An analysis of the outcomes of the audit of predetermined objectives in the North-West local government

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ABSTRACT

This study performed an analysis of the outcomes of the audit of predetermined objectives for municipalities in the North-West province of South Africa. A qualitative research approach with an inductive approach was used. Data collected from twenty-two municipalities in the North-West province over a period of five years was thematically analyzed. Three themes were identified for this study, and the results revealed that, at an overall level, the performance information reported by the municipalities was neither useful nor reliable and, at times, had material instances of non-compliance. Some findings were prevalent for all three themes identified, which were raised by over half of the municipalities, which is concerning, and all pointed to not having a fully functioning performance management system as the main root cause. The results also revealed common repeat findings in each of the three themes, which indicate that there were insufficient action plans implemented to address the findings raised in the prior year(s). The study recommended that management and those charged with governance should put appropriate measures in place and strengthen their internal control environment to ensure that election promises are appropriately accounted for and repeat findings such as those indicated above do not recur in the future. Furthermore, management should work closely with the Auditor-General of South Africa (AGSA), internal audit, and other relevant stakeholders, such as the South African Local Government Association, to ensure that repeat findings do not reoccur in the future by developing appropriate audit action plans that will be continuously monitored and reviewed.

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Introduction

Local governments worldwide play a critical role in shaping the socio-economic landscape of their regions (Peters, 2017). Piotrowski and Rosenbloom (2016) state that, as decentralized entities responsible for addressing the needs of their communities, local governments are expected to set clear objectives to guide their activities. However, the effectiveness of these objectives in practice is often subject to scrutiny through audit processes that assess whether goals are met, resources are utilized efficiently, and public funds are managed prudently. According to Andrews, Pritchett, and Woolcock (2015), the effectiveness of public administration and service delivery relies heavily on the formulation and achievement of predetermined objectives. These objectives, representing the strategic goals of the local government, serve as a roadmap for community development, resource allocation, and governance accountability (Wang & Brecher, 2019). According to Van der Nest and Erasmus (2013), the audit of predetermined objectives is the cornerstone of performance reporting. Broadbent and Guthrie (2008) posit that auditing is a fundamental tool for ensuring transparency, accountability, and good governance within local government structures, and audits on predetermined objectives are designed to evaluate the efficiency, effectiveness, and prudence in resource management, contributing to improved accountability and public trust.

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Previous research on local government audits has shown that discrepancies between predetermined objectives and actual outcomes can lead to inefficiencies and budgetary mismanagement, ultimately, hindering community development (Boex, 2016). Successful audits can lead to improved governance practices, enhanced service delivery, and increased public confidence (Andrews et al., 2015). Conversely, challenges identified through audits offer opportunities for targeted interventions and policy adjustments. In agreement with Broadbent and Guthrie (2008), Nombembe (2013) highlighted that the audit of predetermined objectives is an integral part of the annual regularity audit process in South Africa and confirms the credibility of the performance information government institutions report annually. Even though it has been years since the audit of predetermined objectives was introduced in South Africa, municipalities still report challenges relating to non-compliance with legislation, usefulness, and reliability of the information because of a failure to appropriately plan and report performance (Motutbaste, 2016; Ramutsheli & Janse van Rensburg, 2015).

The North-West region, with its distinctive socio-economic landscape, faces challenges ranging from rural development to education and healthcare provision (Makgoba, 2019). North-West local government emerges as a focal point for scrutiny, requiring an in-depth analysis of the outcomes of audits conducted on its predetermined objectives. Understanding the factors contributing to successful or challenging audit outcomes in North-West local government is essential for improving governance practices, enhancing service delivery, and fostering public trust (Motutbaste, 2016). Investigating the outcomes of audits based on predetermined objectives in this context is vital for addressing region-specific issues. This research aims to contribute valuable insights to the broader academic and policy discourse on local governance and accountability. By examining the North-West local government as a case study, we can draw lessons and recommendations applicable to similar contexts, enriching our understanding of the dynamics that influence the outcomes of audits on predetermined objectives at the local level.

This study seeks to shed light on the intricacies of local governance in the North-West region, emphasizing the significance of audit processes in evaluating the alignment between predetermined objectives and actual outcomes. Through this exploration, we aim to provide actionable recommendations that can inform policy decisions, improve governance practices, and contribute to the overall development of local communities. This paper has five sections; after the introduction, the following section discusses the review of literature related to the study. Section 3 presents the methodology that was adopted in this study. Section 4 presents and discusses the research findings, and the final section provides the conclusion and recommendations of the study.

**Literature Review**

This section reviews the literature and has three subsections.

