

AN INVESTIGATION INTO THE POWERS OF THE AUDITOR-GENERAL SA AND ITS ABILITY TO STRENGTHEN THE QUALITY OF DEMOCRACY IN SOUTH AFRICA



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DHNASI001

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I hereby declare that I have read and understood the regulations governing the submission of Master of Commerce dissertations, including those relating to length and plagiarism, as contained in the rules of the University, and that this dissertation conforms to those regulations.

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ABSTRACT

The overall objective of the study is to provide commentary on the extent to which the public sector audit process contributes to the strength of democracy in South Africa by enhancing accountability. By studying audit outcomes, the concerns of the Auditor-General of South Africa (AGSA) around lack of accountability due to auditee non-responsiveness was confirmed. The amendments to the Public Audit Act which give the AGSA the power to sanction individuals is therefore considered necessary as a mechanism to change the culture of non-responsiveness amongst auditees and to therefore ensure accountability going forward. A comparative evaluation was conducted for the Ugandan public service where the Ugandan Auditor General has similar powers. This case study points to the necessity of supreme audit institutions in developing countries having enhanced powers to ensure accountability and thus enhance the quality of democracy, although there may be a trade off with the other dimensions of democracy, bringing in to question the overall quality of democracy. The study also outlines areas for future considerations which may impact on the strength of public financial accountability.

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GLOSSARY

AG	Auditor General
AGSA	Auditor-General of South Africa
ANC	African National Congress
INTOSAI	International Organisation for Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MFMA	Municipal Finance Management Act
NCE	Non-current expenditure
NP	National Party
NPM	New Public Management
PAA	Public Audit Act
PFMA	Public Finance Management Act
SA	South Africa
SAI	Supreme Audit Institution
UGX	Ugandan Shilling

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INTRODUCTION

Theories on democracy are generally associated with the political studies and other social sciences, but rarely the accounting discipline. However, the Auditor-General SA (AGSA), through its external audit process of the public sector, is an organisation that is meant to play a role in strengthening the quality of South Africa's democracy. It is therefore possible for research to be conducted linking the role of accountants in the public sector to these democratic theories.

The objective of this study is to investigate, firstly, the extent to which the AGSA has indeed met its goal of contributing towards the quality of South Africa's democracy, and secondly, the potential impact that the 2018 amendments to the Public Audit Act have on the AGSA's ability to meet this goal. While these amendments, which primarily sought to bolster the powers of the AGSA, were motivated by a need to ensure better management over public finances, there was little deliberation of the impact on the quality, or effectiveness, of democracy. This study reflects upon these issues.

Set against the historical backdrop of the South African government's architecture, literature was reviewed on topics defining democracy and how scholars measure the quality of democracies. This allowed application of these theories to South Africa's transition to democracy, ultimately leading to the question of the democratic impact of the limited powers of the AGSA. The main consideration is around the impact on the dimension of democracy referred to as horizontal accountability. This literature is summarised in the literature review chapter of this thesis.

It could be argued that enhancing the powers of the external independent auditors removes responsibility from the government to hold itself accountable in managing public finances, thus rendering the amendments to the Public Audit Act undemocratic. Conversely, given the poor quality of South Africa's democracy noted by scholars, it may be that enhancing the powers of the AGSA may be necessary to enhance financial accountability in the public sector. The study will interrogate both sides and conclude thereon.

To address the research question of the extent to which the AGSA has been able to contribute to the strength of democracy prior to the Public Audit Amendment Bill of 2018, an investigation is done on the extent of financial accountability in the public

service by analysing trends in audit outcomes, repeat finding analysis and evaluating the monetary patterns of non-compliant expenditure. The approach to conducting this investigation is documented in the methodology chapter of this thesis, followed by the findings in the results chapter.

Motivated by the results of the South African findings, a comparative case study is undertaken using Uganda's audit outcomes to determine if enhanced AG powers has had any impact on financial accountability, as evidenced by non-repetition of audit findings.

It is found that the AGSA's contribution to strengthening the quality of democracy has been hindered by auditee non-responsiveness, resulting in diminished accountability. This has necessitated the 2018 amendments to the Public Audit Act to grant the AGSA the power to sanction and surcharge individuals for losses. The success of a supreme audit institution with such powers is seen in the Ugandan context and this provides a baseline upon which the AGSA and South African government can work.

Success replication is not inferred, but the study points out future areas beyond the scope of this thesis to be researched which would further assist in understanding whether the amendments would succeed in enhancing accountability in South Africa. The contribution of this research is to provide an inter-disciplinary framework against which a form of government policy, being a supreme audit institution with enhanced powers, can be evaluated.

LITERATURE REVIEW

1. INTRODUCTION

The literature reviewed is structured to provide the reader with an understanding of the contribution of the Auditor-General SA (AGSA) to strengthening the quality of democracy, as is mandated by the Constitution of the Republic of South Africa. An overview of South Africa's transition to democracy is provided, including the restructuring of government that came with this transition.

This serves as a backdrop for the formation of the constitutional entities established with the purpose of safeguarding democracy, the focus of which will be on the Auditor-General SA (AGSA). Before understanding how the AGSA contributes to the strengthening of democracy, an understanding of democratic theory is required. This provides the reader with an understanding of the basic meaning of democracy, and what differentiates a minimalist democracy from a strong one.

The overall quality of South Africa's democracy is investigated, and the hinderances to the AGSA's ability to contribute towards this quality is outlined. Recent developments in the role of the AGSA and the work it is conducting are then described, along with comparative information from other countries.

2. SOUTH AFRICA'S TRANSITION TO DEMOCRACY

How countries transition to democracies is a specialised field within the political sciences. Scholars are interested in this as the nature of a transition to democracy will impact on whether that transition will be successful or if the society in question will revert to autocratic rule (Masipa, 2018). Huntington (1991) is one of the most prominent scholars in this field. He identified three key phases in modern history where societies underwent changes from authoritarian to democratic states en masse, which he refers to as *waves of democracy*.

South Africa is considered to form part of this third wave as one of the last countries to transition to democracy (Plattner, 2014). This section of the literature review will provide a historical context leading up to the period of democratisation, including the structure of the government and how this was reorganised with the advent of democracy.

2.1 The architecture of the apartheid state and its impact on public finance

A pivotal political moment in South Africa's history was the formation of the Union of South Africa in 1910. Although colonial activity had commenced centuries earlier, this was the first step towards institutionalising white dominance as it resulted in the formation of a parliament which was vested in white rule and black subjugation. This in turn led to the conditions which facilitated the introduction of apartheid in 1948 (Chaskalson, 1997).

Apartheid was a nationalist ideology in South Africa which, until 1994, was implemented and enforced through law. Its key feature was that of racial segregation and separate levels of development for different groups based on ethnic lines (Roberts, 1994). As a result of this ideology, the apartheid regime sought to separate South Africa into ethnically pure states (Wittenberg, 2006).

The spatial planning of the country followed this ideology and resulted in the formation of reserves known as Bantustans where black South Africans were permitted to occupy land (King & McCusker, 2007). The apartheid government intended for these reserves to develop independently from the rest of the country and used the *Bantu Self-Government Act* to reinforce territorial divisions while providing the ruling chieftains with authority. As Wittenberg (2006) states, the reserves were therefore spatially consolidated to create the pretence of statehood for black people.

The administrative structure of the country at the time was a three-tier system for white-controlled areas. This meant that the structure of government was hierarchical, in that national government still maintained central control in order to ensure single-mindedness throughout the administration in pushing for an ethnically pure state (Wittenberg, 2006).

A consequence of the policy of allowing the Bantustans to develop independently, as stated by King and McCusker (2007), was that the Bantustans became repositories for the destitute, unemployed and unemployable (Wittenberg, 2006). The unequal distribution of resources between white and black regions resulted in development taking place at different paces, with urbanisation occurring more rapidly in white controlled regions. The Bantustan system for black people therefore resulted in fiscal crises in these black states, as they were not self-sustaining (Wittenberg, 2006).

2.2 The transition period

Given how deeply entrenched apartheid was in South African society, the factors that lead to its dismantling would no doubt be substantive. The transition period was necessitated by a myriad of factors, the combination of which forced the governing party to negotiate a transition to democracy (Saunders, 2004).

Giliomee (1995) states that any initiation towards the transition coming from those who were in power were responses, rather than initiatives, in that the government had to respond to factors threatening the stability of the state. This forced government in to negotiations, primarily with the African National Congress¹ (ANC). Huntington's five factors which result in democratisation can be applied to these pressures (Huntington, 1991)

The last apartheid government elections took place in 1989, where the National Party² (NP) saw for the first time a loss in dominance. A stagnant economy and global sanctions against South Africa, in the form of disinvestment, trade restrictions, and credit bans, left the NP in a vulnerable position. The cracks in the administration itself were also beginning to show: by isolating skills to the white community, who in 1985 only made up 15% of the population, the public service was left under-resourced for the needs of the country as a whole (Giliomee, 1995). Huntington's first factor, being the loss of legitimacy of the authoritarian regime, is applicable given the way the NP was viewed.

Internally, sanctions which were not related to economic activity also had an impact on the psyche of the white populace. South Africa was ostracised from the global sporting and academic communities, and the citizenry had begun to seek global recognition and acceptance (Giliomee, 1995). The white community had begun to accept that abandoning apartheid was a means of self-preservation (Saunders, 2004)

¹ The African National Congress has been the ruling party in South Africa since democratic inception in 1994 and was a prominent player in the liberation struggle against apartheid.

² The National Party was the governing party in South Africa during apartheid.

Huntington's second democratisation factor relates to economic growth, but the emphasis was on the increased education that came with it (Huntington, 1991). Giliomee (1995) highlights how the African population in the 1980s was far more radicalised and politically aware compared with previous generations as a result of increased education. It proved to be harder to quell discontent among this group, hence the increase in political violence and instability.

Huntington's third democratisation factor relates to the ideologies of the Catholic church, whose philosophies influenced the states in which they dominated (Huntington, 1991). This was not as contextually relevant in South Africa. However, Afrikaner churches³ had begun condemning apartheid, and other Christian denominations had expected the Afrikaner churches to interrogate their complicity in the spread of apartheid (Giliomee, 1995).

In addition, Huntington's (1991) fourth factor, the influence of external major political actors can be mapped to South Africa's transition. The Bush administration in the United States encouraged a negotiated settlement process. The collapse of the Soviet Union, and therefore a loss of a major source of backing for the ANC through revolutionary struggle, led to an understanding that the only way forward was through peaceful negotiations (Giliomee, 1995).

Being previously surrounded by authoritarian regimes, the arrival of independence in Angola, Mozambique, Zimbabwe and Namibia changed the environment in which South Africa found itself (Butler, 2017a). This means that Huntington's fifth factor, being the snowballing effect whereby democratisation amongst neighbours stimulate a transition, was also applicable.

2.3 Post-apartheid: the reconfigured state

Given the inequalities which the apartheid system entrenched in society, a negotiation process was required at the advent of democracy in South Africa to commit to issues of redress and nation building (Henrard, 2003). During this negotiation process, it was evident that the former Bantustans had to be incorporated in to the country's overall

³ Churches with a demographic base consisting of predominantly white Afrikaans speaking people.

administrative systems to distribute administrative resources more equitably (Wittenberg, 2006).

The democratised state therefore required reconfiguration of the existing administrative architecture. This is seen in section 40 of the *Constitution of the Republic of South Africa Act* (1996) which states that the government of South Africa (SA) is split into three distinctive, interdependent and interrelated spheres. These are national government, provincial government and local government.

This description of spheres of government, as opposed to tiers of government, infers that the structure of the South African government is not hierarchical. In other words, municipalities do not report to the provincial government in which they reside, and provincial government departments do not report to their national equivalents. The aim of this form of government is meant to promote co-operative governance between the spheres (Cameron, 2014).

Local government refers to the collection of municipalities in the country, responsible for basic essential services as outlined in The Constitution, within its respective jurisdictions (Koma, 2010). The functions of provincial and national government are also outlined in The Constitution, but there is greater emphasis played on the overall policy development coming from a national level for certain key areas (Koelble & Siddle, 2014).

Local government exists in order to implement the service delivery policies set out by the national government. National government determines the overall vision for the country, but the power to implement and enforce this vision is decentralised to local government (Mamogale, 2014).

The ANC pushed for a reconfiguration of the apartheid spatial planning to the extent that the outcome would result in economically meaningful entities (Wittenberg, 2006). In terms of the negotiated agreement, the provinces would have their own powers, while central (national) government would retain overall policy-making and co-ordinating functions. This meant that provinces would have limited legislative powers, as their laws cannot conflict with that of the national legislation (Lodge, 2005). The

provinces would perform their own budgeting processes and National Treasury⁴ would not earmark funds for specific purposes before allocating to a province (Wittenberg, 2006).

The reconfigured state was not randomly redesigned. The negotiation process resulted in the nine provinces South Africa has had since 1994. This required that the four provinces in existence during apartheid would integrate the Bantustans and the whole was then divided into nine provinces. The objective of the restructured state was the rejection of “ethnically homogenous units” while simultaneously developing spheres of government which collaborate towards meeting unified goals of the state. The reallocation of boundaries is meant to have a redistributive impact, in that the equitable share distributed to each province by National Treasury is based on a redistributive formula (Simeon & Murray, 2001).

This means that historically poorer provinces, which have their legacy in the spatial planning of the apartheid system and the fiscal difficulties inherited from the Bantustan system, are given a larger proportion of the budget to cater to a poorer population (Wittenberg, 2006). This distribution is meant to improve the lives of the poor in these poorer regions, as the administration requires more funds to fulfil its service delivery obligations.

Lodge (2005) notes that the increased funding did not necessarily improve service delivery in the rural regions, which are the former Bantustan regions. The infrastructure and capacity constraints inherited by these provinces as a result of amalgamating Bantustan regions has left these administrations with severe skills shortages (Lodge, 2005). This is due to skilled members of the populace having migrated towards the private sector, or the public sector in more urbanised regions (Lodge, 2005).

3. INSTITUTIONALISING DEMOCRACY IN SOUTH AFRICA

Democracy cannot exist solely as a notional concept. As Chaskalson (1997, p. 297) states, “the revolution was ultimately effected through law”. The next section therefore

⁴ The National Treasury is a government entity established in terms of section 5 of the *Public Finance Management Act* which is responsible for overseeing the South African government’s overall fiscal policies (Republic of South Africa, 1999).

seeks to discuss how democracy came to be institutionalised through formal structures in South Africa.

During the negotiations to bring about democracy, a need was identified for institutions, which, independently of the apartheid government, would be tasked with protecting the rights enshrined in the Constitution. The Parliament which existed at the time could not legitimately fulfil this role as it was seen to exist simply to authorise the repressive policies of the regime, rather than playing the oversight role expected of legislatures (Klug, 2015).

In April 1994, an interim constitution came in to effect. It provided for a constitutional assembly to be elected to oversee the drafting of a final constitution (henceforth “The Constitution”) in accordance with agreed upon principles. The constitutional assembly established the Constitution’s supremacy as legislation in South Africa, meaning that any laws which contradicted it would be considered invalid (Chaskalson, 1997).

From a social perspective, the major impact of the Constitution was the establishment of the bill of rights. This guaranteed all people rights and freedoms. From a structural perspective, the decentralised government structure was introduced and called for legislatures to be established at national, provincial and local government levels based on the outcomes of elections. A Constitutional Court was established, which is considered the highest court in the land as it oversees the implementation of the highest law in the land. (Chaskalson, 1997)

The Constitutional Court is therefore a mechanism to ensure democracy is protected, but it requires support from a non-judicial perspective (Chaskalson, 1997). Another major structural innovation coming from the Constitution was therefore the formation of six initial constitutional institutions under Chapter 9 with the purpose of safeguarding democracy. The Auditor-General SA (AGSA) was one such institution and will be the focus of this literature review (Klug, 2015)⁵.

⁵ The other five initial institutions, some of which have since been replaced with other bodies, were: the Public Protector; the South African Human Rights Commission; the Commission for the Promotion and Protection of the Rights of Cultural, Religious and

3.1 The Auditor-General SA

The AGSA fulfils its role of safeguarding democracy as the Supreme Audit Institution (SAI) through “enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence” (Auditor-General of South Africa, 2014, p. 2). This mission statement is the basis for all audits being performed in the public sector, and purports that the audits of the annual report of a publicly funded entity contributes towards democratic processes (Auditor-General of South Africa, 2014).

In terms of section 290 of the International Federation of Accountants Code of Ethics (International Federation of Accountants, 2006), the external auditor must be independent from the auditee. The AGSA was previously a part of the public sector, and was established in terms of the South Africa Act of 1909, but since 1993 has been given autonomous status to become independent from government (Auditor-General of South Africa, 2014; Nzewi & Musokeru, 2014). This is affirmed in s23 of the Public Audit Act (2004) which clarifies that the AGSA may charge audit fees to its audit clients in exchange for audit work performed, just like any other audit firm, rather than receiving an appropriation from the National Treasury to fund its operations.

In terms of s20 of the Public Audit Act (2004), the AGSA is responsible for the following three components in terms of an annual mandatory/regulatory audit:

Forming an opinion on whether the financial statements of an auditee fairly present the financial performance, financial position and cash flows of the entity. This is the same requirement of a private sector audit and is conducted in terms of the International Standards of Auditing, with additional guidance offered for public sector specific matters.

Forming a conclusion on the entity’s compliance with financial related legislation. Public sector entities are subject to stringent legislation to enhance accountability and the AGSA performs audit work to ensure that these entities have complied with this.

