (leadership, governance, internal controls and human capital
management) that were tested. It is unlikely that management would mark themselves low;

- The number of employees available for the study, who were at a high level of employment, was limited as the Alfred Nzo District consists of small municipalities that have a small organisational structure; and
- Willingness of employees to participate in the study was a challenge as most employees indicated that they do not have time to participate due to high pressure caused by work load.

6.4 RECOMMENDATIONS

Based on the findings of the study, it is recommended that municipalities must reengineer its processed in a manner that will ensure that they have effective and efficient leadership, governance, internal controls and human capital management:

- Municipalities must appoint leadership that is capable (having the right leadership characteristics and style) and influential.
- Municipalities’ leadership must undergo continuous relevant training and development.
- Municipalities must put effective and efficient governance structures and systems in place that are clear, documented and communicated to all staff levels.
- Municipalities must strive to have effective and efficient human capital (resource) management departments in place that must ensure that there are competent personnel in all its functions.
- The municipalities’ human resource management function must ensure that employees are appropriately remunerated.
- The municipalities’ human resource management function must ensure that all staff is exposed to continuous relevant training and development that is informed by skills gap analysis.
- Municipalities must continuously improve its internal controls environment in order to reduce its exposure to risks.
- Municipalities must strive for full compliance with the auditing legal requirements.
- Municipalities must take its audit committees serious:
  o Appoint members that meet the minimum requirements
  o Implement recommendations made by the audit committee
- Municipalities must effectively and efficiently utilise its internal audit function:
  o Appoint competent internal audit staff
  o Conduct regular risk based audits
  o Properly address all findings of the internal auditing
- Municipalities must put in place effective performance management system that will assess performance of its leadership and government structures and address any weaknesses that are identified.

It is also recommended that another study be conducted, covering a larger sample so that its results can be more representation of the entire population. Such study should attempt to avoid timing difference between the independent variable and audit reports outcomes used. This means the study must attempt to ensure that the level of leadership, governance structures, internal control environment and human capital management is tested against audit outcome that it had a direct influence on.

6.5 CONCLUDING REMARKS

The local government sphere has been insistently disquieted by unfavourable annual financial statement audit reports. The study tried to conduct an in-depth analysis of the root cause of this dilemma which presents an opportunity for the municipalities to reorganise its house and redeem its dignity and credibility to its stakeholders through addressing the identified challenges.

The literature review conducted on auditing process revealed and confirmed the importance of auditing for public entities as these are purely operated through principal-agent relationship. This relationship necessitate that there must be an independent opinion on how the agent has conducted its business on behalf of the principal. The independent opinion is issued by the Auditor General in case of local government.
This also assists in ensuring that the citizens are holding government accountable. The literature further indicates three main component of auditing that are a requirement in the local government, namely:

- **External auditing** – conducted yearly by Auditor General.
- **Internal auditing** – conducted by the municipality's internal audit unit in an effort to assist management in reducing risks and improving the internal control environment.
- **Audit committee** – committee of experts that assist municipal council by ensuring more objective assessment of risks within the municipality.

The literature review also indicated that there is sound legal framework that compels municipalities to comply with the auditing requirements. It has however also been revealed by previous AG’s reports that there has been high rate of non-compliance to the auditing requirements, for example, internal audit functions of most municipalities are under staffed, in some instances they are staffed with personnel that does not have the required skill; audit committees of the municipalities are not taken serious. This resulted in local government getting a number of unfavourable audit outcome. Therefore, local government have not been taking advantage of the solid South African legal framework on auditing requirements.