**Local Governance and Accountability**

Local governance represents a decentralized form of administration where local authorities manage and govern their communities (Pallot & de Renzio, 2018). It is a fundamental component of the broader governance framework, impacting the delivery of public services, citizen participation, and overall community development (UN-Habitat, 2015). Pierre and Peters (2000) also highlighted the key components of local governance, emphasizing the role of local government institutions, citizen participation, financial management, and efficient service delivery. These components collectively contribute to the effectiveness and responsiveness of local governance structures (Debbie, 2021). Accountability, in the context of local governance, is the obligation of those in power to answer for their actions, decisions, and resource allocations, ensuring transparency, fairness, and responsiveness to the needs of the community (Kraftchik & Wehner, 2017). The nexus between local governance and accountability is well-established in the literature (Andrews et al., 2015; Grindle, 2012). Local governments are expected to be accountable for their actions and resource allocations.

Drewry and Marks (2012) posit that audits on predetermined objectives serve as mechanisms to ensure accountability by assessing whether local authorities adhere to their set goals and objectives. According to Pallot and de Renzio (2018), effective accountability mechanisms are essential for ensuring transparency and responsiveness in local governance. Grindle and Thomas (1991) discuss the role of elections, oversight institutions, and civil society engagement as critical tools for holding local authorities accountable to their constituents. Challenges such as corruption, limited capacity, and a lack of citizen awareness can impede accountability in local governance (Brinkerhoff, 2003). Brinkerhoff emphasizes the need to address these challenges to ensure effective governance at the local level. In the contemporary context, technology and social accountability initiatives are emerging as innovative tools to enhance transparency and citizen engagement at the local level (Fox, 2007). Batley and Mcloughlin (2010) advocate for engagement with non-state service providers and highlight the importance of building the capacity of local government officials. Strengthening oversight mechanisms is also crucial for ensuring accountability in local governance.

**The Role of Auditing in Local Government**

Auditing in the context of local government is a critical tool for evaluating the efficiency and effectiveness of public administration (Drewry & Marks, 2012; Broadbent & Guthrie, 2008). It serves as a mechanism for evaluating financial practices, internal controls, and overall governance within local government entities, and these audits not only assess financial prudence but also scrutinize the achievement of predetermined objectives, providing insights into the performance of local authorities (Broadbent & Guthrie, 2008). Jones and Pendlebury (2000) postulated that auditing plays a crucial role in ensuring that public funds are used efficiently and in accordance with legal requirements. Financial accountability is a core component of local government auditing; it involves assessing the financial statements, budgetary controls, and compliance with financial regulations (Drewry & Marks, 2012; Jones & Pendlebury,
2000). However, beyond financial accountability, performance auditing has gained prominence in evaluating the efficiency, effectiveness, and economy of local government activities (Dollery & Robson, 2011).

Performance auditing focuses on outcomes and the achievement of predetermined objectives, contributing to improved governance (Bierstaker et al., 2020). Performance auditing in local government involves the systematic examination of the efficiency, effectiveness, and economy of operations to assess the extent to which predetermined objectives are achieved (Dollery & Robson, 2011). It provides valuable insights into the effectiveness of programs, the allocation of resources, and the overall governance of local entities (Arena & Arzone, 2009). IFAC (2014) states that the objectives of performance auditing often include assessing program effectiveness, efficiency in resource utilization, compliance with regulations, and the achievement of intended outcomes. Performance auditing employs various methodologies, such as key performance indicators (KPIs), benchmarking, and value-for-money analysis (Bourn, 2000). Andrews et al. (2010) cited that the choice of methodology depends on the objectives of the audit and the nature of the audited programs. Performance auditing contributes to improved local governance by providing evidence-based recommendations for enhancing program effectiveness and efficiency, and its impact extends to better decision-making and increased accountability (Arena & Arzone, 2012; Guthrie & Kim, 2007). Successful audits on predetermined objectives contribute to effective resource allocation, foster community development, and improve the quality of life for residents (Boex, 2016).

**Challenges in Local Governance Audits**

The literature recognizes that local governance audits face challenges, including issues related to data reliability, resource constraints, political interference, and the capacity of audit institutions (Pallot & de Renzio, 2018; Krafchik & Wehner, 2017; Petersen, 2005). Performance auditing faces challenges related to data availability, the complexity of measuring outcomes, and the subjectivity of defining performance criteria (García-Sánchez & García-Meca, 2017; Power, 2007). Sharma and Lawrence (2011) highlighted that one of the primary challenges faced by performance auditing is the availability of reliable and comprehensive data. Limited access to relevant data can impede the ability of auditors to assess the efficiency and effectiveness of government programs and operations (Guthrie & Kim, 2007; Bourn, 2000). According to Pallot and de Renzio (2018), performance auditors often encounter issues with the completeness and accuracy of available data sources. The quality, reliability, and accuracy of data are critical for meaningful performance audits, and these can compromise the validity of audit findings and hinder the auditors' ability to draw meaningful conclusions (Arena & Arzone, 2009; Power, 2007).