Linguistic Communities; the Commission for Gender Equality; and the Independent Electoral Commission

Forming a conclusion on the auditee's performance report which outlines performance against predetermined objectives. A conclusion is made in terms of the usefulness and reliability of the performance report. A performance report lists key performance indicators of an entity, with targeted and actual performance. For a performance report to be useful, it is evaluated against criteria of consistency, measurability, and relevance. For a performance report to be reliable, it is evaluated against criteria of validity, accuracy and completeness (Nombembe, 2013).

In the private sector, where an audit is required, it is restricted to the financial statements by section 30 of the Companies Act (Republic of South Africa, 2008). Compared with the AGSA responsibilities in terms of a public sector audit, it is evident that a public sector audit is more detailed in scope than that of a private sector audit. This correlates with the increased number of conclusions in the resulting audit report. An audit conducted in terms of the Public Audit Act would therefore have the following audit opinions:

- Clean audit
- Financially unqualified audit
- Qualified audit
- Adverse audit
- Disclaimer of opinion (Auditor-General of South Africa, 2014).

Refer to Appendix A for explanations of these outcomes.

New Public Management (NPM) is an international model of the public administration discipline which proposes that the best way to run a country would be to treat it as a corporation, where the same services are rendered in a cost effective manner (Hughes, 2003; Page, 2005). NPM is seen as a means of public sector reform and is applied in the South African administration through the decentralised structure, allowing for autonomous management at local government levels (Koelble & Siddle, 2014), and the modernisation of the public service, which was necessitated by the need to upskill an outdated administration so that it can cater to the needs of the

country as a whole, from an administration which was designed to only service the needs of the white minority (Seemela, 2008; Cameron, 2015).

An administration attempting to conduct public service reforms through NPM would be attempting to operate more efficiently and effectively. Such countries would therefore require a SAI which promotes this efficiency and effectiveness through its independent external audits (Azuma, 2005).

Before being able to understand the AGSA's contribution to the quality of democracy, an understanding of the political theories around the concept of democracy is required. This is therefore the focus of the next subchapter.

4. THE QUALITY OF DEMOCRACY

The literature reviewed thus far has discussed extensively the SA transition to democracy and resultant structural effects. Democracy is taken to be an established status and a positive force. However, discussion on the theories around the strength of this democracy must also be considered. This subchapter will therefore review literature which explains what democracy means and what makes a democracy a high-quality democracy. These theories are thereafter applied to the South African context.

4.1 Differentiating an effective democracy from a minimalist one

Before considering the quality of a democracy, one must first understand what democracy is. Attempting to define democracy is a complex aspect of the political sciences, but the etymological⁶ origins of the word democracy can be identified as the Greek word *dēmokratia*, which means *government by the people* (Hart, 1948).

Ober (2008) states that a shift in meaning of the word democracy towards who it is that is able to appoint leaders in society is reductive and allows democracy to be critiqued on flaws in electoral systems, rather than its inherent value systems. Instead, using linguistic analysis, the author calls for social scientists to view democracies through the lens of the original intended meaning: the regime which allows the people to have collective capacity to effect change in the public realm.

⁶ Etymology is the study of the origin of words.

A governance structure that does not allow for wide participation by the people cannot be considered democratic (Shuifa & Jinglei, 2008). This means that citizens must have the ability to deliberate on governance matters which affect them and should be able to influence policy making through other channels, beyond merely voting periodically (Schmitter & Karl, 1991).

The ultimate outcome of democracy must be to assert the will of the people, and elections are therefore merely mechanisms which will be used to facilitate that will (Donnelly, 1999).

The minimalist definition of democracy is therefore one which focusses on electoral democracy only, while the maximalist definition of democracy is referred to as strong or effective democracy (Alexander & Welzel, 2011). Either way, the authors argue, the result is some marginal level of empowerment for the people which would not exist had there been no form of democracy in place.

Being able to measure the quality of democracy is becoming increasingly important, particularly in developing countries. This is because donors and investors have been factoring in democratic values in making their decisions to donate or invest (Coppedge, et al., 2011). Coppedge et al put forth indicators which can be used to evaluate the effectiveness of a democracy.

Diamond and Morlino (2005) propose eight, usually overlapping, **conceptual dimensions of democracy**. While the indices proposed by Coppedge et al are useful, the dimensions of democracy proposed by Diamond and Morlino provide a framework for evaluating a democratic system, rather than a checklist.

The first dimension identified is that of **rule of law** (Diamond & Morlino, 2005). Being in a democratic society might establish rights, but for these rights to be respected and enforced, it requires rule of law to be in effect (Alexander & Welzel, 2011).

It is important to note that rule of law by itself does not guarantee democracy. Autocratic regimes too make use of rule of law, in many instances to enforce its autocracy. This means that rule of law is not an exclusive feature of democracy (Alexander & Welzel, 2011). The extent to which rule of law fits in to the Diamond and Morlino framework therefore rests on the principles which it upholds.

For the rule of law to enforce democratic principles:

- it must be applied homogenously throughout the system,
- there should exist formal institutions meant to enforce horizontal accountability (see later) which are adequately authorised and empowered,
- the judiciary should be free from undue influence and reasonable access must be made to the court systems by all citizens,
- state institutions are not allowed to discriminate along any lines,
- and civil rights are upheld (O'Donnell, 2004).

Diamond and Morlino (2005) explain that rule of law is the dimension that forms the base for all the other dimensions in their framework. Without rule of law, the other dimensions of democracy have no institutional and formalised basis, making them weaker.

The second dimension identified is that of **participation**. This speaks to the extent to which citizens are equipped to influence decisions which affect their lives, the most common form being that of the right to vote in elections. A fundamental condition of this dimension is that of basic education and literacy among citizens, particularly that which enhances political knowledge. This is strongly linked to the third dimension, that being **competition**, which speaks to the competition between political parties in regular, free and fair elections (Diamond & Morlino, 2005).

The next two dimensions are **vertical accountability** and **horizontal accountability** (Diamond & Morlino, 2005). Accountability describes the relationship between two parties, where one party is obliged to account for their activities, while the other is entitled to explanations for those activities and may respond positively or negatively (Friis-Hansen & Cold-Ravnkilde, 2013).

Attention to government accountability has increased both socially and scholastically. Thomas (1975) presents an argument at a time when NPM was gaining global prominence that the idea of holding governments accountable became more pressing as citizens noted a larger proportion of their income going towards taxes. With this

came an expectation of ensuring that the public service was delivering by spending public funds lawfully, effectively and efficiently.

This meant that, in line with NPM principles, service delivery required measurable objectives against which governments could be held accountable to. This relatively early literature cautioned against the idea of expecting a strong measurement system to automatically result in perfect administrations. As the author states: “measurement is simply a means of organising available data, it is not capable of determining whether productivity levels are either satisfactory or unsatisfactory” (Thomas, 1975, p. 4).

Friis-Hansen and Cold-Ravnkilde (2013) explain the difference between horizontal and vertical accountability. Horizontal accountability is the accountability that exists between one state entity and another state entity by virtue of an institutionalised accountability mechanism. Horizontal accountability can take the form of a combination of monitoring, evaluating, and enforcement activities (Diamond & Morlino, 2005).

Vertical accountability, on the other hand, is the accountability of a state entity to a non-state entity, most commonly citizens. Elections are generally considered to be the most common form of vertical accountability, where citizens can vote out non-performing administrations (Friis-Hansen & Cold-Ravnkilde, 2013).

Citizens are, however, increasingly engaging in what is known as social accountability as a means of holding governments accountable, primarily at local government levels. Social accountability is a broad term used to describe any civil led actions which citizens can engage in to hold governments accountable, which has been motivated by the perceived inadequacies of accountability through electoral systems on its own. This form of accountability usually complements existing horizontal accountability structures, rather than replacing it (Friis-Hansen & Cold-Ravnkilde, 2013). A popular instance of social accountability in SA was the campaigning of the Treatment Action Campaign, where citizens mobilised through protests and use of the constitutional court system to prompt government to amend policies on the support systems provided to people living with HIV (Butler, 2017b).

This links to the concept of participatory democracy discussed in the previous subsection, where institutions exist which facilitate the participation of ordinary citizens in

the policy making decisions within their local governments (Andersson & van Laerhoven, 2007). While participatory governance refers to the formalised structures provided to citizens, social accountability provides for more broad action to be undertaken by citizens, which may or may not trigger the aforementioned formal structures (Friis-Hansen & Cold-Ravnkilde, 2013).

Vertical accountability and horizontal accountability usually co-exist. Citizens rely on strong institutions of horizontal accountability to affect the vertical accountability they initiate. At the same time, horizontal accountability seeks to minimise corruption through transparency. It is this transparency that citizens require in order to undertake vertical accountability activities in the first place (Diamond & Morlino, 2005).

The outcomes of institutional monitoring and evaluating activities must result in institutional action for horizontal accountability to be effective (Schmitter, 2004). This requires institutions to overlap in duties in a systemic manner, and implementation of checks and balances by independent parties (Diamond & Morlino, 2005).

These first five dimensions are grouped together as procedural dimensions of democracy. The next two dimensions, the substantive dimensions of democracy, are **freedom** and **equality**. These speak to the political, civil and socioeconomic rights granted to citizens, which in turn determine the quality of participation and competition. Furthermore, there should be equal treatment of all citizens with respect to rights and legal protections (Diamond & Morlino, 2005).

The eighth and final dimension identified in this framework is **responsiveness**. This is a results-based dimension which asks whether governments have developed and implemented policies which are in accordance with what citizens want. This dimension is highly dependent on both the accountability dimensions (Diamond & Morlino, 2005).

These are the eight dimensions one would evaluate in considering the effectiveness of a democracy. Another principle to consider when discussing democracy is the concept of consolidation. This does not evaluate the quality of a democracy, but rather the characteristics which can determine the extent to which the democratised state is to remain in that form, rather than reverting to an authoritarian regime. The higher the level of institutionalisation of democracy, the more consolidated it is, and it is more

likely that democracy will be sustained (O'Donnell, 1996). In the next subsection, the quality of South Africa's democracy is evaluated.

4.2 Evaluating South Africa's democracy

Mattes and Gyimah-Boadi (2005) have conducted an evaluation of South Africa's democracy against the framework presented by Diamond and Morlino. The study was a comparative analysis against Ghana, whose democratic features were similar enough to be useful. Objective measures were used, such as results from evaluations done by international monitoring agencies, but the authors also considered citizen perceptions through multiple surveys in forming their conclusions. The authors acknowledge the weaknesses introduced as a result of presenting such opinions, but as democracy speaks to the will of the people, these opinions cannot be disregarded in evaluating the quality of a democracy.

The relative freedom and equality of South Africa post-apartheid is noted, and the authors do not dispute that the country meets the requirements for a democracy. However, they conclude that it is not a high-quality democracy, but rather a minimal one (Mattes & Gyimah-Boadi, 2005).

One of the biggest concerns raised in evaluating South Africa's democracy was poor participation. Little to no structures are provided for citizens to influence political outcomes and the most formal structure, that being formal elections, has been constrained by increasing voter apathy (Mattes & Gyimah-Boadi, 2005). Butler (2017b) notes that a threat to the quality of democracy in South Africa is that the will of the people is being overshadowed by the abuse of power by businesses in steering government policy.

Mattes (2002), in another article on South Africa's democracy, raises concerns on three factors which he considers crucial for democratic consolidation. First, a growing economy. The author argues that South Africa has not achieved the necessary economic growth that would reduce the inequality to the extent associated with a democratic society. While access to basic services has improved since the end of apartheid, economic growth has been slow, unemployment increasing, foreign investment declining, and inequality not being sufficiently addressed.

More than a decade after this study by Mattes, the analysis of the economy has not improved. Economists rate South Africa as one of the most unequal societies in the world. Income disparity between different racial groups has improved, but only due to the introduction of the black middle class (Masipa, 2018).

The next factor is stable and predictable political institutions. South Africa's constitutional framework may be world renowned, but its effectiveness is called in to question. Citizens are limited in their ability to hold governments accountable, and the author criticises proportional representation based on electoral results if parliamentarians can switch parties. The author also argues that the dominance of the ANC in elections undermines the extent to which the legislature can hold the executive to account. This has been evidenced by parliamentary decisions being made in order to tow the party line, rather than in the interests of democratic outcomes (Mattes, 2002).

It should be noted that at the time of these criticisms, South Africa had only experienced two general elections and two local government elections. The concerns around the ANC's single dominance may have had legitimacy then, but as Masipa (2018) points out, the results of the more recent 2014 and 2016 elections showed that the ANC was no longer as dominant as it initially was.

The ANC was a primary actor in South Africa's transition to democracy. Political scholars note that when a group like this over time loses some of its power through free and fair elections, it is a major indicator of democracy being consolidated (Masipa, 2018). Furthermore, the internal factionalism seen within the ANC as of late can be matched to political theories which purport that pluralism within dominant parties allow for enhanced accountability, albeit for short and vulnerable periods (Butler, 2017b).

This does not dismiss the criticism of single party dominance raised by Mattes, but it does indicate that over time the criticism is potentially becoming less relevant.

A supportive political culture is the final factor raised by Mattes (2002) in assessing how consolidated the South African democracy is. The author notes that South Africa has one of the most passive citizenries in Southern Africa. Engel (2014) affirms this by noting that in the last three National and Provincial elections, these being 2004,

2009 and 2014, non-voters outnumbered every other group, including those who voted for the majority party.

Mattes (2002) asserts that this cannot be attributed to a lack of information or poverty, as South Africa is better resourced in these respects compared to its neighbours. Instead, a disinterest in the democratic process is highlighted.

The author links this to the gap between the socioeconomic expectations of citizens that democracy was meant to deliver, versus what has been received (Mattes, 2002). This deficiency can point to further shortcomings in the quality of democracy in that it speaks to limited participation and vertical accountability, which are part of the dimensions used to evaluate the effectiveness of democracy in the previous section.

All these factors point to a democracy which is not of a high quality and is therefore a minimal democracy in that it merely provides the electoral platform for open elections. However, the appearance of cracks in the single party dominance which South Africa had been experiencing since the advent of democracy may indicate the beginnings of a democracy which has only started to mature and consolidate itself.

In the next subsection, the AGSA, which was previously highlighted as an entity established to strengthen the quality of democracy in SA is evaluated for its contribution towards enhancing accountability.

4.3 The AGSA's contribution to the quality of democracy - accountability

Financial accountability is about ensuring that finances are managed efficiently, effectively, and economically, and that those responsible for managing these funds are answerable for their actions. In the public sector, this means ensuring that public funds have been used in a way that provides the most value for money while working within the limitations of regulatory requirements (Nzewi & Musokeru, 2014).

The AGSA operates within a legislative framework which assists it in enhancing accountability. The primary items of legislation and areas which link to accountability are summarised as follows:

Constitution of the Republic of South Africa	Section 92 outlines the reporting requirements of government entities. Section 215 requires, for all three
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	levels of government, a budgetary process which promotes transparency, accountability, and effective financial management (Republic of South Africa, 1996)
Public Finance Management Act (PFMA)	The overall objective of the legislation is to secure transparency and accountability over the financial management of public funds (Republic of South Africa, 1999)
Local Government: Municipal Finance Management Act (MFMA)	The overall objective of the legislation is to secure transparency and accountability over the financial management of public funds used in the local government sphere (Republic of South Africa, 2003)
Public Audit Act (PAA)	The overall objective of the legislation is to formalise the Constitutional requirements of public sector external audits (Republic of South Africa, 2004)

It must be emphasised that both the PFMA and MFMA provide comprehensive legislative requirements surrounding the holding of accounting officers accountable. These items of legislation highlight the auditee's responsibilities for holding itself accountable. The effectiveness of implementing these accountability mechanisms is discussed later (Republic of South Africa, 2004; Republic of South Africa, 2003).

Taking this legislative framework in to account, the AGSA therefore serves to enhance democracy through its public sector audits by facilitating accountability through two mechanisms:

- Tabling of annual reports to the relevant legislatures, with audit opinions or conclusions on the audit of financial statements, performance report and compliance with legislation,
- And providing feedback on how entities may improve their financial management systems (Nzewi & Musokeru, 2014).

These two mechanisms can be linked to the dimension of democracy called **horizontal accountability** discussed in the Quality of Democracy section, in that government is meant to hold itself accountable based on the work performed by the external auditors.

Nzewi and Musokeru (2014) note that there are limitations to the effectiveness of the AGSA's operations. The AGSA has had institutional challenges which constrains its ability to oversee accountability. The organisation has struggled to recruit and retain skilled staff, particularly more senior accountants and computer specialists. This results in reliance on outsourcing of audits (or parts thereof) to private sector audit firms, which increases audit costs and reduces the control that the AGSA has over the audit. Another institutional limitation is that the AGSA has been struggling with cash management as many government entities are not paying outstanding audit fees. This in turn may have an impact on auditor independence, compromising the effectiveness of the external audit process.

From a client relationship perspective, the AGSA has found a large number of auditees are not submitting their annual reports for audit in compliance with legislated deadlines. The consequences are two-fold. The delayed submission impacts on the external auditors' ability to conduct audit work, and thus report thereon timeously. Furthermore, the AGSA has noted a propensity among auditees to submit flawed reports after the deadline in the hopes that the auditors would simply make the required corrections, which is beyond the scope of the external audit process. The result is a diminished capacity for the external audit to contribute to accountability processes (Nzewi & Musokeru, 2014).

