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Solemn declaration by the student

Module: Research Methodology Module Code: MBAA 874 Assignment No.: 1 Assignment due date: 07/04/2021

I Philadelphia Lillian Sedio declare herewith that the assignment which I herewith submit to the North-West University as partial completion of the requirements set for the MBA degree, is my own work.

Signature of student ____________________ Student number 24797022

Signed at Mahikeng this 06th Day of April 2021

ANALYSING FACTORS CAUSING QUALIFIED AUDIT REPORTS WITHIN THE NORTH WEST DEPARTMENT OF HEALTH

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Research proposal for the Dissertation submitted in *partial* fulfillment of the requirements for the degree *Master of Business Administration* at the North-West University

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Date of submission:

Version: 1

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1 INTRODUCTION

Financial statements are crucial because they provide crucial details regarding an organisation's financial health (May, 2019) Financial statements assist businesses in making informed decisions by highlighting which areas of the business have the greatest return on investment. Financial statements also include important details about how the budget was implemented, as well as the department's overall financial situation and whether it is a going concern or not. Therefore it is important for the audited departments to ensure that the financial statements submitted are true, credible and do not contain any material misstatements as they are used by Parliamentary and legislative committees to keep accounting officers and authorities accountable and make informed decisions (Motubase, 2016:46). Furthermore, the financial statements will be used by members of the public to see how effectively the state is using the taxes they pay to provide for service delivery (Matlala, 2018:4).

Public sector audit outcomes are generally deteriorating on an annual basis. The Auditor General reports are a clear indication of this phenomenon. The AG is generally concerned that regardless of the efforts made to bring to light the matters that are affecting departments earning a clean audit, there is little to no improvement. Public sector auditees are typically unable to generate financial statements and reports of acceptable standards while adhering to significant regulations which will assist them in obtaining a clean audit (AGSA, 2018-2019).

2 BACKGROUND TO THE STUDY

For the audit year of 2018/2019 The Department of Health was qualified for seven areas namely Compensation of Employees, Goods and Services, Expenditure for Capital Assets, Movable Tangible Capital Assets, Immovable Tangible Capital Assets, Contingent Liabilities and Commitments. The common theme in all these findings was that AG could not find sufficient and relevant accounting records to support and substantiate the expenditure incurred the main contributing factor being the department not having effective internal control systems and record management being remotely non-existent. (North West Department of Health Annual Report, 2018-2019)

For the audit year of 2019/2020 The Department of Health saw an improvement in terms of the qualification areas being reduced from 7 to 2. The qualification areas were for Compensation of Employees and Goods and Services. Even though the department can see this as a victory and a step in the right direction, there are still a number of issues which were flagged as matters of emphasis. These include Unauthorised, Irregular and Fruitless and Wasteful Expenditure, Accruals and Payables not Recognised, Material Impairment of Accrued Departmental Revenue, Restatement of Corresponding Figures and Unaudited Supplementary Schedules (North West Department of Health Annual Report, 2019 – 2020).

As of now, the department is still not out of the woods. Even in the 2019/2020 financial year audit, even the though the qualification areas had improved, the AG stated that he was still unable to find sufficient and valid accounting records to support and substantiate the expenses incurred. He repeated to cite that the department's lack of effective internal control systems and practically non-existent record keeping are still a major contributing factor.

The problem of repeat findings is not a problem that is only unique to The North West Department of Health. The AGSA identifies suggestions, guidelines, and red-flagged risk areas in all fields of government, including local government, but these recommendations are often ignored or ineffectively enforced, as shown by the issue of repeating previously published findings (AGSA, 2014:9, 16, 2015:12). (Gerber, 2020) further reiterates that the issue of repeat findings is that recommendations are made but there is lack of commitment, accountability and consequence management from the departments.

3 LITERATURE REVIEW

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999), (as amended by Act No. 29 of 1999) is one of the significant contribution of legislation enacted by after the emancipation of South Africa into a democratic state. This act advances the objective of good financial management which contributes towards the improving of service efficiency by wisely and efficiently managing limited public sector resources. Under the Act, Accounting Officers are responsible for keeping complete and accurate records of the department's financial operations in accordance with established norms and standards, as well as preparing financial statements for each fiscal year in accordance with generally accepted accounting practice (GRAP).