Financial resource constraints pose a significant challenge to local governance audits as limited budgets restrict the allocation of funds necessary for conducting comprehensive and effective audit processes, potentially impacting the scope and depth of audits (Lapsley, 2011). Moreover, human resource constraints, including a shortage of skilled auditors and support staff, can hinder the efficiency and effectiveness of local governance audits (Bierstaker et al., 2020). Inadequate staffing levels and insufficient investment in modern information systems hinder data collection, analysis, and reporting processes, impacting the overall effectiveness of audits, and further limiting the capacity to conduct thorough examinations of complex governance structures (García-Sánchez & García-Meca, 2017). Furthermore, resource constraints limit opportunities for training and capacity building for auditors. Keeping audit professionals abreast of evolving audit methodologies, technologies, and governance practices is crucial for maintaining audit effectiveness (Andrews et al., 2010).

According to Pallot and de Renzio (2018), political interference is a significant challenge to the independence and objectivity of local governance audits. Politically motivated pressures may influence audit processes, compromising the ability of auditors to conduct impartial assessments of government entities (Sharma & Lawrence, 2011). Hassink (2010) stated that when the public perceives audits as subject to political manipulation, trust in the credibility and reliability of audit outcomes diminishes. However, Sharma and Lawrence (2011) suggest that robust legal frameworks can protect the independence of auditors and ensure that audit processes remain immune to external pressures. Bierstaker et al. (2020) highlighted that addressing these challenges requires a comprehensive and collaborative approach involving local governments, auditors, and other stakeholders to enhance the effectiveness and integrity of the audit process.

**Research and Methodology**

A qualitative research approach was adopted, and the assumptions taken were inductive as the study was not focused on numerical data but rather on interpretation. The arguments in this study were influenced by the interpretation of the researchers, as the study was subjective in nature because existing documents were analyzed to improve understanding of the data collected (Creswell, 2014). “The qualitative research methodology is concerned with understanding the processes and social and cultural contexts that underlie various behavioral patterns and is mostly concerned with exploring the ‘why’ questions of the research” (Diedrick, 2017:5). The thematic data analysis method was used to analyze the data collected, and the themes in these audit findings were manually identified and analyzed. This method is aligned with the approach taken in other research studies in this area, as Mosimege and Masiya (2022) used thematic data analysis to capture and place data into patterns in assessing audit outcomes of predetermined objectives in a public
institution (Braun & Clarke, 2006). Diedericks (2017) also applied themes to determine the extent to which measures had been put in place to report timeously, effectively, and efficiently on predetermined objectives.

The analysis was performed on the audit reports of the municipalities as included in the annual reports to identify findings raised on the audit of predetermined objectives from the 2017 to the 2021 financial years. The motivation for the five-year period was because municipal elections are done every five years, and as such, this period was ideal for reflection purposes to make recommendations that may be beneficial to the new administration. The data was collected from the signed AGSA audit reports as included in the annual reports of the different municipalities and was captured in a spreadsheet with each municipality indicated. The findings were populated into a spreadsheet created with different themes, as the knowledge obtained from the literature review on this field of study provided insight and determined what the themes would be. The themes identified for this study were, as such, based on the three main criteria of the audit of predetermined objectives: compliance with legislation, usefulness, and reliability. Firstly, as part of the analysis, the 2021 AGSA directive, AGSA consolidated general reports on the local government audit outcomes, IRBA guidelines, National Treasury frameworks, and journal articles published on this subject matter were studied to obtain an understanding of the required standard and detail at which planning documents should be produced, as in some cases the AGSA audit criteria are adopted from these frameworks, and to identify the different types of audit findings that can be raised under each of the main criteria.

Thereafter, the signed audit reports of the different municipalities that were obtained from the websites of the National Treasury and the individual municipalities were analyzed to identify the findings that were raised under each criterion for the five years under review, and these were then placed into distinct categories. The reason the AGSA audit reports were analyzed is that they provide clarity on how the government has accounted for how it spent taxpayers’ money during a particular period and include information on their assessment of the status of internal controls at the auditee as well as their state of compliance with key laws and regulations relating to financial and performance management. Therefore, these audit reports would provide the necessary information needed for this study. These findings were then added up to establish a trend in the selected period under review for purposes of this study. The aim was to determine how many of these findings had been to try and ascertain the level at which management and those charged with governance at the various municipalities had put measures in place to curb repeat findings.