The biggest hindrance to the AGSA's ability to contribute to accountability, however, is the **political perspective**, which will be the primary focus of this thesis. Prior to the implementation of the Public Audit Amendment Bill of 2018, the AGSA lacked authority as it was merely able to report on findings and make recommendations, it was unable to enforce any corrective measures or initiate prosecution proceedings. If findings or recommendations are not taken seriously by those charged with governance, then the public sector audit process has not contributed to democracy, through no fault of the AGSA (Nzewi & Musokeru, 2014).

As previously noted, government entities already operate within a stringent legislative framework to ensure that entities hold themselves accountable, but the work of the AGSA to date has not necessarily ensured that this is enforced. Furthermore, the audit reports do not assist legislatures in enforcing accountability if these bodies are made up of persons who lack the technical capacity to properly evaluate its contents (Nzewi & Musokeru, 2014).

The AGSA argues that non-responsiveness from auditees has led to a lack of accountability, putting many local governments on to a trajectory of poor management of funds to such a severe extent where they may not continue to be able to operate in the future. This is due to mismanagement of matters such as revenue collection, expenditure management and inadequate grant management (Auditor-General of South Africa, 2018).

The AGSA and the Standing Committee on the Auditor-General⁷ have therefore tabled an amendment bill to parliament where it proposed that the powers of the AGSA be strengthened to allow it to compel auditees to act. In September 2018, the bill was still being considered by President Cyril Ramaphosa, who, upon being questioned as to the delay in signing off this amendment, had stated to Parliament that the constitutional validity of any legislation must be interrogated before he is able to sign it off (Magubane, 2018). President Ramaphosa signed the bill on Sunday 18 November 2018 (Merten, 2018). The effective date is 1 April 2019.

The Public Audit Amendment Bill (Standing Committee on the Auditor-General, 2018) will implement the following changes to the Public Audit Act, amongst others:

- Granting the AGSA the power to refer a matter to the relevant bodies for investigation, in which the AGSA is to be kept informed at all times (the power to sanction)

⁷ The Standing Committee on the Auditor-General is a committee of Parliament of SA which deals directly with the AGSA.

- Granting the AGSA the power to recover from any individual any losses they may be responsible for (the power to surcharge)

The remaining amendments are outlined in Appendix B.

The power to surcharge individuals and implement sanctions will be the focus of this study. It appears on the surface that these powers may compromise the AGSA's independence as external auditor due to the AGSA performing duties which would be expected of the accounting officer. The impact on auditee responsiveness notwithstanding, it is necessary in a high-quality democracy for external auditor independence to remain uncompromised.

Diamond and Morlino (2005) emphasise that horizontal accountability in a democratic society requires effective monitoring and evaluation activities, which includes systems which allow for independent checks and balances. Compromised independence would also result in non-adherence to the guidance of international standards and best practice, which would lead to a lack of credibility and bring in to doubt the quality of the external audit process (International Federation of Accountants, 2006).

Although the AGSA would be taking on additional duties, the management of public sector entities are not being absolved of their responsibilities. Instead the AGSA is acting as an additional layer of assurance for matters requiring sanctions. It was therefore concluded based on the literature reviewed that the amendments do not compromise the AGSA's independence, and thus does not diminish accountability and the quality of democracy. As stated by Diamond and Morlino (2005), horizontal accountability requires government to hold itself accountable, through an institutionalised mechanism. The AGSA will be acting as that mechanism only when there has been insufficient action by government.

Furthermore, the deficiencies in the current system point to a lack of technical capacity amongst those charged with governance to hold officials accountable (Nzewi & Musokeru, 2014). The system also relies on proper implementation of the PFMA and MFMA by those charged with governance, but these frameworks were drawn up on the assumption that those with political influence over government entities are themselves free from corruption (Ajam, 2019). The amended powers therefore assume that it would be better to enhance the powers of a body whose independence

from political influence is Constitutionally protected, rather than adding on to the powers of government entities where corruption may be furthered.

Studies on the comparative powers of Supreme Audit Institutions (SAIs) have been sparse, this has in turn lead to little analysis on the effects of enhanced SAI powers on audit outcomes within the SAI's respective regions. A 1989 article from the journal published by the Asian Organisation of Supreme Audit Institutions (ASOSAI) by a then director of the Indian Office of the Comptroller and Auditor-General⁸ summarised the powers of some of the SAIs at the time. Libya and the Republic of Korea were identified as being the two SAIs at the time with the power to sanction and surcharge (Krishnamachari, 1989).

It is worth noting from the review of the audit reports of the Board of Audit and Inspection of Korea that there is a strong emphasis placed on the role that citizens can play in holding their governments accountable (Board of Audit and Inspection of Korea, 2018).

This links to the discussion by Diamond and Morlino, where it was noted that the dimensions for a high-quality democracy should overlap. In this case, vertical accountability and horizontal accountability are complementing each other through the Korean SAI expectation of citizens holding government accountable. This is in stark contrast to the South African context where it was noted that the South African citizenry has been passive and has not been active in holding its governments accountable (Mattes, 2002; Mattes & Gyimah-Boadi, 2005).

Only one other country was found to have a SAI with similar powers: Uganda. The Office of the Auditor General, the SAI of Uganda, has its powers outlined in section 34 of the Ugandan *Public Finance and Accountability Act of 2003*. Refer to Appendix C for an extract of this legislation (Office of the Auditor General Uganda, 2018).

In summary, while not as explicit as the new powers of the AGSA, there is the facility of the AG being able to refer matters to another body for full investigation and the legally enforceable right to demand explanations of any public servant. Furthermore,

⁸ The Office of the Comptroller and Auditor-General (CAG) is the SAI of India

there are no explicit surcharge powers, in that the legislation does not provide for the AG to collect losses from responsible individuals. However, the legislation does make reference to disallowing the expenditure and the AG reporting on this matter to Parliament to address (Office of the Auditor General Uganda, 2018).

Three out of the four countries mentioned thus far are in Africa and are therefore part of the scope of an annual study called the Ibrahim Index of African Governance, these are Libya, South Africa and Uganda⁹. The Ibrahim Index uses 102 indices to rank each country in Africa on governance matters to provide stakeholders with a measure of the quality of governance structures, which had been lacking in ranking systems developed for evaluating Western countries (Mo Ibrahim Foundation, 2018)

The main pillars of the index are safety and rule of law, participation and human rights, sustainable economic development, and human development (Dassah, 2015). ‘*Transparency and accountability*’ is one of the sub-pillars under safety and rule of law. The 2018 index for these three countries rated this sub-pillar as follows:

	Africa (average)	South Africa	Libya	Uganda
Transparency and accountability (out of a best possible score of 100)	35,3 (prior: 34.7)	57,4 (prior: 60.7)	18,2 (prior: 17.4)	35,7 (prior: 36.1)

The 2018 index classifies South Africa and Libya under “increasing deterioration” for transparency and accountability, while Uganda is classified under “increasing improvement” (Mo Ibrahim Foundation, 2018).

Given this study’s focus on the quality of democracy, the literature on Uganda’s quality of democracy, or lack thereof, must be noted. Arnould (2015) states that many consider Uganda a failed democracy and that the attempts to transition to democracy in 1986 remain incomplete. The author labels Uganda as a hybrid regime, as it has

⁹ Ghana was discussed in the previous subsection as a comparative country in evaluating the quality of South Africa’s democracy. Ghana is not relevant for this comparison as it does not have a SAI with the power to sanction and surcharge.

elements of democratic regimes, such as elections, while retaining elements of authoritarian regimes, particularly persistent militarism.

5. CURRENT AUDIT STATUS

The last subchapter of this literature review seeks to provide the reader with a brief understanding of the status and outcomes of the public sector audits being conducted by the AGSA, with emphasis on the MFMA audit cycle, due to its role in provision of essential services.

The findings of every audit cycle in South Africa's public sector are consolidated in a document called the General Report. For both PFMA and MFMA cycles, the AGSA presents commentary on audit outcomes for the country, trends and movements in outcomes and analysis on root causes in findings (Auditor-General of South Africa, 2016).

The AGSA provides recommendations to poor performing auditees by highlighting what worked in better performing entities. The impact of strong leadership is highly emphasised as a driver for good audit outcomes. For auditees that improved, the Auditor-General noted a link to a commitment to action plans and identifying root causes. Finally, findings on governance structures such as audit committees and internal audit units are highlighted as an integral support structure in ensuring good audit outcomes (Auditor-General of South Africa, 2016).

It was found that auditees who had improved their audit outcomes in previous years could not sustain said improvement due to factors such as instability, vacancies, poor control environments, and over reliance on the external auditors to correct issues rather than being pre-emptive through their day to day activities. Regression in audit outcomes in other auditees were attributable to not implementing recommendations agreed upon with the external auditor in a timeous manner to avoid repeat findings (Auditor-General of South Africa, 2016).

Emphasis is placed on the persistent non-compliance with legislation, particularly procurement legislation. There are three types of non-compliance with procurement legislation which are defined in the Public Finance Management Act.

- Irregular expenditure represents the rand value of transactions incurred not in compliance with procurement and supply chain legislation.
- Fruitless and wasteful expenditure is defined as expenditure which could have been avoided had reasonable care been exercised.
- Finally, unauthorised expenditure is the overspending of budgets, or the spending of funds allocated for a different purpose (Republic of South Africa, 1999).

An analysis of these outcomes is described in the methodology chapter and presented in the results chapter.

Root causes are the reason a problem arose and are factors that should have an actionable plan associated with them so that management can ensure that the problem does not reoccur (Sarkar, et al., 2013). Where audit findings are made, the AGSA communicates the root causes of these findings to the auditees. However, lack of skilled senior officials in local governments has resulted in administrations which are unable to appropriately respond and react to these root causes, resulting in repeat findings in subsequent years (Mamogale, 2014). Further research may investigate if other factors have played a role.

The AGSA identifies root causes for audit findings from an internal control systems perspective but has also been continuously identifying lack of consequences as a cultural factor in poor accountability in government. They identify three main indicators of “accountability failures” in local government in the 2017 MFMA audit cycle:

- Regressing audit outcomes and increasing irregular expenditure,
- Disregard for improvement plans developed for auditees,
- And a hostile audit environment (Auditor-General of South Africa, 2018)

Another concern is the reliance on external consultants, who merely provide a “quick fix” to the year in which they are brought in, without any skills being transferred to the employees of the auditee. This means that when these consultants leave, the entities

are left as unskilled as before and will require external support in the following year (Mamogale, 2014).

6. CONCLUSION

The literature reviewed has shown South Africa to be a weak, or minimalist, democracy. With respect to the focus of this study, the contribution of the AGSA to the quality of democracy through enhancing accountability is hypothesised to be ineffective. This is primarily due to the limitations in the AGSA's powers as a SAI and the resultant non-responsiveness from auditees.

It is therefore concluded that there is value to be obtained in investigating the extent to which the AGSA has contributed to the quality of SA democracy through its public sector audits to date. This will allow for further deliberation on the merits of enhanced SAI powers in contributing to the quality of democracy.

METHODOLOGY

The literature reviewed has established that the framework which can be used to evaluate the quality of a democracy is the one presented by Diamond and Morlino, which describes eight dimensions of democracy (Diamond & Morlino, 2005). The Auditor-General SA fits in to this framework through its contribution to what the authors call *horizontal accountability*. This means that the AGSA is meant to facilitate how government is held accountable for its finances through the audit process.

However, the AGSA has repeatedly stated that positive progress in audit outcomes has not been occurring as there are no consequences to negative audit outcomes and findings due to the limitations in their power as a SAI (Auditor-General of South Africa, 2016). While strong legislation exists in the form of the PFMA and MFMA with the intention of holding government officials accountable, it assumes that those charged with governance hold the technical and moral capacity to hold officials accountable. This has been refuted by the Nzewi and Musokeru study (2014).

As a response, an amendment was made to the Public Audit Act in November 2018, which will enhance the powers of the AGSA to ensure that there are consequences to not implementing recommendations coming out of audit findings. It could be argued that the AGSA is better capacitated, but is also meant to be relatively free from political influence as a Constitutional entity. In this way, proponents argue that there will be increased accountability in the way public finances are managed, thus strengthening the quality of South Africa's democracy.

However, this raises the concern whether or not this is a true form of horizontal accountability, which requires one state agency to hold another accountable. If the AGSA is meant to be independent, should it be conducting the activities that government itself should be carrying out in order to ensure horizontal accountability?

The literature does point to South Africa as a developing nation having a democracy which is minimalist in nature and is only beginning to mature, and there are ongoing factors that presently do not easily facilitate government holding itself accountable (Masipa, 2018; Mattes & Gyimah-Boadi, 2005). It is therefore put forth that enhancing the powers of the AGSA may be a necessary trade-off required in order to ensure accountability, given the current level of maturity of South Africa's democracy.

The main hypothesis of this thesis is therefore as follows:

The current powers of the Auditor-General SA as at October 2018 have been insufficient in strengthening the quality of democracy.

This chapter will outline the method used in formulating a conclusion for this thesis.

To address this hypothesis, it is surmised that regressive outcomes and repeat findings are an indication of auditees disregarding the outcomes and recommendations made by the external auditor in the previous year due to its ineffective powers as a SAI. This would mean that no accountability exists for matters relating to public finance, affirming the literature which describes South Africa as a minimalist democracy, rather than an effective one (Mattes & Gyimah-Boadi, 2005).

DATA COLLECTION AND SAMPLE SELECTION

Local government represents the government's service delivery sphere at a grassroots level and is therefore the sample being selected for this study. Local government refers to municipalities as well as their municipal entities.

Municipal entities are being excluded from the analysis. Municipal entities are companies owned by a municipality and are primarily run like businesses and are thus not considered comparable to municipalities for the purpose of this evaluation. Consolidated entities are therefore not being considered either, but only the individual municipalities. For example, the City of Cape Town is a municipality included in the sample, but its subsidiary, the Cape Town International Convention Centre was not included, as it is a municipal entity.

Municipalities which did not exist in the previous year due to changes in municipal demarcations are removed from the sample as there is no comparative trend to observe, nor would it be possible to evaluate the implementation of recommendations from prior audits as the entity would not have existed in its current form nor received recommendations.

Summarised data from the website of the Auditor-General SA was downloaded in excel format in order to allow for analysis. The data serves as an annexure to the

AGSA's General Report¹⁰ for an audit cycle. This data included for each entity in the country: an audit outcome for each of the three components of the audit report, an indication where negative outcomes are a repeated outcome, breakdowns of subcategories of the three components of the audit report, and the Rand value of non-compliant expenditure.

Data was limited to outputs from two MFMA audit cycles, for all three components of the public sector audit. These were the audits for the year ending 30 June 2016¹¹ (henceforth the 2016 audit) and the year ending 30 June 2017¹² (henceforth the 2017 audit). The reason for limiting analysis to two years is that the AGSA only began providing the aforementioned annexures in excel format as of 2016. This spreadsheet included limited comparative information for the MFMA audit cycle for the year ending 30 June 2015 (henceforth the 2015 audit).

There were no significant political or socioeconomic events in South Africa occurring prior to the 2016 financial year. Capturing and converting data from audits prior to 2016 for analysis would therefore have not produced information contradictory to that which was available from 2016 onwards, and the two years will thus suffice. It was also concluded that since no complex statistical analysis is being conducted, these data points would be sufficient. An area for future research may be to evaluate the impact of the 2018 PAA amendments over a longer period once in effect.

¹⁰ The AGSA general report is a report generated after each audit cycle, in which the AG reports on the overall status of audit outcomes for that audit cycle. A general report on local government audit outcomes is generated upon completion of the MFMA audit cycle and a general report on provincial and national audit outcomes is generated upon completion of the PFMA audit cycle.

¹¹ Source: <http://www.agsa.co.za/Portals/0/Reports/MFMA/201516/Annexures/2015-16%20MFMA%20-%20Annexure%201%20-%20Final.xlsx> (retrieved 31 October 2018)

¹² Source: <http://www.agsa.co.za/Portals/0/Reports/MFMA/201617/Annexures/Annexure%201.xlsx> (retrieved 31 October 2018)

ANALYSIS

There were three forms of analysis conducted. The first two evaluated all three components of the audit report, while the third was focussed on non-compliance with legislation only. The three forms of analysis are outlined in the next three sub-sections.

1. Analysis of audit outcomes

First, audit outcomes were evaluated at an overall level, for each of the three components of the audit (financial statements, report of performance against predetermined objectives, and compliance with legislation). This meant that the data was evaluated for the extent to which audit outcomes have changed. Positive changes would indicate that adequate actions have been made in a year to improve the outcome and ensure that there is financial accountability, while negative changes would suggest that the auditee has not adequately resolved the issues raised in the previous audit and it is questionable if there is accountability within the auditee.

Findings on the performance report and compliance with legislation which were addressed after external auditor intervention are coded as negative irrespective of the resolution. Even though the findings were addressed, it was only due to outside intervention, rather than through preventative, detective and corrective internal control systems.

For the analysis of the data arising from the 2017 audit cycle, municipalities where a change in power took place after the 2016 Local Government Elections were **not** excluded from the sample. The AGSA general report for this year indicates that if the outcome of this election resulted in a change in the leadership of an entity, the changes in leadership were factored in to the recommendations coming out of that audit. For the purposes of this study, new leadership in a municipality after an election will be the accountable persons in their respective municipalities.

For each of the three audit components (the financial statements, performance report, and compliance with legislation) a binary status of the wording “positive” or “negative” was initially coded to the auditee’s outcome at each point in time.

For the **audit of financial statements**, an unqualified outcome was coded as positive, regardless of the outcome of the other two audit areas. This means that the external

auditor was satisfied that the financial statements were a fair representation of the financial position, performance and cash flows of the auditee.

