



Internal Audit Effectiveness and Financial Accountability in the Provincial Treasuries of South Africa

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ABSTRACT

Provincial Treasuries are responsible for assisting the National Treasury in enforcing compliance with the measures established in the South African constitution, which stipulates public sector expenditure control and transparency. This study aims to examine the relationship between internal audit effectiveness and financial accountability in the Provincial Treasuries of South Africa. The theoretical inclination is on the stewardship theory. The research is based on a quantitative approach and draws secondary data on internal audit and financial performance from the nine provincial treasuries of South Africa. Analyses were done using the fixed effect regression after conducting the Hausman tests, Augmented Dickey-Fuller tests (ADF) and Philips Perron (PP). Findings indicate that internal audit can enhance financial accountability across all the expenditure programmes of provincial treasuries in South Africa. Government departments should embrace internal audit as a monitoring tool to evaluate financial accountability and service delivery performance, but not as a punitive initiative. In addition, educational training of internal audit staff can be very effective in achieving government financial control. The paper provides a veritable case study to higher institutions regarding educational qualification versus experience implications on public sector internal audit and accountability; it also offers an agenda for further research.

Keywords: Provincial Treasury, Service Delivery, Internal Audit, Wasteful Expenditure, Unauthorised Expenditure

JEL Classifications: M4, M41, M42, P34, P43

1. INTRODUCTION

This study explores the relationship between internal audit effectiveness and financial accountability in the Provincial Treasuries of South Africa. There is a persevering relationship between internal audit and financial accountability. The 1996 Constitution of the Republic of South Africa obliges government, concerning public funding and management of government programmes, to function in a free, transparent, and accountable manner. Internal auditors must develop effectiveness in a way that focuses on their independence, organisational performance and efficiency, asset security, fraud detection and prevention, risk management, reliable financial statements, compliance with legislation and regulations. Internal auditing is an independent, analytical and advisory practice, according to the Institute of Internal Auditors (2018). It intends to add value and enhance the

operations of an organisation. Internal audit has since become one of the corporate governance foundations. Nzewi and Musokeru (2014) also indicate that there are political challenges that, as observed by the Auditor General of South Africa, question the South African political leadership's will to improve auditing, generally, in some institutions as some of the recommendations made by the internal audit are sometimes not responded to or responded to very late.

The few studies on related topics in the world have different findings. Research on financial accountability in Australia was conducted by Bowrey et al. (2016) with the emphasis on a financial accountability system that takes into the consideration state budget and mid-year update, a financial report for the consolidated fund and an account on state finance. Rabrenović (2007) discussed the use of financial transparency as a condition of membership of

the European Union along with the cost-quality, efficiency and economic performance of public resources.

Nzewi and Musokeru (2014) explored the role of public service financial accountability supervisory bodies to determine the use of the legal and institutional structure, preparation and implementation of the budget, accountability and financial reporting, debt and cash flow management, and internal control. "The degree to which supervisory bodies in South Africa are active in ensuring public financial transparency and responsibility has, moreover, been investigated by Tsheletsane and Fourie (2014). The degree and impact of support by senior management for the functioning of the supervisory bodies were assessed by Mbewu and Barac (2017), on the other hand. Tsheletsane and Fourie (2014) examine the role of accounting officers in high turnover and the effects on level of excellence in financial transparency. Mihret and Yismaw (2007) investigated factors affecting the efficacy of Ethiopian public sector internal audit services. The internal audit function of the South African public sector has been investigated by Motubatse et al. (2015) as viewed by role players outside the internal audit function itself. The above studies did not closely look into the position and connection between internal and financial accountability in general or explicitly concerning South African provincial treasuries. This research adds to the current literature as well.

The genesis of a post-1994 South Africa symbolised a new model in the administration of the public services and distribution of public resources. This new approach is still debated precisely with new governance and accountability challenges that manifested themselves in multiple ways (Koelble and Siddle, 2013). According to van der Nest (2008), as a consequence, there is increasing pressure on public officials to demonstrate a high level of accountability concerning the use of public funds. Interventions through Section 100 (1) of the constitution of the Republic of South Africa have been affected by many government institutions. Almost all the South African Provinces were included (Department of Justice, 2003). Five (5) departments in Limpopo Province, two (2) departments in the Free State Province and one (1) department in the Gauteng Province also went through a similar experience in 2011 (GCIS, 2011). Section 100 (1) was revoked in the department of Health in the North West Province in 2018 after discovering that the institution inappropriately used the funds (Presence, 2018). The Auditor-General expressed concern in 2016 about the increasing number of irregular expenditure and qualified audit outcomes from various provinces (ENCA, 2016). A high turnover of accounting officers destabilises the performance of government institutions (Tsheletsane and Fourie, 2014). Low capacity and inadequate management support have a negative influence on the quality of the internal audit function and effectiveness (Mihret and Yismaw, 2007). In many instances, the internal audit effectiveness in public administration is influenced by the perceived laxity and lack of attention to detail by some internal auditors (Motubatse et al. 2015). There is a dearth of research, which has looked closely at the role and relationship between internal audit effectiveness and financial accountability with a specific focus on Provincial Treasuries of South Africa. Therefore, this research investigates the role that internal audit

plays in contributing to financial accountability concerning unauthorised and wasteful expenditures. The focus of the study is in all the Provincial Treasuries in South Africa.