The literature review conducted on independent variables indicates that a combination of weaknesses in leadership, governance, internal controls and human capital management is a major cause of poor performance and unfavourable audit reports. The literature review revealed that local government is troubled by poor leadership that emanates from various angles. It also revealed that the municipalities are having weak governance structures. It further revealed that the municipalities human capital management is poor evident by personnel that is not properly qualified. The literature also revealed that the internal control environment of the municipalities is poor resulting into an increase in risk exposure.
The empirical results of the study indicate a positive coloration between the municipalities’ independent variables (leadership, governance, human capital management and internal controls) and its audit outcomes. This means, the municipality that has bad leadership, governance, human capital management and internal controls is most likely to receive unfavourable audit outcome, whilst a municipality with good leadership, governance, human capital management and internal controls is most likely to receive favourable audit outcome. Therefore the empirical results of the study suggest that improving leadership, governance, internal controls and human capital management on a municipality will improve its audit report outcomes. Recommendations on how municipalities can improve the above were presented in section 6.4 of the report.
LIST OF REFERENCES


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ANNEXURE 1: THE QUESTIONNAIRE COVERING LETTER

A STUDY ON INVESTIGATION OF VARIABLE THAT HAVE IMPACT ON ANNUAL
FINANCIAL STATEMENTS AUDIT OUTCOMES IN LOCAL GOVERNMENT IN THE
ALFRED NZO DISTRICT AREA

Dear Respondent

As you are an experienced professional who has knowledge and experience in Local Governance administration, this serves to humble request for your help by seeking your permission to be interviewed through the attached questionnaire.

I am currently engaged in an MBA (Masters in Business Administration) degree at the Nelson Mandela Metropolitan University Business School. The topic of my research project is “Investigating variables that have impact on Annual Financial Statements (AFS) audit outcomes in Local Government” in the Alfred Nzo District area. It is believed that this study would make a contribution to improving the AFS audit outcomes in the municipalities. The empirical results of the study will be made available to the participants on request.

You are part of our selected sample of respondents whose views we seek on the above-mentioned matter. We would therefore appreciate it if you could answer a few questions in this regard, which should not take more than twenty minutes of your time. Please note that the information gathered will not be used against any organisation in any way and that all your responses will be strictly confidential. Please return the completed questionnaire by the 31st of October 2013. We thank you in advance for your highly appreciated contribution towards this study.

There are no correct or incorrect answers. Please answer the questions as accurately as possible. For each statement, mark the number which best describes your experience. For example, if you strongly agree with the statement, mark the number 5.
If you strongly disagree with the statement, mark the number 1. **Mark only one answer for each statement and kindly answer ALL QUESTIONS please.**

Thank you very much.

Mr N. Sigcau (Tel. 082 965 5720)
Research supervisor: Dr M.J. Figg (Tel. 041 504 3878 or 084 581 5584)
ANNEXURE 2: THE MEASURING INSTRUMENTS

INSTRUCTIONS

Please answer each question by making a cross (X) in the appropriate box. The likert scale rating used in section A to D of the questionnaire is as follows:

1 = Strongly Disagree
2 = Disagree
3 = Neutral
4 = Agree
5 = Strongly Agree

There are no right or wrong answers. Your answers will be a reflection of how you view each question.

A) LEADERSHIP

To what extent do you view the following components of leadership in your municipality?

<table>
<thead>
<tr>
<th>LEADERSHIP</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1 There is strong leadership in my municipality</td>
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<td>A2 Leadership in my municipality is leading by example</td>
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<tr>
<td>A3 Leadership in my municipality follows set procedures and policies</td>
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<tr>
<td>A4 Leadership in my municipality is taking responsibility by ensuring that set targets are achieved</td>
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<tr>
<td>A5 Leadership in my municipality encourages and motivates employees</td>
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<tr>
<td>A6 Leadership in my municipality is ethical and transparent</td>
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</tr>
</tbody>
</table>
### B) GOVERNANCE

To what extent do you view the following components of governance in your municipality?

<table>
<thead>
<tr>
<th>GOVERNANCE</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>There are clear rules and guidelines that are followed in my municipality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B2</td>
<td>There is effective and efficient organisational structure in my municipality</td>
<td></td>
<td></td>
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<tr>
<td>B3</td>
<td>There are effective and efficient systems in place in my municipality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B4</td>
<td>The systems in my municipality ensure that rules are followed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B5</td>
<td>The audit committee in my municipality is efficient and effective</td>
<td></td>
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<tr>
<td>B6</td>
<td>Political oversight is vigorously undertaken in my municipality</td>
<td></td>
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</tbody>
</table>

### C) INTERNAL CONTROLS

To what extent do you view the following components of internal controls in your municipality?