The following outcomes for the audit of financial statements were all coded as a negative outcome, regardless of the outcome of the other two audit components:

- A qualified audit outcome, which speaks to the auditor qualifying an aspect of the financial statements as being materially misstated.
- An adverse audit outcome, which speaks to the auditor concluding that the material misstatements are pervasive throughout the financial statements
- A disclaimer of audit opinion, which speaks to the auditor not being able to form an opinion due to the lack of audit evidence available to do so.
- Where an audit was not finalised by the legislated deadline. This was coded as a negative audit outcome as it speaks to the entity's inability to maintain records as required in order to timeously present the necessary reports to the AGSA for audit.

For the **audit of the performance report**, the absence of audit findings was coded as a positive outcome, regardless of the outcome of the other two audit areas. Likewise, for the **audit of compliance with legislation**, the absence of audit findings was coded as a positive outcome, regardless of the outcome of the other two audit areas.

For these last two areas of the audit, the data provided by the AGSA makes the distinction between findings as follows:

- Findings which are repeat findings,
- findings which are new findings,
- and findings which were addressed by the auditee. Findings which were addressed were still coded as negative as it spoke to the auditee's inability to manage the respective area through its own systems of controls.

For the years 2015, 2016 and 2017, the number of auditees is tabulated for analysis based on the movement in outcomes between the years in each of the three audit

areas. The movement in outcomes can be one of four scenarios, with a visual representation following the explanation:

1. where the auditee has maintained the positive outcome from the previous year
2. where the auditee improved upon its prior year's negative outcome with a positive outcome in the next year
3. where the auditee regressed from its prior year's positive outcome with a negative outcome in the next year
4. where the auditee was unable to improve upon its negative outcome from the previous year and maintained that negative status.

		New year	
		+	-
Previous year	+	1	3
	-	2	4

These four trends are then evaluated and a conclusion on the extent of accountability based on the movement in audit outcomes is made.

The sample size for this analysis is 241 entities, which is the 257 municipalities audited in the 2017 year less the 16 municipalities which did not exist in the previous year.

2. Analysis of repeat findings

The AGSA annexures to its general report outline the various categories of findings within the three audit components. This provides the reader with an understanding of the specific nature of the finding. The categories for the three components of the audit are outlined in Appendix D.

As with the previous analysis, within these individual categories, the AGSA makes the distinction between findings which are repeat findings, findings which are new to the auditee, and findings which have been addressed by the auditee. The analysis will therefore evaluate the extent to which findings within categories have been repeat findings. As with the previous analysis, repeat findings are an indication that the lack of consequences in respect of the prior year has led to the auditee not adequately

resolving the issues raised in the previous audit and there is therefore an indication of no accountability within the auditee.

The sample size for this analysis is 241 entities, as with the previous analysis.

3. Analysis of Rand value of non-compliance with legislation

The final analysis that will be conducted is to evaluate the trends in monetary amounts associated with non-compliance with legislation. The specific compliance areas selected relate to compliance with supply chain management and procurement legislation as these can be quantified in terms of unauthorised expenditure, irregular expenditure, and fruitless and wasteful expenditure.

As these non-compliance areas can be quantified, this analysis will seek to evaluate the extent to which the non-compliance is worsening or improving. If no improvement is taking place, it speaks to a lack of consequences from prior year findings of non-compliance, and therefore a lack of accountability arising from the compliance audits. Improvement is considered in absolute terms (i.e. the non-compliance was subsequently eliminated entirely) as well as in terms of decreasing magnitude (i.e. the rand value of the non-compliance decreased).

An additional layer of analysis was performed by factoring in the proportion of the non-compliant expenditure as a percentage of total operating expenses as per the auditee's statement of financial performance. It should be clarified that the non-compliant expenditure is not an amount determined in terms of the accrual basis of accounting that is reported on the face of the statement of financial performance (i.e. an expense), but rather the amount of expenditure incurred from a series of transactions which is then disclosed in the notes to the financial statements. The calculation was still performed nonetheless in order to provide comparable values between auditees due to differences in entity sizes.

The total operating expenses were obtained from National Treasury's database of municipal finance¹³ which is confirmed as being the audited expenses for the respective periods. The following four municipalities were not included in this database and their operating expense amounts were retrieved from their respective audited

¹³ Source: <https://municipaldata.treasury.gov.za/table/incexp/> (retrieved 11 November 2018)

financial statements for the year ended 30 June 2017: Sarah Baartman District, eDumbe municipality, Ulundi municipality, and the Waterberg District. There is no indication as to why these entities were omitted from the database, but these are confirmed as legitimate entities as they are included in the AGSA general reports and have presented annual reports on their websites.

Auditees whose audits were not finalised by the legislated deadline in either period were deliberately omitted from this sample as there is no monetary trend to evaluate, at least not one which has been verified. This leaves the sample size for this specific aspect of analysis at 218 municipalities, which is the 257 municipalities less 16 new and 23 entities which had incomplete audits in either or both years. It should be noted that excluding entities whose audits were not finalised in either year creates a limitation in the form of a survivorship bias, in that only those entities who managed to meet the legislated deadlines are being analysed. This is mitigated by the fact these excluded entities are analysed in the previous two forms of analysis.

LIMITATIONS

A limitation is the inability to factor in the individual municipality's capacity and resource constraints in order to address an audit finding from a previous year. For example, a repeat finding may speak to a lack of technical expertise to address a finding, rather than merely ignoring the AGSA's recommendation in addressing the finding.

The Municipal Demarcation Board conducts annual assessments of the capacity of each municipality, but the last assessment took place in 2012, rendering the data outdated and incomparable with the more recent audit outcomes used in the analysis, being 2015 to 2017. At the time of writing, the Board is conducting its latest study on municipal capacity, the completion of which may assist future researchers from factoring capacity in to the evaluation of a municipality's ability to implement AGSA recommendations.

Furthermore, it can be argued that the entity being audited is responsible for addressing the capacity or resource constraint which may have led to poor audit outcomes. It is for all these reasons that capacity constraints will not be discussed in evaluating trends, but this may be an area for future research.

Another limitation is the access to information. Only publicly accessible data can be used for any analysis. Information contained in documents such as management reports which are more detailed are only provided to auditees and attempts to contact the AGSA for access to this information bore no results. However, as no SA specific case studies are being conducted, the publicly available data was considered sufficient for the macro level analysis being conducted.

RESULTS

This chapter will outline the results of the work performed as outlined in the methodology chapter.

In order to address the hypothesis which seeks to conclude on the effectiveness of the powers of the AGSA in contributing to the quality of democracy through enhanced accountability, three forms of analysis were conducted.

FINDINGS OF ANALYSIS

1. Analysis of audit outcomes

For the three areas of the public sector audit, the following snapshot presents the outcomes for local government for the past three available years. For each component of the audit, the outcome can be positive or negative, as described in the methodology chapter.

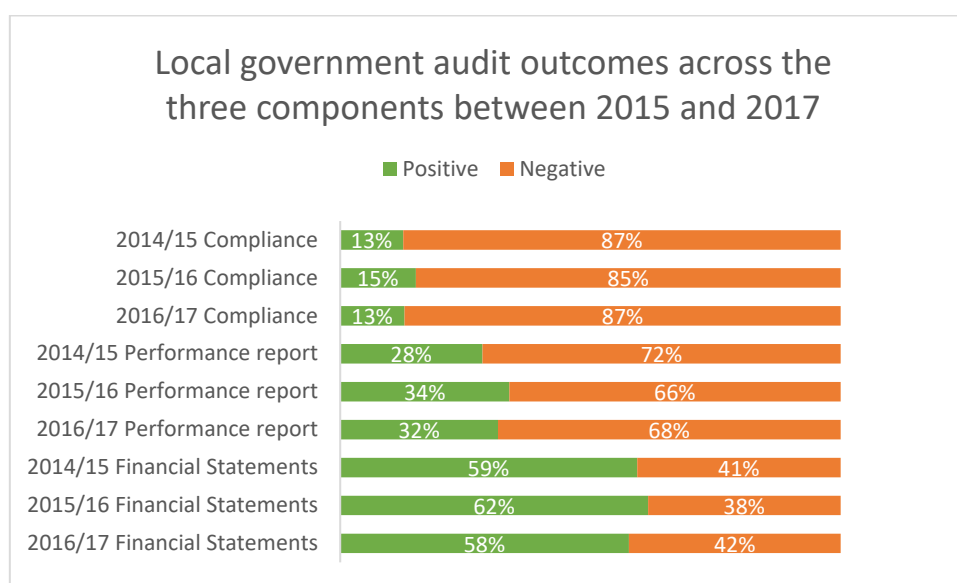


Figure 1 Snapshot of audit outcomes for SA local government across three years.

It is evident that the audit outcomes across all three audit components have been overwhelmingly negative. At most, 62% of the 241 sampled municipalities have been able to produce satisfactory financial statements, and only 34% at most have been able to produce performance reports that are useful and reliable. Most concerning is that at a minimum of 85% of municipalities have been found to be non-compliant with laws and regulations.

This snapshot is useful for understanding the overall picture of the audit status of municipalities in the past three years, but for the purpose of this analysis a more useful evaluation would be the trends, or movements, over time. The following two graphs are a visual representation of the movements in audit outcomes for the past two MFMA audit cycles.

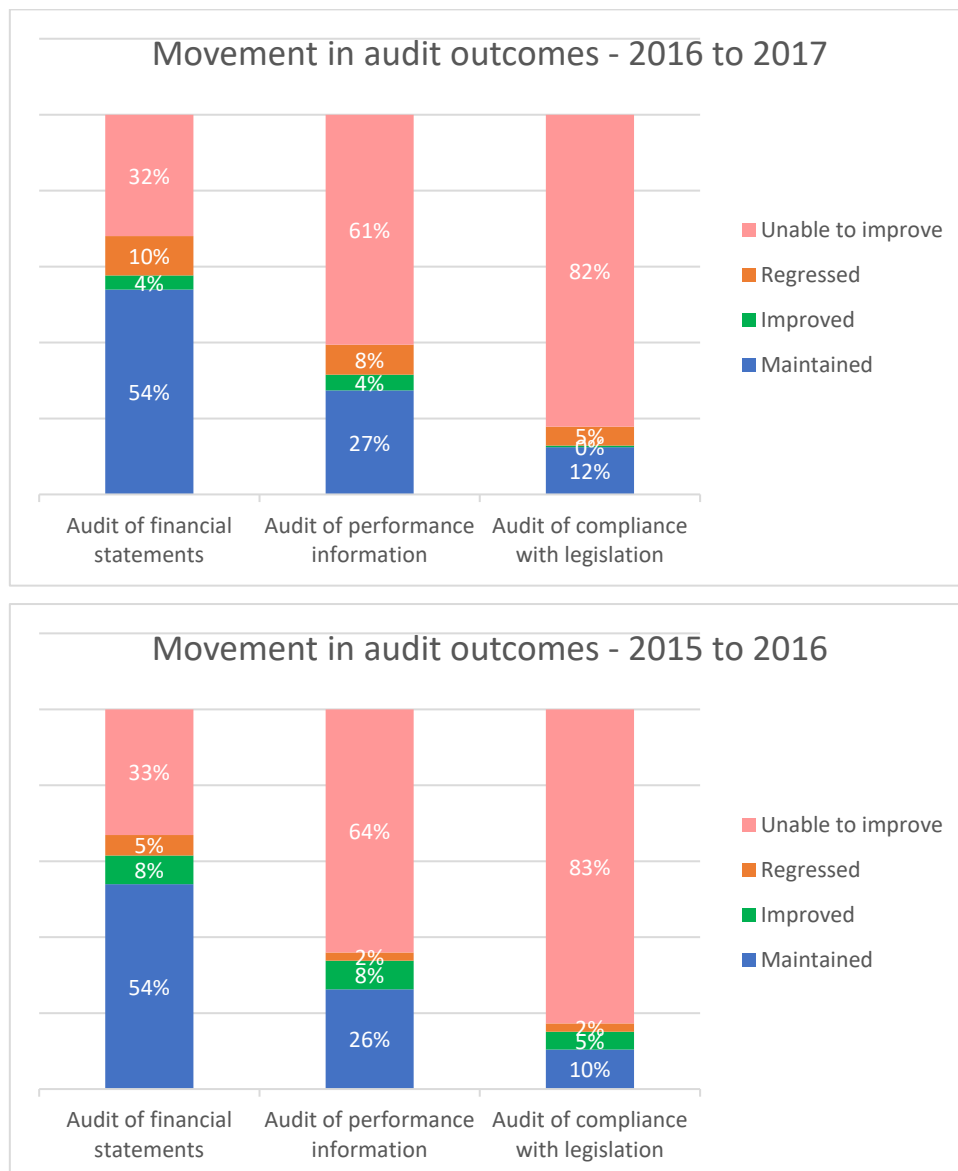


Figure 2 Movements in audit outcomes for SA local government for the three components of the public sector audit.

As evidenced from these graphs, the snapshot of outcomes in Figure 1 for the two audit outcomes is not the only concern. It is evident that over time, audit outcomes are not improving.

For the financial statement audit, 54% of the sample were able to maintain positive audit outcomes in both audit cycles, and 4% in 2017 (8% in 2016) were able to improve on their outcome from the previous year. Conversely, 32% of the sample in 2017 (33% in 2016) were unable to improve. Furthermore, the number of auditees that regressed from positive to negative outcomes doubled from 5% to 10%. This means that 42% of auditees in 2017 and 38% of auditees in 2016, these being the sum of auditees who maintained negative outcomes or regressed to negative outcomes, have been unable to improve upon financial accountability through external auditor engagement.

Again, the more concerning components are the audits of the performance report and compliance with legislation. 61% of auditees in 2017 (64% in 2016) were unable to improve upon their performance reports in relation to prior years, and 82% of auditees in 2017 (83% in 2016) continued to be non-compliant with applicable legislation.

The non-compliance with legislation is especially concerning as it speaks to the disregard for rule of law amongst auditees. As noted in the literature review, rule of law complements horizontal accountability in evaluating the quality of a democracy as it provides a framework in which governments can be held accountable (O'Donnell, 2004; Diamond & Morlino, 2005). The recommendations by the external auditors in order to improve outcomes would also relate to day to day operations of the auditee, contrast to an aspect of operations such as preparation of financial statements which requires specialised technical knowledge. The inability to improve on this aspect of the audit is therefore a strong indicator of a lack of accountability within these auditees.

2. Analysis of repeat findings

The findings per category for the two audit cycles can be summarised as follows:

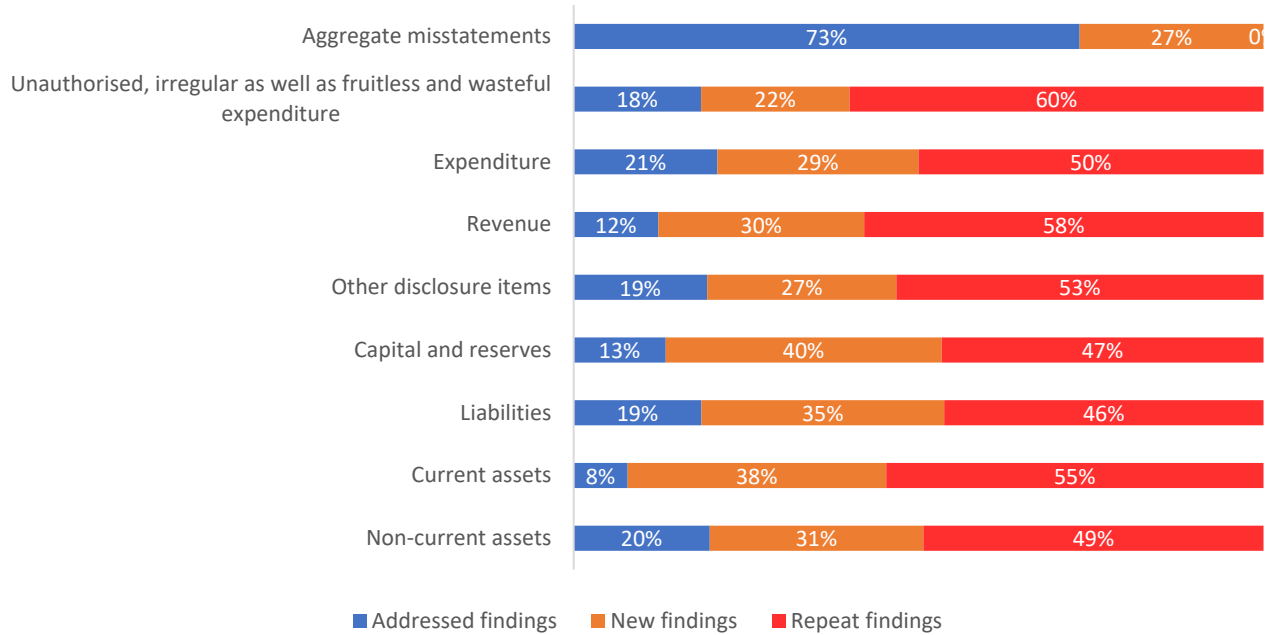
Table 1 Summary of addressed, new, and repeat findings per category in SA local government in 2016 and 2017

		Financial Statements categories	Performance report categories	Compliance categories	Total
2017	Total addressed	85	51	235	371
	Total new	143	77	320	540
	Total repeat	238	148	860	1 246
	Total categories of findings	466	276	1415	2 157
2016	Total addressed	191	83	554	828
	Total new	135	38	233	406
	Total repeat	277	187	1083	1 547
	Total categories of findings	603	308	1870	2 781

In 2016, 1 547 of the categories of findings made within the sample of auditees chosen were repeat findings from prior years. This made up 56% of the total findings for that year. Likewise, in 2017, 1 246 of the categories of findings made within the sample of auditees chosen were repeat findings from prior years. This made up 58% of the total findings for that year. This means that of the audit findings made, almost 60% relate to matters which arose in prior periods and should have been addressed based on recommendations made at the time to avoid a repeat finding.