Based on the foregoing problem, the objectives of this paper are:

- i To determine the impact of internal audit on financial accountability in the South African Provincial Treasuries, and
- ii To assess the effect of internal audit on wasteful or fruitless expenditures in the South African Provincial Treasuries

This study contributes significantly to the benefit of the evolving South African society bearing in mind that public finance management is the primary key that stands to unlock the challenges that block the realisation of outcome-based governance. It also contributes by taking the lead to shed light on the effective differences between staff quality in terms of experience and education – and contributes by showing that well education staff possess a stronger skill to bolster internal audit and enhance financial accountability.

2. LITERATURE REVIEW

2.1. Stewardship Theory in Public Sector Auditing

The philosophy of stewardship is concerned with aligning the interests of the principal, usually the citizenry (represented by the government), and the steward, usually the management. Auditing and reporting, as representations of accountability, act as central tenets towards achieving organisational objectives and, therefore enhance the achievement of the stewardship theory approach (Keay, 2017). The public sector represents a principal-agent relationship in which case government act as the principal and officials as the principal's agents. The entities concerned are bestowed with a responsibility for resources that have been derived from taxation and other sources for the benefit of the citizenry (Oluoch, 2018).

In line with the stewardship theory, all public entities are accountable to the public for their use of public resources (Audit New Zealand, 2016). Vanker (2013) suggests that the South African public sector (comprised of amongst others parastatals, universities, parliament and government) is responsible for approximately 32% of the Gross Domestic Product (GDP). Auditors provide a reliable reporting mechanism on the public sector's use and stewardship of the resources (Institute of Internal Auditors, 2012). An audit of the public sector further tests whether an agency achieves its mandate and goals, thus building public trust (Vanker, 2013). This reporting involves looking at the potential plans and allocation of funds by annual reports as a legislative and oversight feature (Oluoch, 2018). In general, an audit involves the financial records of an organisation to ensure that the financial statements issued by an organisation are free of mistakes or mistakes (Vanker, 2013). The Auditor-General offers independent assurance, by his or her designated auditors, that these reports are accurate (Almqvist, et al., 2013).

2.2. Role of Internal Audit in Public Service Delivery

Accounting officers shall create internal audit units for their organisations and notify the Auditor General of any decision that

departments share internal audit units. An internal audit unit can be contracted partly or wholly with a specialist audit professional external organisation, provided its selection conforms to the competing tendering processes of the government concerned (National Treasury, 2005). It was found that management support for the internal audit system was most necessary to ensure the perceived quality of the internal audit system, from a management point of view as well as from an internal auditor in a study by the Saudi Arabian public sector organisations (Alzeban and Gwilliam, 2012). The auditing competency, independence and objectivity of the auditors and management support for internal audit effectiveness exist significantly in a constructive partnership (Baharud-din et al., 2014). Political intervention in Nigeria's Kogi State has been found to lead to the ineffectiveness of audit procedures and accounting. There have also been claims that internal control mechanisms are inadequate (Emmanuel et al., 2013). The 2011 study by Ebaid showed that many Egyptian listed firms have internal audit functions, but that their role was said to be ineffectual because of low management support, short organisational independence, and internal audit qualifications, it affected the company's corporate governance performance. Institutional dynamics play a part in the failure to mature internal audit in the Saudi Arabian public sector. The misconceptions also tend to exist that the value of internal audit as machining to maximise productivity in the industry does not seem to be recognised by influential government institutions such as the Ministry of Finance and the Ministry of Public Service. In Ghana's analysis of the public sector, poor operating audit committees, lack of ownership and cooperation of the management, lack of budget authority in the internal audit unit and low technical skills of internal auditors have reportedly hindered the internal audit efficiency (Onumah and Krah, 2012). The high degree of effectiveness obtained in public sector organisations, the more internal auditors, perform (Badara and Saidin, 2013).

2.3. Public Sector Financial Accountability

Gray and Jenkins (1993) note that duty is based upon a relationship between the three main, steward and codes of management. Financial accountability provides the basis for the execution by different agencies of programs by statute, regulations, rules, orders, instructions, processes, and procedures to be implemented (Zilwa, 2016). Conventions can also be used. The constitution of the Republic of South Africa, in 1996 (Barac et al., 2013), gives this mandate to an agency within the government of South Africa. Governance reflects how guidance and regulation are implemented for management in pursuit of the primary objective of sustainable value development of an organisation's properties – tangible and intangible, financial and non-financial (Fourie, 2007). Several regulations for public service are in force (Munzhedzi, 2016a). The involvement of audit committees (Van der Nest, 2008; National Treasury, 2014), is a critical component of public sector financial transparency. The PFMA sets out risk management, internal financial regulation, performance management, management, law-abiding and performance assessment transparency for the auction committee, among others. The audit committee shall have a responsibility to control monitoring and internal auditing and the risk management of an entity concerning financial transparency (KPMG, 2016). The Audit Committee should have the opportunity