<table>
<thead>
<tr>
<th>INTERNAL CONTROLS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>There are sound internal controls in my municipality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2</td>
<td>There is internal audit function that is efficient and effective in my municipality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C3</td>
<td>Internal controls are practiced in all departments in my municipality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4</td>
<td>Internal controls are obeyed at all levels of employees in my municipality</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
D) HUMAN CAPITAL (RESOURCE) MANAGEMENT
To what extent do you view the following components of human capital management in your municipality?

<table>
<thead>
<tr>
<th>HUMAN CAPITAL (RESOURCE) MANAGEMENT</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>D1 There is effective human resource management function or department in my municipality.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2 Human resource department ensures that employees are efficiently utilised to achieve the municipality’s goal.</td>
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<td></td>
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</tr>
<tr>
<td>D3 There are competent employees to perform all the required tasks in my municipality.</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D4 The remuneration offered by my municipality is fairly competitive</td>
<td></td>
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<tr>
<td>D5 There is proper training offered in my municipality.</td>
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</tr>
<tr>
<td>D6 There are employee personal growth opportunities in my municipality</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

E) BIOGRAPHICAL PROFILE

E1) Gender

<table>
<thead>
<tr>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
</table>

E2) Department

<table>
<thead>
<tr>
<th>Budget and Treasury / Finance</th>
<th>Infrastructure / Technical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Services</td>
<td>Planning and Economic Development</td>
</tr>
<tr>
<td>Community / Social Services</td>
<td>Other</td>
</tr>
</tbody>
</table>
### E3) Employment Level

<table>
<thead>
<tr>
<th>Below Supervisor</th>
<th>Supervisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>Senior Manager</td>
</tr>
</tbody>
</table>

### E4) Work Experience

<table>
<thead>
<tr>
<th>0 to 5 years</th>
<th>Above 5 to 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 10 to 15 years</td>
<td>Above 15 years</td>
</tr>
</tbody>
</table>

### E5) Academic Level

<table>
<thead>
<tr>
<th>Matric to N6</th>
<th>Diploma / Degree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honours</td>
<td>Masters and Above</td>
</tr>
</tbody>
</table>

### F) IDENTIFICATION

#### F1) Name of Employer

<table>
<thead>
<tr>
<th>Alfred Nzo District Municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matatiele Local Municipality</td>
</tr>
<tr>
<td>Mbizana Local Municipality</td>
</tr>
<tr>
<td>Ntabankulu Local Municipality</td>
</tr>
<tr>
<td>Umzimvubu Local Municipality</td>
</tr>
</tbody>
</table>
ANNEXURE 3: PERMISSION TO SUBMIT FORM

PERMISSION TO SUBMIT FINAL COPIES
OF TREATISE/DISSERTATION/THESIS TO THE EXAMINATION OFFICE

Please type or complete in black ink

FACULTY: BUSINESS AND ECONOMIC SCIENCES
SCHOOL/DEPARTMENT: NMMU BUSINESS SCHOOL

I, (surname and initials of supervisor/promoter) DR M. J. FIGG

and (surname and initials of co-supervisor/co-promoter)

the supervisor/promoter and co-supervisor/co-promoter respectively for (surname and initials of candidate) SIGCAU N.

(student number) 198038090 a candidate for the (full description of qualification)

MAGISTER IN BUSINESS ADMINISTRATION

with a treatise/dissertation/thesis entitled (full title of treatise/dissertation/thesis): INVESTIGATING VARIABLES THAT HAVE IMPACT ON ANNUAL FINANCIAL STATEMENT AUDIT REPORT OUTCOMES IN LOCAL GOVERNMENT

It is hereby certified that the proposed amendments to the treatise/dissertation/thesis have been effected and that permission is granted to the candidate to submit the final bound copies of his/her treatise/dissertation/thesis to the examination office.

SUPERVISOR / PROMOTER

DATE 18/3/2014

And/ Or

CO-SUPERVISOR / CO-PROMOTER

DATE