Evaluating the extent of repeat findings per component of audit may provide further insight and is outlined with Figures 3 to 5. The emphasis is on the extent to which findings within categories are repeated, and no inferences are made on the proportion of findings which are addressed.

Extent of repeat findings per financial statements category 2017



Extent of repeat findings per financial statements category 2016

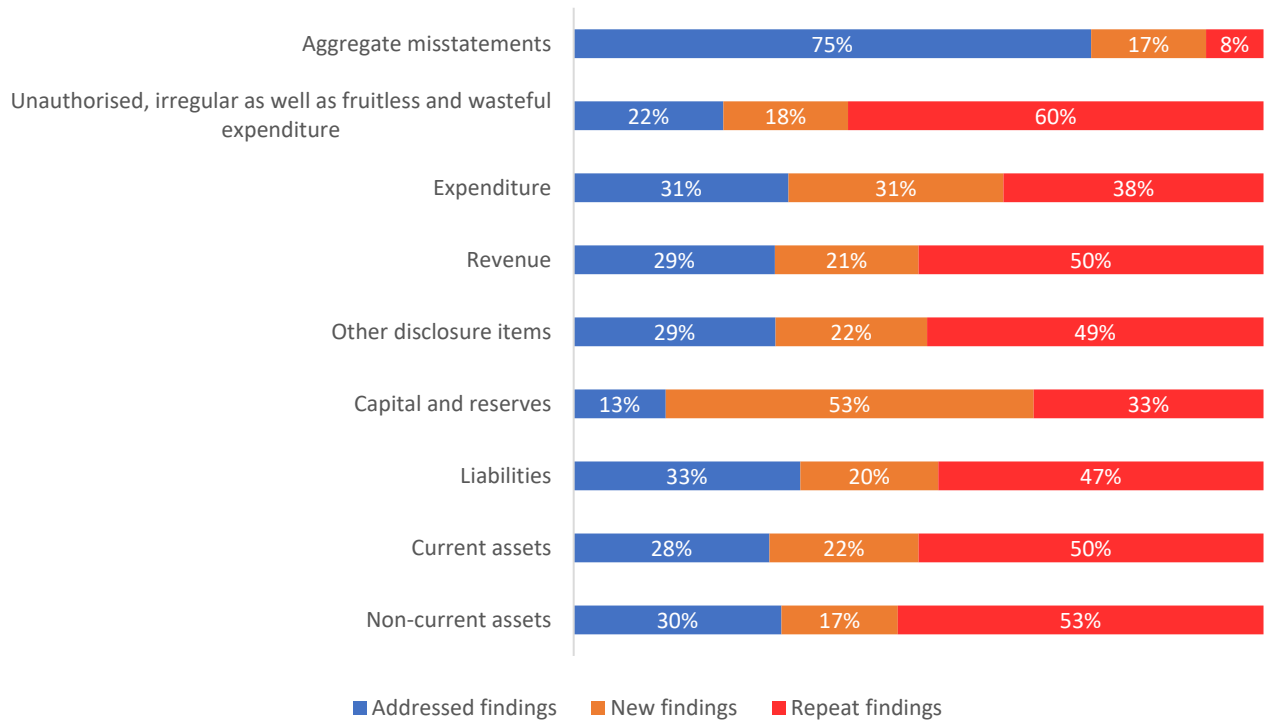


Figure 3 proportion of findings which were addressed, new or repeat, based on financial statements category in SA local government.

The graphs in Figure 3 demonstrate that the majority of findings in the audit of financial statements are repeat findings within their respective categories. This affirms the concern raised in the AG's General Reports, being that auditees are preparing poor quality financial statements and are relying on the external auditor to make the necessary corrections on their behalf.

Even if one were to accept the premise that auditees need to rely on the auditor for assistance due to capacity issues, which would inherently be flawed due to the need for external auditor independence, the extent of repeat findings points to the auditees not taking sufficient action to ensure that the findings are not repeated in the following year and that capacity has not been enhanced through interaction with the external auditors in respect of errors identified.

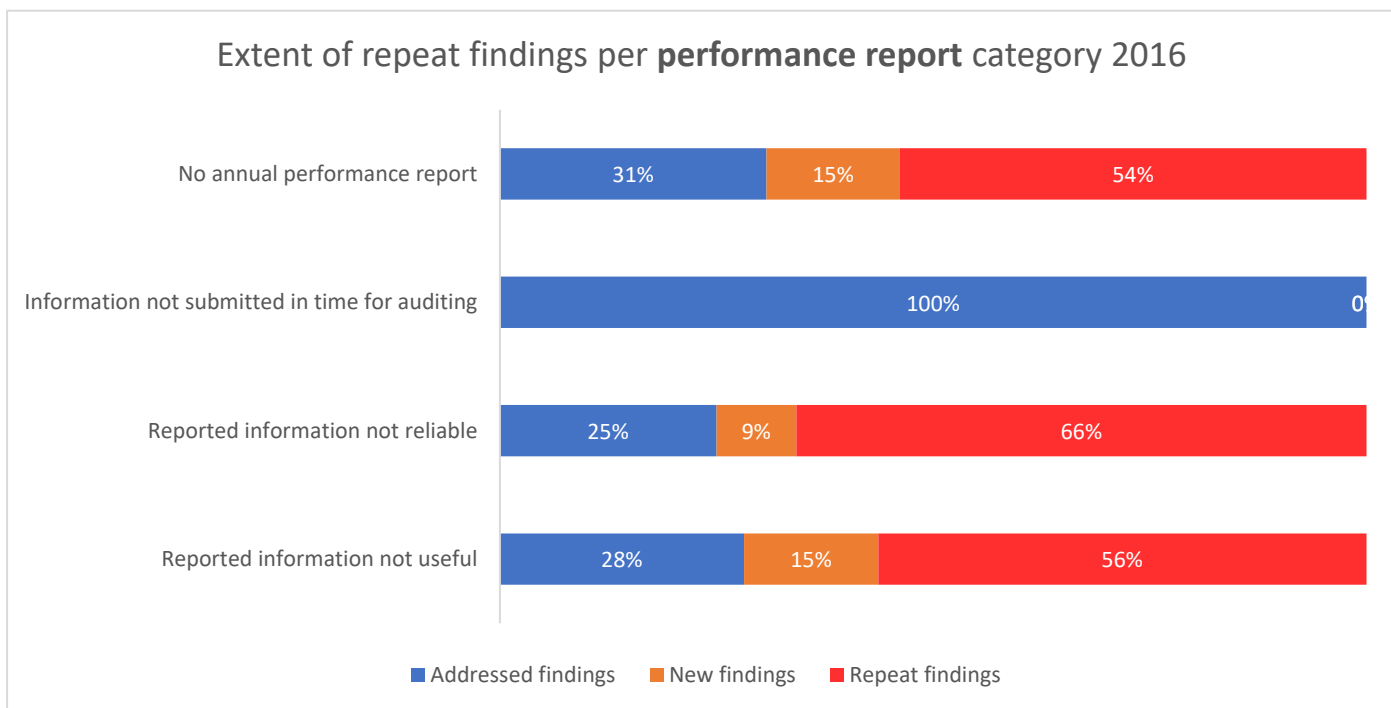
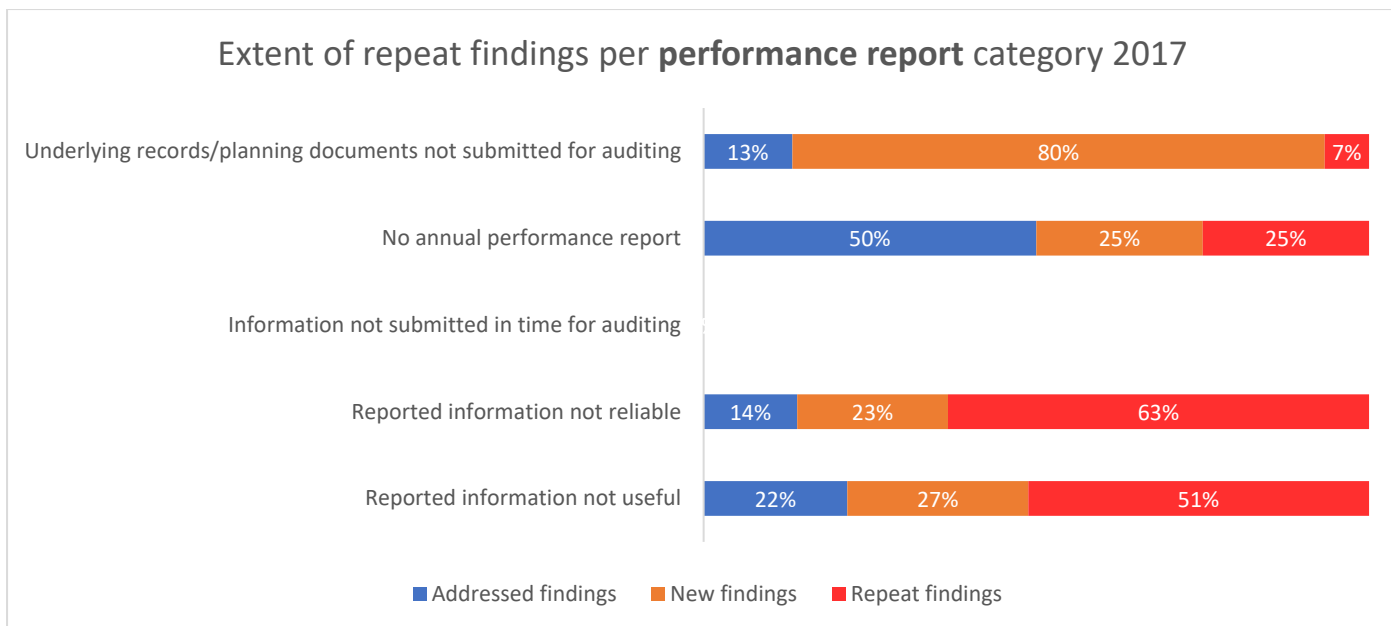


Figure 4 proportion of findings which were addressed, new or repeat, based on performance report category in SA local government.

In absolute terms, the number of repeat findings on a category basis has gone down for the audit of the performance report. However, the extent of repeat findings as a proportion of all findings once again emphasises that lessons are not being learnt from prior audits and insufficient action is being taken to avoid repeat findings.

Extent of repeat findings per compliance category 2017

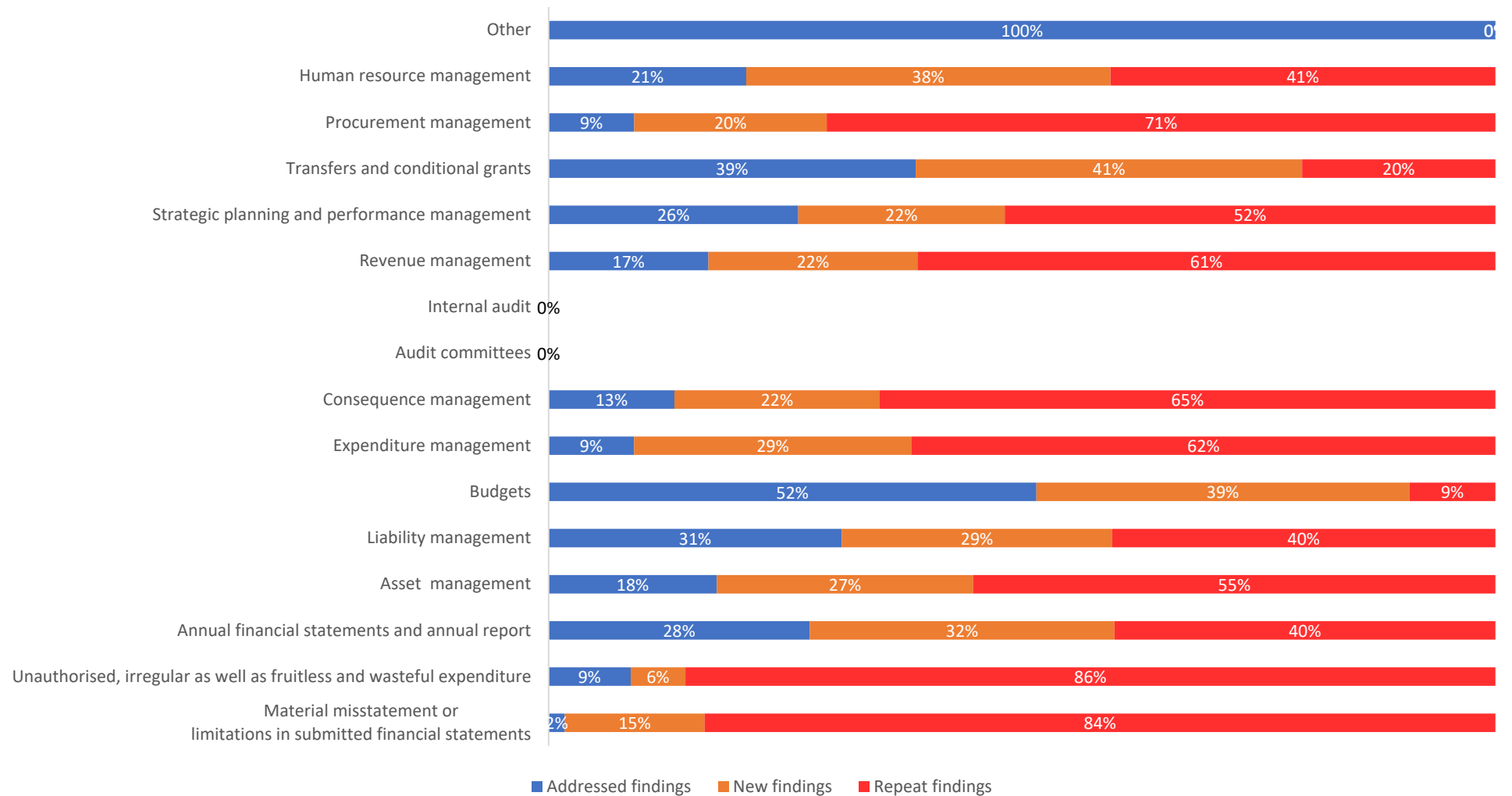


Figure 5 proportion of findings which were addressed, new or repeat, based on compliance with legislation category in SA local government.

Extent of repeat findings per compliance category 2016

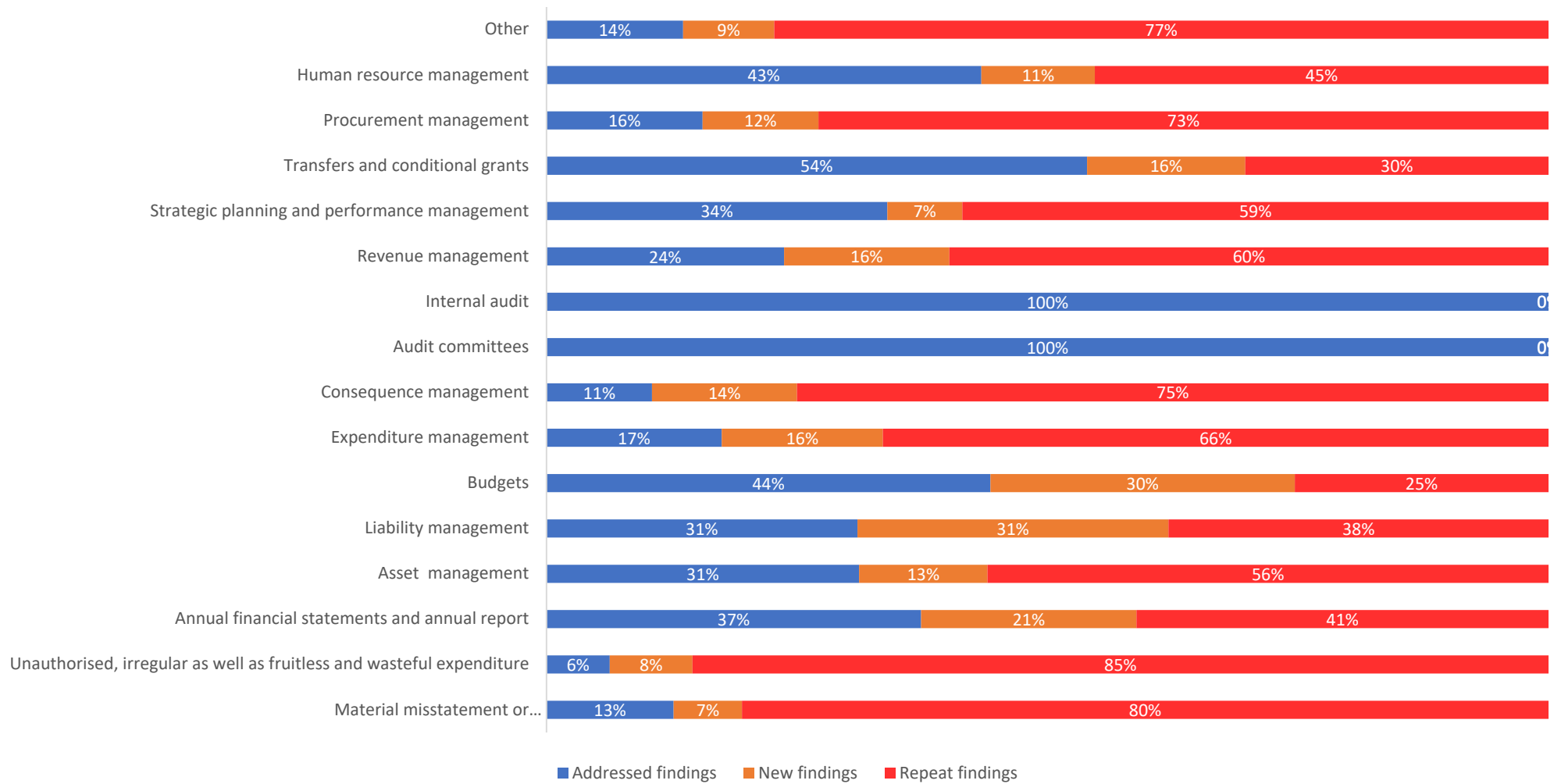


Figure 6 proportion of findings which were addressed, new or repeat, based on compliance with legislation category in SA local government.