to get information, legal or professional advice from internal and external sources, and start special inquiries (van der Nest and Erasmus, 2013). The well-functioning auditing committee (Zilwa, 2016) is distinguished by transparency, productivity, effectiveness and economics. Munzhedzi (2016b) highlighted the significance as valuable tools for the assessment of financial transparency of supervisory bodies such as Public Protectors, Public Service Board, National Public Prosecutors, General Auditors, and judicial institutions. The Auditor General's working under public audit Act, No 25 of 2004, is to put the provisions of the Constitution of the Republic of South Africa, 1996 into force. As seen in the General Account of the Auditor, the Auditor General is the watchdog to ensure that the budgets, financial statements and financial administration of all government agencies are publicly accountable, audit and Report (Nzewi and Musokeru, 2014). The AG was given full independence in 1993 by Law No 123 on the Auditor General of 1992, which gave the organisation, without preconception or disadvantage, the necessary autonomy to carry out its mandate in full.

2.4. Unauthorised Expenditure in Public Sector and Internal Audit Effectiveness

Unauthorised expenditure is expenditures that violate all relevant laws that apply only to government agencies, not in compliance with the goal of voting (National Treasury, 2014). Any political body bearer or officer who performs illegal or unnecessary expenditure knowingly or negligently is liable. The accounting officer is responsible for taking appropriate and sufficient actions to deter unauthorised spending, including disciplinary action on offending officials and the reporting of any unauthorised expenditure in the annual Report (National Treasury, 2014), this involves spending on things not calculated. Managa (2012) notes that the financial report of the Auditor General in 2010-2011 decreased a low number of clean audits received for the year, accusing high-level officials, including national governments, of corruption and illegal spending. Different provincial departments, including provincial treasuries, were put under administration in various episodes because of unlawful expenditure. The auditor general calculated R2.44 billion of non-authorised expenditures incurred by some national departments over the 2011/12 financial year, while only 52% of his targets were attained (Du Plessis, 2012). Dzomira (2017) also reports that financial administration has been an inveterate business situation in almost all of the provinces in South Africa, in particular in terms of fruitless, inefficient, irregular and not approved spending for 2012/13; 2013/14 as well as 2014/15.

Unauthorised expenditure under Section 1 of the Public Finance Management Act, 1999, according to the National Treasury (1999):

- a) Disproportionate use of voting or a principal break in voting;
- b) Expenditure not rendered for voting purposes or, in the case of a principal division, not for the principal division's intent. The following are examples of unapproved spending, according to the National Treasury (2012):
 - Disproportionate use of a voting and primary break in the voting;
 - Disproportionate voting expenses and principal splitting within a split vote;

- Inappropriate usage of the vote of the key split;
- Overall voting savings with a surplus of voting costs in the key division;
- Incorrect use of resources outside the voting or main division's mandate for voting purposes;
- Incorrect use, with over-expenditure in the overall vote, of funds beyond the voting mandate or fundamental division;
- Incorrect utilisation of a conditional grant;
- Overspending on the central division within a vote that includes conditional grants;

In the 2017/18 financial period, 42 percent of PFMA auditors announced that they have not complied with crucial legislation that explicitly refers to preventing illegal, irregular and unproductive and unsustainable expenditure compared to 38 percent during 2016/17. 72% of the 171 auditors did not respect the same primary regulations concerning municipalities. Municipalities' failure to comply can cause financial loss.

It is difficult to understand the explanation of why officials and individuals, in general, prefer to perceive unauthorised spending and unnecessary spending as being the same. Unauthorised spending varies from excessive spending. Unauthorised expenditure is concerned, to be exact, with the cost of financial resources not compatible with the reason for which it was intended, whereas wasteful expenditure is concerned with the expenditure of financial resources for useless and useless purposes (Ambe and Badenhorst-Weiss, 2012). The above logic is complied with by this analysis. The role of internal auditing is responsible for detecting unauthorised expenditure (Motubatse, 2014). Internal audit helps in the early detection of excessive future spending using methods of inquiry that ensure continuity. The effectiveness of an internal audit is directly related to the implementation of guidelines for internal audits (Plant, 2014). Government accounting authorities are often required to take measures aimed at preventing illegal spending. The Accounting Officers are responsible for avoiding reportable unauthorised expenditure and may fulfil this role by making use of the annual report and financial statements. (National Treasury, 2014). In addition, Van Staden and Barac (2014) argue that there is a risk of political impact on the internal audit function's efforts concerning corporate governance stewardship. This opinion is based on the assumption that they seem to favour the safety of top management over the audit committee, which explains the frequency of excessive expenses.

2.5. Wasteful Expenditure in Public Sector and Internal Audit Effectiveness

The PFMA (Section 1) describes wasteful and fruitless expenditure as fair consideration has been exercised for expenditure which was made in vain and would have been avoided (National Treasury (2014). In vain, the transaction was carried out without value or substance and did not achieve any desired outcomes or results (National Treasury, 2014). These include, but are not limited to, expenditure on exuberant parties and the recruitment of accommodation if an individual already owns one within the same region. Reasonable care is defined as the use of due diligence to ensure minimisation of the risk of a transaction not succeeding (National Treasury, 2014). Wasteful spending has

been an ache in the face of South Africa, especially when it comes to parliamentary accounting. Managa (2012) reports that clean audits are undermined by a lack of internal control and financial management expertise in the 2010/11 National Audit Report, exacerbating wasteful spending. The auditor general found R444 million in fruitless and unsustainable expenditure during the 2011/12 financial year (Du Plessis, 2012).