Findings and Discussions

The data for this study was collected from the signed AGSA audit reports for each municipality and analyzed to identify the findings that were raised over the selected period. These findings were then placed into distinct categories according to the related audit criteria. The themes for this study are the three main criteria of the audit of predetermined objectives (compliance with legislative requirements, usefulness, and reliability). An overview of the total number of findings for each of the three themes identified for this study has been illustrated in Figure 1 below. This overview aimed to establish which of the themes contributed the largest number of findings, as this could provide a basis for management and those charged with governance to investigate the root causes of the findings. This could then assist them in developing action plans to address these findings and thereby reduce the overall number of findings raised, which could then possibly reflect positively on the overall audit outcomes raised.

![Figure 1: Overview of total findings raised per theme; Source: own research](image)

The results from the analysis indicated that in contrast to the themes of usefulness and compliance with legislation, the municipalities selected for this study are not performing poorly when it comes to reliability, as they have the lowest number of findings. Compliance with legislation accounts for the second-largest number of findings raised due to repeat findings such as performance management.
systems not being adopted or being inadequate. This is a cause for concern as both the MSA and the regulations emphasize that the establishment of a performance management system is of paramount importance as it promotes a culture of performance. Therefore, findings relating to a failing performance management system could be the reason for the usefulness and reliability findings on consistency, measurability, and accuracy.

As per the figure above, the overall findings on usefulness are leading at almost half (47%) of the total population, which is the case with all municipalities across the country, as performance information not being useful was reported by the AGSA on their consolidated general reports on the local government audit outcomes as the most prevalent finding raised on the performance reports from the 2016–17 to the 2018–19 financial years. According to the AGSA (2021a), useful and reliable performance reporting provides communities with credible information that they can use to assess service delivery and hold municipalities accountable.

The findings revealed that there were some repeat findings in each of the three themes, which could indicate that there were insufficient action plans implemented to address the findings raised in the prior years. Repeated findings point to a poor control environment, a lack of consequence management, and a failure to implement the AGSA’s recommendations. The findings raised on usefulness and reliability indicate that overall, there is inadequate management of records, as findings relating to scope limitations and a lack of accurate and complete records were raised for most of the municipalities. Furthermore, there seems to be a lack of understanding of the required documents to support reported performance at the selected municipalities, and as such, this places the affected communities at a disadvantage when it comes to appropriately assessing service delivery. The overview therefore indicates that the annual performance reports of the selected municipalities that were submitted to the AGSA for audit over the selected period were not credible enough for the intended users to place the required level of reliance on them.

Conclusions

The objective of this study was to determine the trend in the findings raised on the audit of predetermined objectives over five years for municipalities in the North-West province and to identify whether there were any persistent repeat findings. The study revealed that under the theme of compliance with legislation, two categories of findings were commonly raised, which related to non-compliance with the MSA and the Municipal Planning and Performance Management Regulations, and the themes of usefulness and reliability both had three categories of prevalent findings. All these categories of findings were raised for over half of the municipalities, which is concerning. The fact that scope limitation findings were also raised under these two themes points to the fact that the municipalities are struggling with maintaining accurate records to support what has been reported in their annual performance reports. Therefore, overall, the performance information reported by the municipalities was neither useful nor reliable.

The analysis further revealed that there were some repeat findings in each of the three themes, which could indicate that there were insufficient action plans implemented to address the findings raised in the prior years. Repeated findings point to a poor control environment, a lack of consequence management, and a failure to implement the AGSA’s recommendations. Therefore, the results of the study indicate that there was no real improvement in the overall audit outcomes for the audit of predetermined objectives for the municipalities over the five years. It can thus be concluded that the election promises were not appropriately accounted for at the end of the administration term, as service delivery by the municipality could not be appropriately assessed.

The study recommends that management and those charged with governance should put appropriate measures in place and strengthen their internal control environment to ensure that election promises are appropriately accounted for and repeat findings such as those indicated above do not reoccur in the future. This should start at the beginning of the planning process by establishing a solid performance management system and ensuring that all the relevant policies, procedures, plans, and reports are reviewed frequently and timeously to be able to detect and correct errors and inconsistencies. Further, improve financial management practices to ensure that resources are allocated efficiently and effectively towards predetermined objectives. Furthermore, the duties of staff members should be segregated to prevent inconsistencies in the planning and reporting documents and foster accountability. Compliance checklists should be completed, signed, and reviewed to ensure compliance with all the key legislative requirements that pertain to strategic planning and performance management. Furthermore, management should work closely with the AGSA, internal audit, and other relevant stakeholders, such as the South African Local Government Association, to ensure that repeat findings such as those indicated above do not reoccur in the future by developing appropriate audit action plans that will be continuously monitored and reviewed. Moreover, this study recommends that there is need to implement robust accountability mechanisms to ensure that government officials are held responsible for achieving predetermined objectives. This could include regular performance evaluations, transparent reporting mechanisms, and consequences for underperformance or non-compliance.

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References


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