In Figure 1, it was noted that compliance with legislation is the most serious area of negative audit outcomes in relation to the other two components of the audit. Figure 5 emphasises the severity of non-compliance with legislation among auditees, as it highlights that auditees are not simply being non-compliant, they are **repeatedly** being non-compliant with the same categories of legislation. In other words, auditees are disregarding audit findings on compliance and are repeating the same contraventions. Again, it must be pointed out that this is an area of audit within the auditee that relates to day to day activities and does not necessarily require technical proficiency. More detail is provided on non-compliance in subsection 3 of this chapter.

Overall, there is an evident propensity towards audit findings being repeated across all three audit areas. This is a strong signal of disregard for the outcomes of a prior year's audit and the recommendations which were made in order to avoid the repeat findings. If the external auditors are doing the same work every year and reporting back to the auditee on the same matters without the recommendations thereto being implemented, the levels of financial accountability among auditees is questionable.

3. Analysis of Rand value of non-compliance with legislation

The AGSA General Report identifies the persistence of non-compliant expenditure as a strong indicator of a lack of accountability within auditees (Auditor-General of South Africa, 2018; Auditor-General of South Africa, 2016). Evaluating the data as outlined in the methodology chapter, it was noted that of the 218 municipalities chosen for the sample, 210 (96%) had some level of non-compliant expenditure in the 2016 audit. In the 2017 audit, this had improved by a mere four municipalities, as 206 (94%) of the municipalities in the sample had some level of non-compliant expenditure.

Of the eight municipalities that had no non-compliant expenditure in 2016, three were unable to maintain this clean status and incurred irregular expenditure in the following year. Conversely, of the 210 municipalities that had some form of non-compliant expenditure in 2016, only seven were able to become fully compliant in the next year.

A summary of the three categories of non-compliant expenditure within the sample of 218 municipalities is provided in Table 2. Note that these amounts are not totalled as there can be overlapping between the categories of non-compliant expenditure.

Table 2 Summary of non-compliant expenditure in selected sample for SA

	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure	
	2017	2016	2017	2016	2017	2016
Number of entities with instances of non-compliance (with percentage of sample size)	148 (68%)	151 (69%)	201 (92%)	196 (90%)	188 (86%)	178 (82%)
Total non-compliant expenditure for the whole sample	R8.8 billion	R10.8 billion	R26 billion	R14.6 billion	R1.1 billion	R634 million
Average of non-compliant expenditure as percentage of entity's total operating expenses ¹⁴	11.26%	11.54%	13.42%	13.10%	1.13%	0.91%
Highest level of non-compliant expenditure as percentage of that entity's total operating expenses	124.70%	114.96%	209.25%	122.37%	14.00%	9.25%

¹⁴ Compliant entities are excluded. The total operating expenses for entities with non-compliant expenditure was R325 billion in 2017 and R303 billion in 2016.

These statistics reveal that non-compliant expenditure is increasing, both at an absolute level as well as proportionally to the auditees' total operating expenses. Apart from unauthorised expenditure, non-compliant expenditure has increased. Furthermore, the worst transgressors are contravening to an extent far above the average of the rest of the sample.

The preceding discussion focussed on compliance in absolute terms, because the most ideal situation is one where auditees are fully compliant with the prescribed legislation. The next consideration will be as to whether auditees were at least able to improve on the magnitude of the non-compliance. In other words, if they were unable to eliminate the non-compliant expenditure in the following year, could the auditee at least decrease the rand value of the non-compliant expenditure.

Of the 151 municipalities with unauthorised expenditure in 2016, only 52% were able to decrease the magnitude of the unauthorised expenditure in the following year. From the 196 municipalities who incurred irregular expenditure in 2016, only 50% were able to improve upon the magnitude of the irregular expenditure in the following year. Finally, only 36% of the 178 municipalities who had incurred fruitless and wasteful expenditure in 2016 were able to bring down the monetary value of fruitless and wasteful expenditure in 2017.

For the most part, the magnitude of non-compliant expenditure is worsening. The ten least improving municipalities per type of non-compliant expenditure is summarised in Appendix E. The increase in the proportion of unauthorised and irregular expenditure as a percentage of total operating expenses in the biggest offending municipalities was 105% and 127% respectively. This means that most municipalities are not only taking insufficient action to eliminate and reduce non-compliant expenditure, most are regressing, with the worst transgressing municipalities going as far as more than doubling their non-compliant expenditure as a proportion of total operating costs compared to the prior year.

Overall, the analysis has shown evidence affirming the AGSA's concern around the lack of accountability for non-compliance with legislation taking place within auditees. The number of entities able to obtain a positive outcome after being non-compliant are negligible, and the few that have had positive outcomes struggle to remain compliant.

Even if one were to compromise and accept gradual progress instead of absolute turnarounds as an improvement, the magnitude of non-compliance is not improving either. Furthermore, some entities have their levels of non-compliance at extreme levels, as much as eleven times that of the sample average for unauthorised expenditure, as much as fifteen times that of the sample average for irregular expenditure, and as much as eight times that of the sample average for fruitless and wasteful expenditure.

CONCLUSION ON RESULTS

An analysis was performed across the three components of the audit report to form a conclusion on the effectiveness of limited AGSA powers in enhancing accountability and therefore contributing towards the effectiveness of South Africa's democracy. First, the basic analysis of audit outcomes over time reveals that audit outcomes have been negative for all three components of the public sector audit, overwhelmingly so for the components relating to the performance report and compliance with legislation. Not only has the analysis shown poor audit outcomes historically for each of the two years, it also does not provide any optimism for improvement over time as most auditees are unable to improve upon their audit outcomes.

Next, the extent of repeat findings was analysed. It is noted that the majority of findings being made by the external auditors are repeat findings. This provides strong evidence of auditees not being held accountable for prior year findings and being able to continue transgressing by disregarding external auditor recommendations.

Finally, the trends among auditees with respect to non-compliance with legislation demonstrates little to no inclination towards improving on these outcomes. If anything, the situation is worsening with increased values of non-compliance as a result of auditees appearing to not be held accountable for prior year transgressions.

Reviewing these three forms of analysis holistically affirms the AGSA's concerns around lack of accountability in public sector entities potentially due to lack of consequences for negative outcomes. Despite recommendations being made to assist auditees with turnaround strategies, there is clearly little being implemented, and it is concluded that the AGSA's ability to contribute towards the quality of South Africa's democracy through enhancing accountability is not fully effective.

CASE STUDY: UGANDA

Given the findings on auditee non-responsiveness documented in the Results chapter, it is worth investigating the potential impact of the recent enhanced powers being granted to the AGSA in its ability to contribute towards horizontal accountability and therefore the quality of South Africa's democracy going forward.

Within the Public Audit Amendment Bill, as outlined in the literature review, the focus will be on two of the amendments:

- To allow the AGSA to refer a matter to a relevant authority for investigation
- To allow the AGSA to collect from individuals in their personal capacities losses incurred as a result of being responsible for non-compliant expenditure.

These two amendments are focussed on as these directly speak to the AGSA's reaction to non-responsiveness from auditees as they seek to provide the external auditor with more power to force auditees to act. The other proposed amendments are therefore not being considered as there is no explicit link to the issue of auditee non-responsiveness.

In order to investigate this impact, a comparative evaluation against Uganda's local government audit outcomes will be conducted. The aim is not to draw an inference that success or failure in other countries would automatically be replicated in South Africa. Instead, the study will seek to lay the groundwork for further study in to the effectiveness of the amendment bill over time, particularly its contribution to strengthening the quality of democracy. Any shortcomings or positive results of the systems identified in comparative countries would allow this thesis to evaluate relevance to the South African context and provide recommendations.

The rationale for choosing Uganda as a comparative country and the method used to conduct this evaluation, along with resultant findings, follow:

DESIGN OF COMPARATIVE EVALUATION

Objective

Firstly, the amendments to the PAA have no direct relationship to the areas of the audit which look at the audit of the financial statements and the audit of the

performance report. Instead, the expectation is that the power to sanction auditees will incentivise the auditee to improve on compliance with legislation and thus improve audit outcomes for this area of the audit only¹⁵. The comparative evaluation will therefore focus on the impact of enhanced SAI powers on auditee compliance with legislation.

The analysis will be done at a macro level of the chosen comparative countries. This means there will be no case study of individual auditees, but, as with the South African analysis, the aggregate outcomes of the sum of individual entities will be analysed in order to form conclusions. Analysis will be conducted at points in time, but more importantly, looking at movements over time. The reason for the movement over time being necessary is that the study is attempting to understand if the enhanced SAI powers impacted on non-compliance and this requires evaluation of the propensity for the same entities to repeat their non-compliance.

It must also be clarified that the objective of the analysis is not to form any conclusions on the state of public finances in the comparative countries. The analysis is merely attempting to form a conclusion on any relationship between accountability and enhanced SAI powers. This conclusion will not draw any inference on the way public finances are managed in those countries, although this may be investigated in future areas of research.

Data collection and sample selection

As explained in the literature review, only three countries were identified as having similar enough SAI powers as is being granted to the AGSA: Libya, the Republic of Korea, and Uganda. There may be further countries that may also be considered, but these have not been identified by the literature reviewed.

¹⁵ It could be argued that this in turn will facilitate a culture of enhanced overall financial accountability in the public sector and therefore also improve outcomes for the audits of financial statements and performance report. This is beyond the scope of this thesis, and even the discipline as it would require integration of the organisational psychology discipline. This is therefore left as an area for further research.

It should also be noted that the quality of financial statements and performance report is itself a category of legislation which a government entity would be audited against, but this link is not considered strong enough for the purpose of this evaluation.

Libya is not being selected as a comparative country because the country's SAI does not provide resources in English as the website and reports are in Arabic¹⁶. The Republic of Korea is also not being selected for comparative analysis as the SAI does not produce audit reports with detailed enough information for the purpose of evaluating the effects of the SAI powers¹⁷.

This leaves Uganda as the only comparative country with which to conduct this study. The resultant limitations are outlined in the next section. Data was obtained from the website of the Ugandan Office of the Auditor-General¹⁸. The three latest audit reports for local governments available were downloaded, these were the years 2016, 2015, and 2014. The 2017 audit reports were unavailable at the time of writing, and the enhanced SAI powers were in effect for all of these years. This provides three points in time for analysis, as was done for the SA analysis. As with South Africa, three points in time also provides two time period movements to analyse.

Furthermore, since the reforms in legislation took place in 2003, using the latest audit cycles allows for evaluation of a time period where the effects of these reforms have had time to be realised. This does not form any conclusion on causality, which is open to be investigated in future research, particularly since the legislation has been in effect since 2003.

These audit reports contained consolidated analysis of the audit outcomes from the audit work performed in the Ugandan local government. The AG tabulates the audit opinion on the financial statements of local governments, and summarises other key findings, which may or may not impact on the opinion on the financial statements. Within these key findings, matters of non-compliance with legislation would be included.

There are several categories of key findings outlined in this report. Not all these categories will be relevant to this study, regardless of the prevalence of non-

¹⁶ <http://audit.gov.ly/home/>

¹⁷ The audit reports provided were all high level discussions of government spending and did not provide detail which would assist this study
http://english.bai.go.kr/bai_eng/cop/bbs/listBoardArticles.do?mdex=bai_eng19&bbsId=BBSMSTR_200000000004

¹⁸ Source: <http://www.oag.go.ug/4961-2/> (retrieved 3 December 2018)

compliance. For example, a common area reported on throughout a number of local governments is the under-collection of taxes. Despite how frequently this was reported as a key finding, this area is not considered relevant for this study as this analysis seeks to isolate areas in which a public official could be held accountable, with or without AG intervention.

Only areas which were consistently reported can be focussed on. This is because there is no clarity provided in the reports if the absence of a category reported on in one year is indicative of auditees being compliant for that year, or if those absent categories were not required to be audited in that year. For example, the 2015 key findings only highlights “overpayment of salaries”, while in every other audit report reviewed “overpayment of salaries” is just one subcategory in the broader “payroll anomalies” category.

The following three areas will therefore be the focus for this analysis:

- Breach of procurement procedures
- Unaccounted for administrative advances
- Overpayment of salaries.

The first two categories may serve as proxies for “irregular expenditure” in the South African context, while the third category may serve as a proxy for “fruitless and wasteful expenditure” in the South African context. All three categories are consistently reported on in the Ugandan auditor reports in the three years selected. These are also categories for which one could reasonably expect a public official to be held accountable for, which is the explicit purpose of this evaluation – determining if SAI powers have influenced the extent of non-compliance by holding individuals accountable for their actions.

The population size consists of 307 “higher local governments”. This consists of districts, municipal councils and town councils. Local government in Uganda also includes sub-counties and schools. These are not included in the analysis. The AG states in the reports that a majority of these audits were pending at the time that the reports were released. Furthermore, schools are not part of the local government

sphere in South Africa and were, as a result, not considered in the SA analysis. Inclusion would thus be inappropriate for this analysis.

Audit outcomes for the financial statements and the monetary value (in Ugandan shilling) of the selected matters of non-compliance were obtained from the AG report over a five-year period to present the snapshot illustrated in the results chapter. Five years was used for this aspect of the analysis as the data was presented in the 2016 audit report.

It was possible to determine the proportion of these non-compliance areas as a percentage of total operating expenses for the total local government for 2016 as this was the first year that the Ugandan government prepared consolidated reports. Total operating expenses for prior years were estimated by using the 2016 reported value and adjusting for published inflation rates in each respective year¹⁹.

To determine the movement between years, and thus the extent of repeat non-compliance, the instances of non-compliance were manually counted from the audit reports, and the entities with repeated non-compliance noted. This was necessary as no excel data was available. This was done over the three years 2014 to 2016. This provides two movements to evaluate, as with South Africa.

Limitations

The most evident limitation is limiting the study to one comparative country. However, as previously stated, the intention of the study is not to infer that success or failure in the comparative country will be replicated in South Africa. Instead, the study aims to provide the foundations for this area of comparative analysis which has not been given much attention in neither the accountancy nor political science disciplines. A larger sample size is therefore not considered necessary.

The next limitation acknowledged is that the Ugandan legislation does not give as explicit powers to the Ugandan AG as is being granted to the AGSA. The amended PAA in South Africa makes the ability of the AGSA in terms of sanction and surcharge powers much more explicit, while in Uganda the AG may only refer matters for sanction

¹⁹ Source: <https://www.statista.com/statistics/447810/inflation-rate-in-uganda/> (retrieved 7 December 2018)

and surcharging individuals. Given the limited pool of countries available to conduct the analysis, these powers are as similar as possible that is available for comparative analysis.

Finally, the comparability of Uganda and South Africa as countries must also be acknowledged. While both countries are developing nations, according to data from the 2018 Index of Economic Freedom²⁰, South Africa has a GDP per capita of more than six times that of Uganda and government expenditure as a percentage of GDP in South Africa is almost double that of Uganda. Regardless, this index ranks the two countries in terms of economic freedom close together as South Africa is ranked globally at 77th while Uganda is ranked 83rd (out of 186 countries), and they are ranked 4th and 5th respectively in the Sub-Saharan African region (out of 48 countries).

FINDINGS

Snapshot analysis

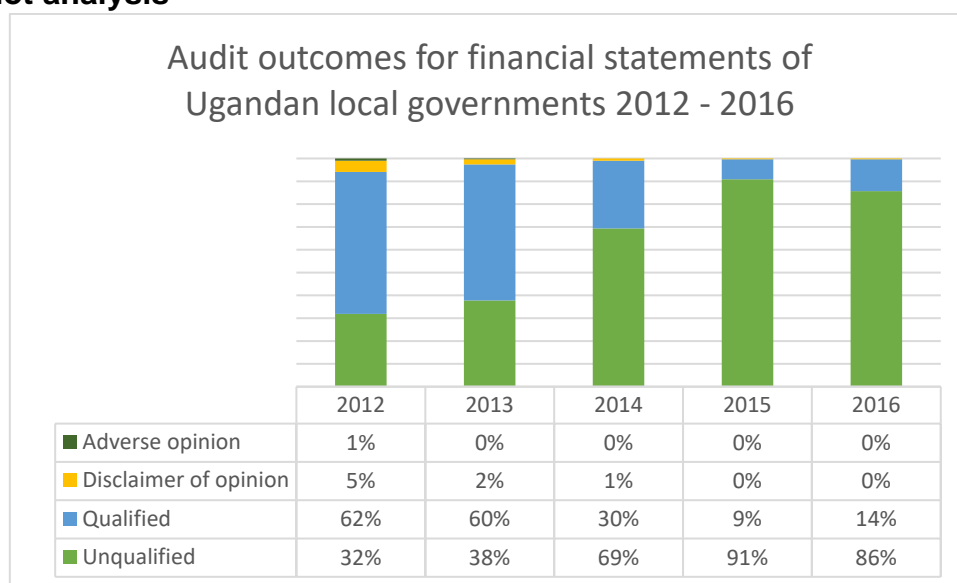


Figure 7 Audit outcomes for financial statements of the 307 Ugandan local governments over a five-year period.