Paragraph 38(1)(g) of the PFMA notes that the accountable officer shall immediately report, in writing, details of the expenses to the respective treasury upon discovery of fruitless and unsustainable costs (National Treasury (2000). The National Treasury (2014) notes that the individual must obtain unproductive expenditure and wasteful expenses in charge in law and, where recovery is not possible, the accounting officer or the accounting authority can write off the inefficient and wasteful expenditure under provisions. As set out in Section 17 (Chapter 2), everybody has the right to organise, demonstrate, picket and present demands freely and unarmed (Republic of South Africa, 1996). The fundamental human right which determines the quality of life of citizens is regarded as essential services. The willingness of the citizen to practice this right should inform the priority of public service (Burger, 2018). In South Africa, illegal and unsustainable expenses are mainly caused by corruption, resulting in a decrease in the value of tax and a detrimental effect on the citizenship of the nation (Tickle, 2018). Irregular spending in R32, 876 million of 301 cases in 2013/14, R24, 672 million out of 287 cases in 2014/15 and R31, 596 million out of 308 cases in the financial year 2015/16 was due to corrupt procurement activities (Mazibuko and Fourie, 2017). This is focused on the auditor general's conclusion, replicated year after year (Fourie and Poggenpoel, 2017). The public sector does not tackle their problems in their source. Some communities have lost confidence and faith in the municipalities to provide services because of mismanagement and financial malfeasance and thus have resorted to mass demonstrations and protests (Mashamaite, 2014). In contrast to the common belief and understanding, it was identified that the majority of objections to protest address not only issues related to the delivery of essential services but also security, education, jobs and other broader socio-economic rights (Lancaster, 2018).

The number of protests for municipal services has decreased considerably in the time between 2007 and 2016, according to Chigwata et al. (2017), despite the growing numbers in the country's protests. The previous statement by Lancaster (2018) shows that, while most action is for government purposes, a substantial number of private-sector strikes are still involved. In another study conducted in one of Limpopo province's local municipalities, financial assistance structures and reliance on national government grants had some impact on the provision of service and adversely affected community provision of services (Ndebele and Lavhelani, 2017). Furthermore, Mpfu and Hlatywayo (2015) government departments are more likely to increase their customer services by placing more emphasis on equipping their workers through in-service training and development programs. Wasteful expenses vary from unlicensed expenses. Wasteful spending is spending in vain even if it could be avoided when unauthorised expenditure is not compatible

with its intent (National Treasury, 2014). The internal audit covers performance, effectiveness and effectiveness controls and financial reporting reliability (National Treasury, 2009). Motubatse (2014) indicates that the internally audited feature is responsible for detecting wasteful expenditure and, according to MacRae and Gils (2014), internally, auditors can detect the existence of wasteful expenditure through unlimited access. The internal audit must continue to consult with the management of the institutions in terms of wasteful expenditure by commitments with the Chief Executive Officer (Steyn, 2014). Officials of the organisation, who take part in the regular financial management of the organisation, play a crucial role in avoiding unnecessary expenditures. General staff should be blowing the whistle when such incidents occur (Van Staden and Barac, 2014).

3. METHODS

The research aims to assess the relationship of internal audit performance, financial responsibility, unauthorised expenditure, and unnecessary expenditure among the following quantitative variables. The Auditor General uses scores for individual observations, including the use of colour-coded measures, for the assessment of the overall performance of an organisational audit, this in itself means the numerical method used to characterise the bottom of each audit by the Auditor General. The population for this research is the nine (9) Provincial Treasuries of the Republic of South Africa. The research applied the non-probability purposive sampling for this study as the entire population (which is the entire nine provinces in South Africa) were used for the purpose of generalizability to the entire country. Hence, the sample size for this research is the same as the population.

Annual reports contain authoritative information that measures internal audit effectiveness, unauthorised expenditure, and wasteful expenditure amongst others. Therefore, secondary data were from annual reports of the nine (9) Provincial Treasuries of the Republic of South Africa, which are secondary sources. The following data were from published annual reports, which is publicly available:

- Internal audit effectiveness, which is measured in percentages by the auditor general.
- The amount of unauthorised expenditure, which is measured in South African Rands by the auditor general.
- The amount of wasteful expenditure, which is measured in South African Rands by the auditor general.

3.1. Panel Data

Panel dataset combines cross-sectional and time dimensions together. Thus, Panel data enables the behaviour of each cross-sectional unit (provincial treasury in this case) to be observed over time. In respect to the objectives of this study, the panel data model can be presented as follows:

$$Y_{it} = \alpha + \beta_0 IA_{it} + \delta X'_{it} + \varepsilon_{it} \quad (1)$$

where Y represents financial accountability and wasteful expenditure for objective 1 and 2, respectively. The subscript IA is a proxy for internal audit effectiveness which is the variable of

interest in this research. The subscripts X , α and ε respectively denote a matrix of control variables, constant term and the error term. The cross-sectional and time dimensions are represented by the subscripts i and t , respectively.