Figure 6 illustrates that over time, the majority of local governments in Uganda have been able to prepare satisfactory financial statements by obtaining unqualified audit opinions. Less than a third of local governments (32%) were able to obtain an

²⁰ Source: https://www.heritage.org/index/excel/2018/index2018_data.xls (retrieved 22 November 2018). The Index of Economic Freedom is an annual survey which ranks countries globally on economic freedom, which is a function of rule of law, government size, regulatory efficiency and open markets.

unqualified audit in 2012, which is a stark contrast to the 86% in 2016 who were able to obtain a clean audit. The Results chapter shows that the financial statements were the least problematic component of the public sector audit in South Africa, at least in relation to the other two components of the audit, but South Africa has not been able to reach this level of positive outcomes for financial statements. Figure 1 illustrates this by showing that the highest level of positive outcomes for the audit of financial statements in South Africa was 62% of entities in 2016, contrast to Uganda's best in 2015 where 91% of entities had positive outcomes.

While the financial statements audit is not the emphasis for this analysis, this overwhelmingly positive result is noteworthy, particularly the ability to address issues during this period under review. In the next aspect of this analysis, emphasis is placed on compliance matters. As with the analysis of South Africa, a snapshot is first presented before evaluating on a per entity basis.

The total monetary value of non-compliance (in Ugandan shilling) for the three selected areas are presented in Table 3 over a five-year period:

Table 3 Aggregate non-compliant expenditure in Ugandan local government in the three selected categories over a five-year period.

	2012	2013	2014	2015	2016
Breach of procurement procedures (in UGX)	3 197 690 007	9 381 214 273	3 527 866 260	9 937 360 405	21 225 982 459
Unaccounted for Administrative advances (in UGX)	3 815 972 619	8 357 274 570	4 721 788 996	2 440 991 267	3 697 520 680
Over payment of salaries (in UGX)	761 233 269	349 870 786	91 845 148	6 567 322 457	1 163 414 641

In order to better contextualise these values and provide further insight, these values **as a percentage of total operating expenses** for local government are illustrated in the following charts:

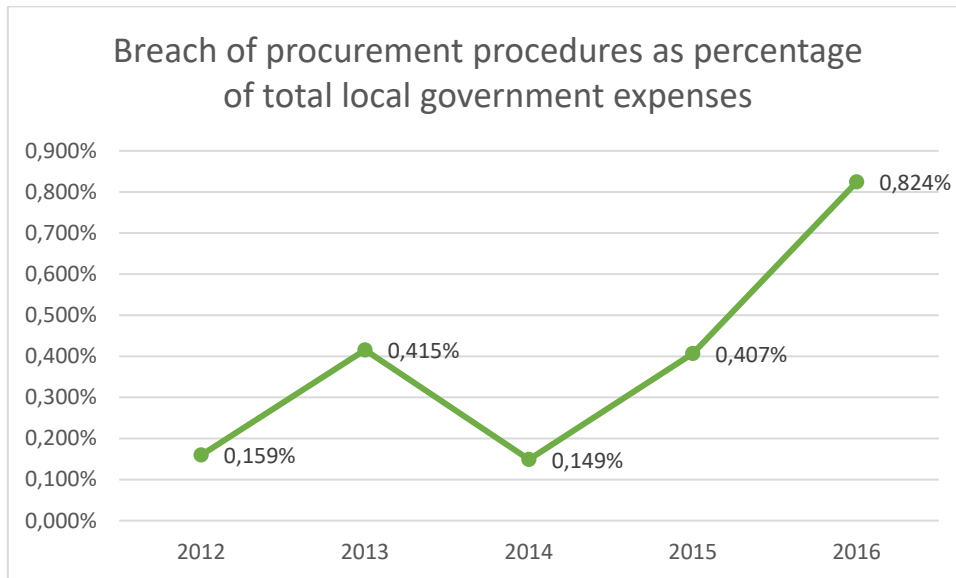


Figure 8 The proportion of breaches of procurement procedures as a percentage of total Ugandan local government expenses over five years.

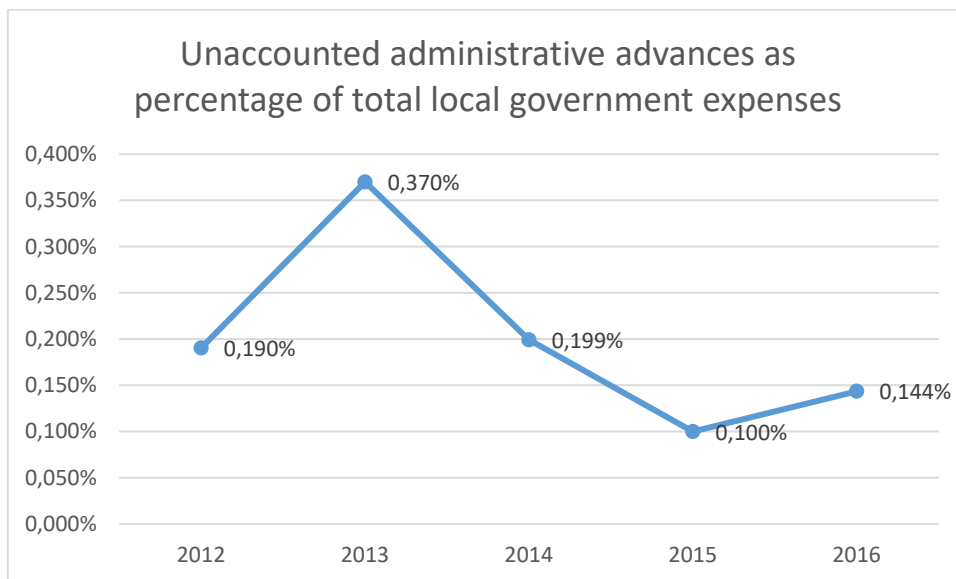


Figure 9 The proportion of unaccounted administrative advances as a percentage of total Ugandan local government expenses over five years.

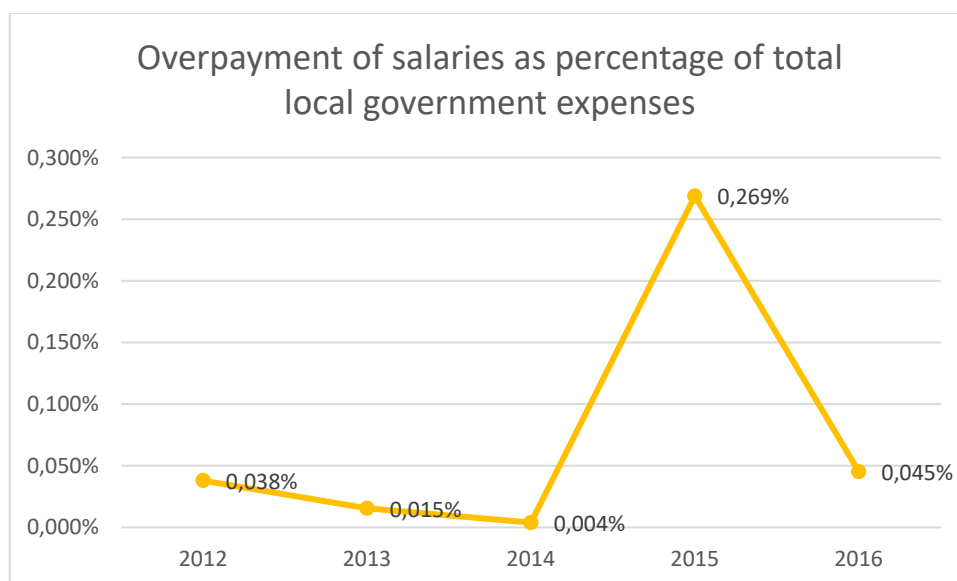


Figure 10 The proportion of overpaid salaries as a percentage of total Ugandan local government expenses over five years.

The monetary values of the aggregate non-compliant expenditure across the three selected categories appears erratic as illustrated in Table 2 and Figures 7 to 9. Breaches of procurement procedures increased in 2013, declined in 2014, but began to increase again subsequently and peaked in 2016. Likewise, unaccounted administrative advances increased in 2013, and declined since then, but began to increase again in 2016. Overpayment of salaries was declining and reached its lowest levels in 2014, but suddenly increased significantly in 2015 and then began to decline again.

Regardless of scrutinising absolute values in Ugandan shillings, or proportion of non-compliant expenditure as a percentage of total expenses, there does not appear to be an observable trend which would allow one to form a conclusion on the impact of enhanced SAI powers on non-compliance with legislation in the Ugandan public sector. It is also not possible to determine if these levels of non-compliance reflect pervasive issues of non-compliance, and therefore lack of accountability, throughout the Ugandan local government as this analysis is not able to account for situations where a few entities are accounting for the bulk of the monetary value of non-compliance.

Attempting to use aggregate data will therefore not assist in this analysis. Instead, the analysis must be made at an individual entity basis. The macro level trends and fluctuations in Uganda are an area that may be investigated in further research.

The inconclusive results from the above analysis emphasises the objective of the study, which is to obtain an understanding of the relationship between enhanced SAI powers and individual entity accountability. It is therefore important to look at the number of entities that are, or are not, engaging in these acts of non-compliance to form a conclusion on how enhanced SAI powers have impacted on that entity's propensity to comply.

The next snapshot presented is therefore that of the number of entities over the past three years with instances of non-compliance in the selected areas, regardless of the magnitude of the non-compliance.

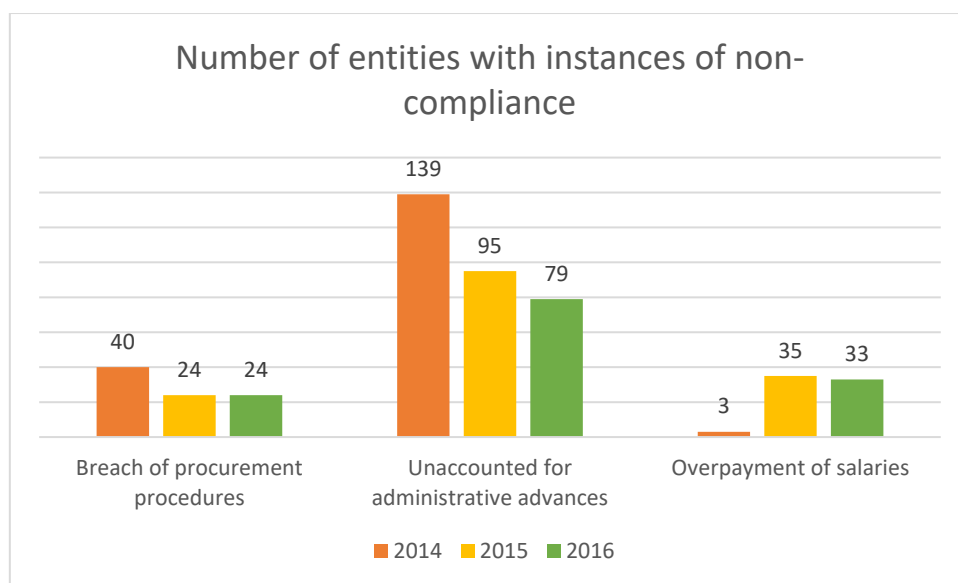


Figure 11 Number of entities in Ugandan local government with instances of non-compliance between 2014 and 2016.

This snapshot provides a more informative picture of the extent of accountability than looking at the absolute Ugandan shilling value of non-compliant expenditure. It also provides for the ability to compare to South Africa. However, the conclusions formed will depend on the area of non-compliance being focussed on.

Firstly, forty entities had instances of non-compliance in the form of breaches of procurement procedures in 2014. In 2015 and 2016 this had been reduced by almost half, down to 24 entities. This may not necessarily be the same 24 entities, which is discussed in a later subsection of this analysis. Forty out of 307 entities represent 13% of the sample, which in later years later reduces to 7.8% of the sample. This is in

strong contrast to 92% of the sampled entities in South Africa (refer to Table 1) which had incurred some form of irregular expenditure in 2017 (90% in 2016).

Unaccounted administrative advances appear to be a more troubling non-compliance area, with 139 entities demonstrating some form of non-compliance in 2014. This eventually decreases down to 79 entities in 2016. This represents 45% of the sample in 2014 and 26% in 2016. Again, the Ugandan local government has managed to reduce this area of non-compliance to almost half of what it was in 2014. South Africa on the other hand has not managed to improve on irregular expenditure and is still reporting double the amount of entities with irregular expenditure compared to Uganda.

From a trend perspective, overpayment of salaries does not paint the same picture as the other two areas of non-compliance. A mere three entities (less than 1% of the sample) had instances of overpayment of salaries in 2014. However, this increased to 35 entities (11.4% of the sample) in 2015 and then a slight decrease to 33 entities (10.7% of the sample) in 2016. Despite this regression in number of entities, this is still in strong contrast to the 86% of entities in 2017 (82% in 2016) in the South African sample who incurred some level of fruitless and wasteful expenditure (refer to Table 1). It should be acknowledged, however, that this direct comparison may not be completely valid as overpayment of salaries is just one form of wasteful expenditure, while the comparison is being made to all types of wasteful expenditure for the South African entities.

Depending on the area of non-compliance, it appears that Ugandan local government has managed to suppress the number of entities that are incurring non-compliant expenditure. This is in isolation, as well as in comparison to South Africa. While the increase of entities with overpaid salaries is noted, this area too can be considered successful from an accountability perspective given the low number of entities in 2016. It would not be appropriate to conclude that the increase since 2014 means poor accountability, given the low starting point of three entities in 2014.

Analysis of repeat findings

The analysis of the snapshot of the number of entities who have engaged in non-compliant expenditure points toward successful accountability in the presence of a SAI with enhanced powers. However, this analysis is insufficient to formulate a conclusion

that enhanced SAI powers is enough to ensure accountability. As with the South African analysis, it was important to analyse entities responsible for repeat findings.

This subsection will therefore evaluate entities who have engaged in acts of non-compliance and how they perform subsequently. The rationale being the same with that in the SA analysis - that if an entity who was reported as being non-compliant in one period was able to become compliant in the following year, it can be inferred that individuals were held accountable for that non-compliance and avoid a repeat finding. Conversely, if the finding is repeated in the following year, it can be inferred that the individuals were not held accountable and were thus able to repeat the finding.

The entities with instances of non-compliance are disaggregated in to the following three groups:

- Those who had instances of non-compliance in one year, and the issue reoccurred in the following year (i.e. was a repeat finding) but with increasing severity (the magnitude of the non-compliance in Ugandan shillings was greater in the following year)
- Those who had instances of non-compliance in one year, and the issue reoccurred in the following year (i.e. was a repeat finding) but with decreasing severity (the entity managed to decrease the magnitude of the non-compliance in Ugandan shillings in the following year)
- Those who had instances of non-compliance in one year, and the entity did not repeat the non-compliance in the following year.

The most ideal outcome is one where the entity does not repeat the non-compliance at all, which signals that accountability exists. The worst outcome is where the entity incurs the non-compliant expenditure again but with greater severity, signalling that there is no accountability for the mistakes made in the previous year. An alternative to these two extremes is where the entity incurred the non-compliant expenditure again, but with decreasing severity, indicating that there is some moderate level of accountability in effect in the entity. These movements are illustrated in Figures 11 and 12:

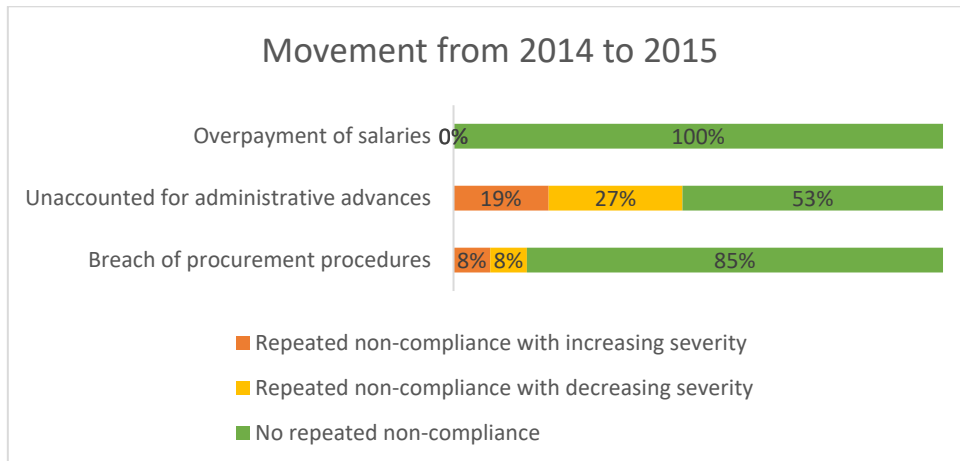


Figure 12 Extent of repeat non-compliance across the three selected areas from 2014 to 2015 in Ugandan local government.