In panel data models, the error term (ε_{it}) can be presented as follows:

$$\varepsilon_{it} = \mu_i + v_{it} \quad (2)$$

where μ_i represents the unobserved provincial specific effects, and v_{it} denotes the stochastic error term which is assumed to be identically and independently distributed across its mean zero and variance (IID(0; δ^2)).

Data for this research were collected from the year-end financial reports and human resource departments of all nine provinces in South Africa for the period (2010-2019). Hence, the panel data for this research constitute of nine cross-sectional units and ten time dimensions.

3.2. Variables Description and Data Sources

In this study, financial accountability is measured using the variance of provincial treasuries' expenditures in percentages. That is;

$$\left(\frac{Actual\ Expenditure_{it} - Budget\ Expenditure_{it}}{Budget\ Expenditure_{it}} \right) * 100, \text{ where the}$$

positive value indicates over budget implying that more expenditure was incurred than it was budgeted while the negative value reflects under budget which implies that less expenditure was incurred than the budget. Holding other things constant, under budget is favourable and reflects accountability in terms of finances. Provincial treasuries in South Africa monitor their accountability in finances uniformly using five expenditure programmes, namely; Administration, Sustainable Resource Management, Financial Governance, Internal Audit and Municipal Finance Management. The year-end financial reports present budgeted and actual expenditure for each programme across all the provinces. In this regard, the dependent variable of the first objective was divided into these five programmes to account for all the facets of financial accountability in the context of South African provincial treasuries. Hence, five estimations were conducted for objective one to determine the impact of internal audit on each expenditure programme.

Apart from the expenditure programmes highlighted above, there are some expenses that provincial treasuries incur as a result of incompetency and negligence. These expenses are classified as wasteful or fruitless expenditure, and they also provided in the year-end financial report for each province, to determine the impact of internal audits on wasteful expenditure, the dependent variable was measured as a percentage increase in wasteful expenditure (WE), this can be presented as follows:

$$\left(\frac{WE_{it} - WE_{it-1}}{WE_{it-1}} \right) * 100, \text{ where a reduction in the percentage of}$$

wasteful expenditure indicates accountability in terms of finances while an increase indicates incompetence and negligence.

In South Africa, all provincial treasuries are audited on an annual basis. After every internal audit, each expenditure programme, including wasteful expenditure, is awarded a score in percentage and the higher the score, the better in terms of accountability. These scores are provided in the audit report, which is gazetted together with the year-end financial report. Literature shows that the quality of the management staff in terms of both experience and the level of education plays a significant role in enhancing financial accountability. In this respect, the experience of the management staff and their level of education were added as control variables in equation (1). The latter was measured as a ratio of the management staff with at least NQF 8 to total management staff while the former was measured as a ratio of the management staff with at least five years of experience in their field to entire management staff. These data were obtained from the HR records of each province (Table 1).

3.3. Estimation Technique

There are various techniques used to estimate panel data. The basic estimation techniques are pooled regression, random effects and fixed effects. All these techniques fall under ordinary least squares (OLS) regression models. OLS models are statistical techniques that utilises sample data to provide an estimate of the real population relationship amongst two variables and are thus the simplest method of linear regression. Pooled regression and random effects assume homogeneity among cross-sectional units, whereas fixed effects capture the heterogeneity of the cross-sectional units in the intercept. Random effects observations include random disturbances while with fixed effects observations are independent of random disturbances. Although Hausman test is used to determine which estimation technique is appropriate, this study argued that there might be some unobserved heterogeneity across provincial treasuries that might need to be accounted for in the regression to minimise bias. Therefore, the fixed effects regression model was deemed appropriate. However, for formality, a Hausman Test was conducted, and the results still suggested in favour of fixed effects.

3.4. Estimation Procedure

First, the descriptive statistics were presented to determine the attributes of the variables in terms of their mean, standard deviation, minimum and maximum values. Second, a bivariate correlation matrix of the variables was presented to establish the relationship between the dependent variables and their respective regressors, and this was followed by a test of stationarity to establish the behaviour of the variables. The stationarity of the variables was confirmed using Augmented Dickey-Fuller (ADF) and Philips Perron (PP) tests. A Hausman test was then run to determine the appropriate estimation technique between random effects and fixed effects regression models. Finally, the above equations were regressed using the fixed-effects regression model.

4. RESULTS

4.1. Descriptive Statistics

Table 2 shows the descriptive statistics of all variables utilised in this study. The results indicate that on average administration expenditure (ADF), sustainable resource management expenditure (ASRM), financial governance expenditure (AFG), internal audit expenditure (AIA), and municipal finance management (AMFM) expenditure are over-budgeted by 1.6%, 2%, 1.2%, 1.4% and 0.8% respectively. Wasteful or fruitless expenditure increased at an average rate of 5.13%, and this result excludes Gauteng as the province did not incur any wasteful expenditure for the period (2010-2019). The results indicate that the provinces' accountability in terms of all expenditure programmes, including wasteful expenditure, is above average, this is supported by an average internal audit score of 83.9%. Furthermore, the results show that the average ratio of the experienced management staff is high (86.6%). However, the average share of management staff with at least NQF level 8 is not pleasing (53.4%) although it is above average.