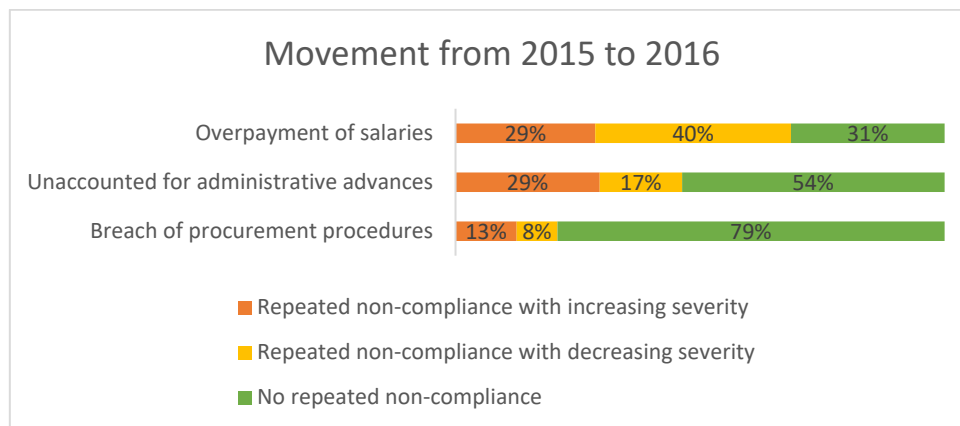


Figure 13 Extent of repeat non-compliance across the three selected areas from 2015 to 2016 in Ugandan local government.

With respect to overpayment of salaries, this additional layer of analysis demonstrates that it would have been erroneous to conclude from Figure 10 in the previous subsection that the increase from four non-compliant entities to 35 and 33 respectively in the subsequent two years meant that there was no accountability. Of the three entities that were non-compliant in 2014, all three had managed to eliminate this area of non-compliance in the following year. This is indicative of the finding being taken seriously in those three entities to avoid a repeat finding in the following year.

All 35 entities who had this occurrence of non-compliance in 2015 were therefore entities who had not demonstrated this specific type of non-compliant expenditure in 2014. Of these 35 entities, just under one third managed to eliminate the non-compliant expenditure, but a similar amount had repeated the non-compliance in the

following year with greater severity. Although not ideal, 40% of the 35 entities had demonstrated some limited form of accountability through a repeat finding in 2016 but with a smaller amount in Ugandan shilling. Overall, this means that 71% of the 35 entities had managed to reduce their overpayment of salaries in some form in 2016, albeit not always down to zero.

With respect to unaccounted administrative advances, just over half of the entities who were non-compliant in either 2014 or 2015 were able to eliminate the non-compliant expenditure entirely in the following year. Of the 139 non-compliant entities in 2014, 27% had a repeat finding with a smaller amount in Ugandan shilling in 2015. Of the 95 non-compliant entities in 2015, 17% had a repeat finding with a smaller amount in Ugandan shilling in 2016. Overall, by 2016, 71% of the previous year's non-compliant entities had managed to reduce their unaccounted administrative advances in some form, albeit not always down to zero.

Finally, with respect to breaches of procurement procedures, only 13% of 2015's non-compliant entities and 8% of 2014's non-compliant entities had not been able to reduce their non-compliant expenditure in the subsequent year. The majority of the entities had managed to completely eliminate the non-compliant expenditure in the following year, while a mere 8% in both periods had repeat findings of declining severity.

Looking at the three selected areas holistically, there is an inclination towards resolving non-compliance findings within entities. This reduction, whether a complete elimination or a decline in magnitude, can only take place if systems are put in place to address the forms of non-compliance which the audit revealed. This indicates that there are more entities than there are not in which some form of accountability is taking place with respect to non-compliant expenditure in the three selected areas.

This is in strong contrast to the South African government where part 3 of the SA analysis showed that the majority of entities engaging in non-compliance repeated the non-compliance in subsequent periods. Worse so, the rand value of non-compliance in SA was predominantly increasing in magnitude.

CONCLUSION

The comparative evaluation to Uganda revealed positive results with respect to audit findings around compliance matters. It can be inferred that having a SAI with the power

to sanction has led to declining instances of non-compliance and repeating the non-compliance within entities. This was evidenced by entities having a propensity to not repeat the contravention or a decrease in the magnitude of non-compliance. The enhanced SAI powers therefore appear to strengthen accountability in the management of public finances and thus the quality of democracy as it relates to the dimension of horizontal accountability, which can be confirmed through future research by using this study as a framework.

FUTURE CONSIDERATIONS

As explained in the previous chapter, the purpose of this study was not to infer success replication in SA, but rather to lay the groundwork for future research in understanding the role of SAIs in enhancing the quality of democracy. This subsection seeks to summarise this framework for future research considerations to follow this study.

First, future research would need to be conducted on the Ugandan public sector audit system. It may be that the positive audit outcomes do not speak to positive management of public finances. It is important to understand the public sector audit system in Uganda and whether it truly does contribute to accountability, or if the positive outcomes are a result of a system which has set an easily attainable standard to obtain these outcomes. The rankings of Uganda and South Africa for accountability on the Ibrahim Index affirm this need.

Conversely, future research may also investigate the extent to which poor accountability in SA government, specifically local government, is attributable to capacity constraints, rather than simple auditee non-responsiveness. The conclusion to the presently ongoing capacity assessment by the Municipal Demarcation Board should assist in conducting such studies as a municipal capacity assessment has not been conducted in seven years by the Board. Addressing these capacity constraints in conjunction with improved auditee responsiveness may be what is needed to see improved accountability in place.

The PAA amendments should force the AGSA and government to both evaluate how they manage their respective mandates. It is important for government to not consider the amendments as a means by which responsibility is delegated to another party, but rather a means of last resort. Horizontal accountability does not preclude government from utilising institutionalised mechanisms, such as a SAI with the power to sanction and surcharge. But if auditees, and the legislatures which they report to, do not take the findings of the AGSA seriously and merely rely on the AGSA to take ultimate responsibility for government accountability, the AGSA will devolve into an extension of government's internal audit function. This would render government unaccountable without an independent third party as a level of assurance. The management of the

respective mandates and the impact on future performance are an important area for future research as it will allow an evaluation of enforced policy.

At this point, the literature cited which describes Uganda as a hybrid of a democratic and authoritarian regime must be reemphasised. South Africa is adopting practices to enhance horizontal accountability, but the success story of this practice is being told in a country which the literature considers authoritarian in nature. In attempting to enhance the quality of democracy through horizontal accountability, it would be problematic to emulate a regime which has succeeded in this one dimension of democracy, while its overall quality of democracy is poor. Further research should therefore be conducted to understand if the strong horizontal accountability can be attributed to the militaristic nature of the Ugandan regime, rather than the enhanced SAI powers.

The next consideration would be the intersection of the dimensions of democracy. If the objective of a democracy is to enforce the will of the people, then matters of public finances must operate within a framework that facilitates the strength of multiple dimensions of democracy to prioritise outcomes which benefit the public, not just the dimension of horizontal accountability. The intersection of these dimensions therefore also allows for future areas of research in studying the quality of South Africa's democracy.

Vertical and horizontal accountability are two dimensions of the Diamond and Morlino framework that are able to complement each other in enhancing the quality of democracy. As was noted in the literature review, the Republic of Korea places emphasis on the role that citizens play in holding governments accountable. As South Africa will see its next National and Provincial government elections in 2019, further research may be conducted on whether the passive citizenry highlighted in the literature has become more active in holding its government accountable as SA democracy matures.

Another dimension which can intersect with horizontal accountability is rule of law. If enhanced SAI powers lead to improved compliance audit findings, future research may investigate if greater respect for the rule of law has any impact on the reporting

aspect of financial management, being the annual financial statements and performance reports.

Finally, research may also be conducted on the ability of citizens to hold governments accountable by using the outputs of the public sector audit process. The lack of response for requests for information for this study notwithstanding, it was noteworthy that the AGSA releases an amount of data from its audits far in excess of other SAIs reviewed. However, research must be conducted on how useful this data is to the ordinary citizen.

The literature notes that the participatory dimension of democracy requires an educated citizenry, which requires one to investigate if the AGSA outputs are contributing to the education of citizens. If in an ideal scenario there is an intersection of strong horizontal and vertical accountability, citizens cannot hold governments accountable if the audit reports do not provide value in the right context.

CONCLUSION

At the time of writing, South Africa is entering its 25th year of democracy. In this time, this democracy has been the subject of a wide array of scholastic interrogation. While no scholars dispute that South Africa is a democratic state and that the introduction of democracy has improved the lives of most South Africans, the electoral system by itself has not been enough to rate the quality of this democracy as being high and that there is a gap between what one would expect a democracy to deliver versus what has materialised. Scholars therefore conclude that SA democracy is a minimalist one.

In line with this, the AGSA has been raising concerns surrounding the lack of accountability arising from public sector audits due to non-responsiveness from auditees and lack of consequences for audit findings. Applying the framework presented by Diamond and Morlino for evaluating the quality of a democracy, the concerns of the AGSA affirm the literature, which state that there is poor horizontal accountability in effect amongst state entities, meaning that government has failed to hold itself accountable. This thesis therefore aimed to evaluate the AGSA's contribution to the quality of democracy through its mandate of enhancing accountability.

Analysing the audit outcomes, extent of repeat findings, and monetary evaluation of non-compliant expenditure, it was found that the AGSA's claims of auditee non-responsiveness were valid. It was therefore concluded that amending the audit system was warranted, and the impact on the AGSA's ability to enhance accountability through enhanced powers as provided for in the Public Audit Amendment Bill of 2018 was worth investigating.

Enhanced SAI powers may initially appear to be absolving government from holding itself accountable, which would lead one to question if there is true horizontal accountability in effect. Given the emphasis that the literature has made on the lack of maturity of SA democracy, it may be that enhancing the powers of the AGSA to allow them to sanction and surcharge is a necessary trade-off required to promote accountability and thus provide a higher quality of democracy that was demonstrated prior to the PAA amendments. Furthermore, the amendments do not aim to delegate

the roles and authority that is inherent to accounting officers, but rather provide an additional level of assurance on their functions through the external audit function.

Uganda was then used as a case study to evaluate the impact of enhanced SAI powers. It would be erroneous to conclude that the success of enhanced SAI powers in Uganda would be automatically replicated in South Africa. While the two countries are both developing nations, the literature notes that the quality of a democracy is shaped by its transition to democracy. As South Africa and Uganda have two different stories of transition to tell, it cannot be assumed that accountability mechanisms will automatically operate in the same manner.

Furthermore, the overall quality of Uganda's democracy is considered worse than that of South Africa. The fact that the dimension of democracy called horizontal accountability is stronger in this semi-authoritarian regime than it is in South Africa is noteworthy, and it is interesting that South African policy makers have opted to enhance the powers of an entity meant to safeguard democracy while simultaneously leading it to emulate its SAI equivalent in an overall less democratic state.

As the objective of the research was to develop the groundwork for future research in understanding the role of SAIs in enhancing the quality of democracy, the *Future Considerations* chapter summarises the future research issues for this topic. These include the reliability of findings on the Ugandan public sector audit system, the impact of capacity constraints on SA local government financial management, evaluating government performance post-implementation of the PAA amendments, and the usefulness of AGSA outputs in enhancing accountability by expanding the evaluation of the dimensions of democracy to be more intersectional, rather than standalone.

In conclusion, the current powers of the AGSA as at October 2018 have been proven to be ineffective in strengthening the quality of democracy. The main hypothesis has therefore been upheld. The PAA amendments, which are not yet effective, provide a basis on which there is potential for improved accountability in government. As South Africa's democracy begins to consolidate, other factors working in tandem with public sector audits may see the quality of democracy improving over time as this democracy is allowed to mature.

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APPENDICES

Appendix A – Explanation of audit outcomes in the South African public sector

Audit outcome	Description
Clean audit	<p>Best possible outcome</p> <p>Financial statements are free from material misstatement.</p> <p>No material findings on:</p> <ul style="list-style-type: none"> • Non-compliance with legislation, nor • Usefulness and reliability of the performance report
Financially unqualified audit	<p>Financial statements are free from material misstatement.</p> <p>But there are material findings on:</p> <ul style="list-style-type: none"> • Non-compliance with legislation, and/or • Usefulness and reliability of the performance report
Qualified audit	<p>Material findings in specific areas of financial statements</p> <p>OR auditor was unable to gather sufficient evidence to conclude that these areas are free from material misstatement.</p> <p>May also be material findings on compliance with legislation and/or the performance report.</p>
Adverse audit	<p>There are material findings but these are not limited to specific areas of the financial statements (is pervasive).</p> <p>May also be material findings on compliance with legislation and/or the performance report.</p>
Disclaimer of opinion	<p>The auditor was unable to obtain sufficient evidence to form an opinion on the financial statements.</p> <p>May also be material findings on compliance with legislation and/or the performance report.</p>

(Auditor-General of South Africa, 2014)

Appendix B: Changes to the Public Audit Act as outlined in the Public Audit Amendment Bill

- Updating definitions in the Act
- Clarify the AGSA's discretion in respect to certain audits
- Authorise the AGSA's involvement with international work
- Allows the AGSA to refer a matter to the relevant bodies for investigation, in which the AGSA is to be kept informed at all times
- Allows the AGSA to recover from any individual any losses they may be responsible for
- Clarity around a remuneration committee for the AG and to allow for consultative processes
- Provision for additional reporting requirements
- Clarity around auditees whose audit fees will be covered by National Treasury
- Clarity around the appointment committee responsible for appointing the AG
- Provision to empower the AG to make regulations on audit matters

Appendix C – Extract of Ugandan Public Finance and Accountability Act

“Section 34: Powers of the Auditor-General

(1) In the exercise of his or her duties to audit and examine accounts, the Auditor-General may-

(a) require a public officer, within three months, to give any explanation or information which the Auditor-General may require in order to enable him or her to discharge his or her duties;

(b) authorize any person eligible to be appointed as an auditor of a company or any public officer, to conduct any inquiry, examination or audit on his or her behalf and that person or public officer shall report, from the date of appointment, to the Auditor-General;

(c) without payment of any fee, cause a search to be made in and extracts to be taken from any book, document or record in any public office;

(d) request for the opinion of the Attorney General in writing as to any question regarding the interpretation of any Act or regulation concerning the powers of the Auditor-General, or the discharge of his or her duties, and the Attorney General shall give his or her written opinion within seven days from the date of receiving the request.

(2) Where the Auditor General becomes aware of-

(a) any payment made without due authority; or

(b) any deficiency or loss occasioned by negligence or misconduct; or

(c) any failure to observe a policy of economy; or

(d) any sum which ought to have been but was not brought to account, he or she shall, in the case of expenditure, disallow it as a charge on public funds and in other cases call in question the sum concerned and make a report on the sum to the Speaker of Parliament, or if the Speaker is, for any reason unable to perform the functions of his or her office, to the Deputy Speaker who shall refer the report to the appropriate Committee of Parliament.”

Appendix D – Categories of findings per audit component as retrieved from annexures to AGSA general reports

<p>Audit of financial statements</p> <p>Non-current assets</p> <p>Current assets</p> <p>Liabilities</p> <p>Capital and reserves</p> <p>Other disclosure items</p> <p>Revenue</p> <p>Expenditure</p> <p>Unauthorised, irregular as well as fruitless and wasteful expenditure²¹</p> <p>Aggregate misstatements</p>	<p>Audit of compliance with legislation</p> <p>Material misstatement or limitations in submitted financial statements</p> <p>Unauthorised, irregular as well as fruitless and wasteful expenditure</p> <p>Annual financial statements and annual report²²</p> <p>Asset management</p> <p>Liability management</p> <p>Budgets</p> <p>Expenditure management</p> <p>Consequence management</p>
<p>Audit of the report on performance against pre-determined objectives</p> <p>Reported information not useful</p> <p>Reported information not reliable</p> <p>Information not submitted in time for auditing</p> <p>No annual performance report</p> <p>Underlying records/planning documents not submitted for auditing</p>	<p>Audit committees</p> <p>Internal audit</p> <p>Revenue management</p> <p>Strategic planning and performance management</p> <p>Transfers and conditional grants</p> <p>Procurement management</p> <p>Human resource management</p> <p>Other</p>

²¹ This relates to the **reporting** of the non-compliant expenditure in the notes to the financial statements, not the forming of a conclusion as to the extent of non-compliance within the entity.

²² This relates to the compliance with legislation guiding the preparation of the annual report, not necessarily the quality of the reporting

Appendix E – Summary of ten least improving municipalities per type of non-compliant expenditure (NCE)

Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure	
Municipality	Increase in NCE as percentage of total operating expenses	Municipality	Increase in NCE as percentage of total operating expenses	Municipality	Increase in NCE as percentage of total operating expenses
Kamiesberg	+105,14%	Nyandeni	+127,41%	Mopani District	+13,99%
Hantam	+23,61%	Moretele	+103,44%	Ditsobotla	+7,13%
Bojanala District	+22,06%	OR Tambo District	+86,88%	!Kheis	+6,51%
Mantsopa	+19,71%	Nelson Mandela Bay Metro	+74,16%	Mamusa	+3,58%
Sundays River Valley	+17,80%	eMadlangeni	+55,69%	Bushbuckridge	+2,79%
Thembelihle	+16,54%	Bojanala District	+41,52%	Tswaing	+2,60%
Maquassi Hills	+15,84%	Mkhondo	+41,48%	Siyancuma	+2,52%
Tokologo	+15,78%	Hantam	+34,68%	Jozini	+2,30%
Nala	+14,90%	King Sabata Dalindyebo	+33,68%	Sekhukhune District	+2,18%
Tswaing	+14,39%	Zululand District	+33,16%	Kgetlengriver	+2,16%