4.2. Bivariate Analysis

Table 3 below shows a bivariate correlation matrix of all the variables of this study. Of much interest are the relationships among the expenditure programmes as well as the expenditure programmes and their respective regressors. The matrix is interpreted on a scale with a positive one (1) indicating perfect

Table 1: Summary of variables description and data sources

Variable	Description (Measurement)	Data source
Accountability on Administration (ADF)	A variance of administration expenditure, %	Year-end financial reports (2010-2019)
Accountability on Sustainable Resource Management (ASRM)	A variance of sustainable resource management expenditure, %	Year-end financial reports (2010-2019)
Accountability on Financial Governance (AFG)	Variances of financial governance expenditure, %	Year-end financial reports (2010-2019)
Accountability on Internal Audit (AIA)	A variance of internal audit expenditure, %	Year-end financial reports (2010-2019)
Accountability on Municipal Finance Management (AMFM)	A variance of municipal finance management, %	Year-end financial reports (2010-2019)
Wasteful/Fruitless Expenditure (WE)	Percentage change of wasteful expenditure	Year-end financial reports (2009-2019)
Internal Audit Effectiveness (IA)	Score awarded to each programme expenditure in percentage	Year-end financial reports (2010-2019)
Experience of Management Staff (EM)	The ratio of the management staff with at least five years of experience in their field to total management staff, %	HR reports (2010-2019)
Qualifications of Management Staff (QM)	The ratio of the management staff with at least NQF 8 to total management staff, %	HR reports (2010-2019)

Source: Authors' compilation

Table 2: Descriptive statistics

Variable	Mean	SD	Min	Max	Observations
ADF					
Overall	1.578	2.186	-1.885	8.258	N = 90
Between		0.899	-0.099	2.613	n = 9
Within		2.012	-2.595	7.554	T = 10
ASRM					
Overall	2.041	2.219	-1.873	9.872	N = 90
Between		1.353	0.695	4.998	n = 9
Within		1.810	-2.994	6.915	T = 10
AFG					
Overall	1.156	2.376	-2.982	8.836	N = 90
Between		1.233	-0.150	4.115	n = 9
Within		2.069	-4.220	5.877	T = 10
AIA					
Overall	1.398	1.734	-2.202	4.281	N = 90
Between		0.813	0.617	2.848	n = 9
Within		1.553	-3.266	3.339	T = 10
AMFM					
Overall	0.770	1.469	-1.566	3.531	N = 90
Between		0.416	0.339	1.546	n = 9
Within		1.415	-1.871	3.896	T = 10
WE					
Overall	5.132	45.979	-92.513	81.862	N = 59
Between		9.011	-13.705	17.489	n = 8
Within		45.117	-92.684	79.779	T = 7.375
IA					
Overall	83.570	13.323	57.082	99.974	N = 90
Between		11.607	67.395	97.327	n = 9
Within		7.510	59.993	102.614	T = 10
EM					
Overall	86.619	18.132	31.596	99.991	N = 90
Between		14.609	51.684	98.076	n = 9
Within		11.701	41.727	127.272	T = 10
QM					
Overall	53.409	19.799	11.901	90.239	N = 90
Between		13.018	32.156	72.749	n = 9
Within		15.482	17.415	98.903	T = 10

Source: Authors' computations using STATA 14.2

direct relationship, zero (0) no relationship and a negative one (-1) perfect inverse association. The demarcation between strong and weak positive/(negative) relationship is 0.5/(-0.5). The results indicate that the bivariate association among all expenditure programmes, including wasteful expenditure is positive and significant. More specifically, financial governance expenditure (AFG) associate strongly with administrative expenditure (ADF) and municipal finance management (AMFM). Further, the results indicate a strong relationship between wasteful expenditure (WE) and administrative expenditure (ADF).

In terms of expenditure programmes and the variable of interest, the results indicate a negative relationship between internal audit effectiveness (IA) and all the expenditure programmes. While internal audit effectiveness correlates strongly with financial governance and administrative expenditure, its relationship with internal audit expenditure (AIA) and municipal finance management (AMFM) expenditure is insignificant. Based on these results, the impact of internal audit on financial accountability is expected to be strong on financial governance and administrative expenditure. The relationship between all expenditure programmes and the quality of staff in terms of both experience (EM) and qualifications is negative and significant, albeit very weak.

4.3. Panel Unit Root Test

Table 4 shows the results of the stationarity tests conducted on all variables. The variables were tested for stationary at level. The p-values are less than 10% across all variables and tests, implying that the variables utilised in this study are stationary at level. Having established the level of stationarity of the variables, the study proceeds with the panel estimations in the next section.

4.4. Fixed Effects Results

Table 5 presents the main results of this study. Columns 1-5 address the first objective while column (6) addresses the second objective. More specifically, financially, accountability was decomposed into five expenditure programmes following the system used by provincial treasuries in South Africa. Accountability in terms of finances is measured by how expenditures are managed in each programme. As a result, the impact of internal audit effectiveness was analysed on each expenditure programme. Columns (1-5) present the results on the impact of internal audit effectiveness on accountability of the following expenditure programmes: administration, sustainable resource management, financial governance, internal audit and municipal finance management, respectively. Column (6) presents the results on the impact of internal audit effectiveness on wasteful or fruitless expenditure.

The P-values of the Hausman test are all less than 5%, indicating that fixed effects are the appropriate estimation technique for this study. The estimated coefficient of internal audit effectiveness (IA) is significant and enters the model with the expected sign across all specifications; this implies that internal audit enhances financial accountability and minimises wasteful expenditure. Precisely, for a unit increase in the internal audit score, there is 0.62, 0.06, 0.90, 0.03 and 0.02 point decrease of expenditure over budget in administration, sustainable resource management, financial governance, internal audit and municipal finance management, respectively. In line with the bivariate correlation analysis, these results indicate that internal audit effectiveness has a more significant impact on the accountability of administration and financial governance expenditure. In terms of fruitless expenditure, Gauteng province was eliminated from the sample because there was no fruitless expenditure reported under the province for the period (2010-2019). As a result, it can be argued that Gauteng province is very accountable in terms of wasteful expenditure relative to other provinces, *ceteris paribus*. For other provinces, the results indicate that for a unit increase in the internal audit score, there is 0.23 point decrease of wasteful expenditure.

The estimated coefficient of staff quality in terms of experience (EM) is negative and significant at 10% only in the specification relating to financial governance albeit small. For a unit increase in the ratio of experienced staff, there is 0.04 decrease in over budget of financial governance expenditure. The estimated coefficient of staff quality in terms of qualifications (QM) is negative and significant only in the specification relating to administration, sustainable resource management and financial governance expenditure programmes. For a unit increase in the ratio of highly educated staff, there is 0.02 decrease in over budget of all the afore-mentioned expenditure programmes. Based on the descriptive statistics of the average share of management staff with

Table 3: Bivariate correlation matrix

	ADF	ASRM	AFG	AIA	AMFM	WE	IA	EM	QM
ADF	1.000								
ASRM	0.562***	1.000							
AFG	0.755***	0.1807*	1.000						
AIA	0.019***	0.192*	0.279***	1.000					
AMFM	0.032***	0.233**	0.615***	0.180*	1.000				
WE	0.582***	0.055	0.353***	0.117	0.124	1.000			
IA	-0.524**	-0.386***	-0.555***	-0.038	-0.047	-0.381**	1		
EM	-0.123*	-0.015*	-0.171*	-0.287***	-0.159*	-0.052*	0.478***	1	
QM	-0.132**	-0.052	-0.340***	-0.110	-0.047	-0.067	-0.289***	-0.055	1

*Significant at the 10% level; **significant at the 5% level; ***significant at the 1% level. Source: Authors' computation using STATA 14.2 software

Table 4: Stationary test

	ADF	ASRM	AFG	AIA	AMFM	WE	IA	EM	QM
Test: Augmented Dickey-Fuller tests (ADF)									
Inverse Chi-squared Statistic	45.18	55.26	37.82	61.14	48.02	25.4	59.86	35.16	58.25
P-value	0.000	0.000	0.004	0.000	0.000	0.013	0.000	0.01	0.00
Test: Phillips-Perron (PP)									
Inverse Chi-squared Statistic	38.39	42.81	26.28	26.29	30.36	79.06	26.31	27.01	47.45
P-value	0.003	0.001	0.100	0.100	0.034	0.000	0.100	0.070	0.000

H₀: All panels contain unit-roots. Reject H₀ if P-value>10% implying that at least one panel is stationary. Source: Authors' computation using STATA 14.2 software

Table 5: Fixed effects results

	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent Variable: ADF	Dependent Variable: ASRM	Dependent Variable: AFG	Dependent Variable: AIA	Dependent Variable: AMFM	Dependent Variable: WE
IA	-0.620** (0.022)	-0.059* (0.043)	-0.903** (0.051)	-0.026* (0.030)	0.021* (0.026)	-0.235*** (0.089)
EM	-0.005 (0.018)	-0.005 (0.032)	-0.043* (0.222)	-0.019 (0.016)	0.025 (0.019)	0.837 (0.060)
QM	-0.015* (0.054)	-0.018* (0.013)	-0.015* (0.290)	0.0003 (0.027)	-0.002 (0.013)	0.529 (0.054)
Constant	-3.239** (0.329)	5.900** (0.887)	1.162 (0.244)	0.084 (0.141)	0.480 (0.900)	-75.68 (0.115)
Number of observations	90	90	90	90	90	59
Provinces	9	9	9	9	9	8
R-Squared (Within)	0.247	0.251	0.238	0.211	0.192	0.208
Prob>F	0.034	0.013	0.058	0.072	0.025	0.03
Hausman Test (P-Value)	0.006	0.002	0.04	0.008	0.039	0.018

Robust standard errors are in parentheses. *Significant at the 10% level; **significant at the 5% level; ***significant at the 1% level. Source: Authors' computation using STATA 14.2 software

at least NQF level 8, it can be urged that the magnitude size of the estimated coefficient of the variable can increase if the provincial treasuries management staff upgrade their qualifications.

5. DISCUSSION OF FINDINGS

In regards to findings for objective one, which impact of internal audit on financial accountability in the South African Provincial Treasuries, the results of this study indicate that internal audit can enhance financial accountability across all the expenditure programmes of provincial treasuries in South Africa. The impact is more conspicuous for financial governance and administration than it is for sustainable resource management, internal audit and municipal finance management expenditure programmes. These results are in line with Zeyn (2018), who found that internal audit on public institutions has a positive impact on financial accountability with a significant focus on financial reporting. The author argued that internal audit must be persuaded to

instil financial discipline in any organisation. For government subsidies, in particular, financial discipline, transparency and openness ensures that public funds in all programmes or departments are utilised economically, efficiently and effectively. Likewise, Moeller (2005) asserts that financial transparency in public institutions promotes accountability over public resource management activities, this follows that effective internal audit towards financial governance has a potential to promote positive outcome on other expenditure programmes. Evident from the correlation matrix results of this study, financial governance has a strong significant relationship with internal audit effectiveness and correlatives relatively high with other expenditure programmes, this implies that reform in financial governance can transmit positively to expenditure programmes.

In the administration of public finances, discipline, openness and transparency is the key, implying that effective internal audit is vital as it monitors the adoption of these factors thereby promoting

financial accountability in public institutions. Cohen and Sayag (2010) refer to effective internal audit as the mechanism meant to monitor how expenditures are utilised in the organisations, and this is consistent with the findings of this study which shows that internal audit effectiveness controls budgeting in provincial treasuries in South Africa. Precisely, the study found that there is an inverse relationship between over budgeting and internal audit effectiveness.

In respect to the findings for objective two, which is impact of internal audit on wasteful expenditure in South African Provincial Treasuries, these research findings show that internal audit effectiveness minimises wasteful or fruitless expenditure. Literature that analysis the link between internal audit effectiveness and wasteful expenditure is scaring; however, Zeyn (2018) argues that financial accountability ensures that there is no wastage and leakage of funds, this implies that an improvement of financial accountability as a result of internal audit effectiveness minimises wasteful or fruitless expenditures. Wasteful expenditures are incurred as a result of financial negligence and indiscipline; thus, Cohen and Sayag (2010) assert that internal audit controls how funds are utilised, thereby minimising wastage. The primary role of internal audit is to detect personnel responsible for wasteful and unauthorised expenditure (Motubatse, 2014). Such personnel are charged accordingly (National Treasury, 2009); this explains why there is an inverse relationship between internal audit effectiveness and wasteful expenditure. Hence, the results of this study are consistent with the literature.

In regards to the control variables, the findings of this study indicate that experienced management contribute positively towards financial governance expenditure programme only while learned management is financially accountable across all expenditure programmes. These findings are consistent with AbRahman et al. (2016), who concluded that better performance and greater accountability in public financial management could be boosted through training and development of employees. A reflection derived from the descriptive statistics indicates that provincial treasuries in South Africa lack learned management staff and therefore there it is likely that training and development of management staff can boost financial accountability significantly.

6. CONCLUSION

The purpose of this study was to explore the relationship between internal audit effectiveness and financial accountability in provincial treasuries in South Africa. The results reflected an inverse relationship between internal audit and over budgeting of all expenditure programmes in provincial treasuries. The study also found a negative relationship between internal audit and wasteful expenditure. The results obtained from this study indicate that internal audit effectiveness reduces over budgeting of all expenditure programmes and wasteful or fruitless expenditure in provincial treasuries in South Africa. The results also indicate that staff quality in terms of both experience and education has a positive impact on financial accountability. However, learned management staff promises better results than experienced staff. Based on these findings, it is concluded that an effective internal

audit enhances financial accountability and eliminates wasteful expenditure. It was also concluded that financial governance is the central pillar of financial accountability. Reform in financial governance has a positive impact on other expenditure programmes, and this follows that financial governance should be prioritised, however, without disregarding other expenditure programmes. Furthermore, provincial treasuries and other public enterprises in South Africa are advised to embrace internal audit as a control mechanism meant to monitor their budgeting and utilisation of public funds not as a threat against their operations. The findings of this study can also have implication for other public institutions outside of the Republic of South Africa.

This implication stands out as it lubricates the understanding on the process of using the public purse to ensure that there is maximum yield on matters that are very close to citizens' hearts, which include service delivery, redistribution of wealth and poverty reduction. The implication finds rooting on public administration internal audit as being very crucial in ensuring that government institutions can predict, prevent and control challenges to the benefit of the citizenry. This is achievable through the strengthening of internal audit to ensure effective budget control, financial accountability, and service delivery. Findings from this paper constitutes a vital case study for universities and offers an agenda for further research to replicate this study in other African countries.

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