Every country has legislation that regulates the procedures for managing public funds efficiently and effectively. The PFMA provides the basic rules for public financial management which is based on Section 216 of the 1996 Constitution, which establishes treasury jurisdiction. The Treasury Regulations, which went into effect on June 5, 2000, detail the rules governing the use of allocated funds. Just a few examples include internal regulation, budgeting, asset and liabilities management, banking and cash management, accounting, and reporting (Pauw, et.al, 2000:42).

The Constitution of the Republic of South Africa requires the Auditor General of South Africa to perform audits and report data on the accounts, financial reporting, financial performance, and outcomes of public sector entities (Motubatse, 2016:42). An audit opinion's primary goal, according to (Loughran, 2010:8), is to have objective evidence that the financial statements have been handled fairly in all material respects and/or to provide a credible and fair view in accordance with the financial reporting system.

One of the most common types of literature reviews as described by (Neuman, 2014:127) is Context Review. The author of this type of analysis relates a particular study to a broader quantity of knowledge. It usually appears at the start of a research report and introduces the analysis by placing it within a larger context and demonstrating how it continues or expands on a previous line of thinking or study. This is a vital step in the initial phases of the study because you need to analyse the information collected regarding your research issue (Neuman, 2014:126) and this is true with all forms of study questions and studies.

Before tackling a problem on your own, as in other aspects of life, it's a good idea to see what others have heard about it. Clichés bolster this advice: don't waste time "reinventing the wheel," and always "do your homework" before embarking on a project. This is valid if you are a research recipient or will be doing your own analysis. Every research requires a literature review, but there is debate about the scope and depth of the review at the proposal level versus the final stage (Mauch & Park, 20013:118). The literature review provides a definition, overview, and critical evaluation of the work in relation to the issues that this research study is looking into.

According to (Salkind, 2013:110), a literature review affords an academic foundation for an effective research project to be carried out and it contextualizes the proposed research by contrasting it to existing literature. The literature review, according to (Bloomberg & Volpe, 2016:105), aids the researcher in recognizing and comprehending the void in the body of information. As a result, the existing scholarly literature published by local and foreign researchers will be included in this analysis.

The AG, as an external auditor, is in charge of releasing audit findings, which are then published in writing and often distributed orally to stakeholders. A published audit report should be concise and easy to comprehend. The auditor should present the results to the stakeholders as soon as possible after completing the report. The audit reports published by the AG would also be used as part of the literature review.

The non-empirical findings were derived from an academic body of information using data analysis rather than general everyday knowledge that had not been evaluated. The study of the literature also included available thesis and dissertations from North-West University's online library resources, the internet as well as published journal articles and related textbooks in order to perform analysis for this study topic. The research also requested a literature review and documentary examination of The Department of Health annual reports for the financial years 2018/2019 and 2019/2020, which are also available on the department's website and in AGSA's published reports.

4 PROBLEM STATEMENT

In 2018, the national government had agreed to oversee all of the departments in the North West Province by placing all the department under Section 100 (b) administration. This was sparked by service delivery protests which emanated from the unsettlement of officials within the North West Department of Health. This administration was put in place in order to strengthen the province's governance.

The intervention in the province was expected to end at the end of March 2021, according to President Cyril Ramaphosa's cabinet. However, to resolve pending issues, it has been extended until June 2021 (Makinana, 2021). The ideal outcome following the administration of the departments in the North West Province, including the North West Department of Health, is for the departments to be able to stand on their own and take responsibility, as well as to have processes in place to enforce effective financial management, enhance the departments' overall financial health, and improve service delivery.

In the public sector, the issue of having repeated findings is still a sore point. During discussions with the Parliamentary Portfolio Committee for Public Services and Administration, the late AG, Mr T.K. Makwetu, expressed his displeasure with the situation, claiming that it was inappropriate for a "Chapter 9 Institution to hark back to the same issues year after year" (AGSA, 2010:25). (Matlala, 2018) further supports that despite the recruiting of obscenely expensive consultants, the same results keep cropping up. As a result, this research will focus on making recommendations for how to improve the audit results of the North West Department of Health.

5 RESEARCH QUESTION

An audit is an engagement in which the auditor expresses a decision with the goal of improving the degree of opinion of the expected audit outcomes in the result of the evaluation or measurement financial statements against a fixed criterion. An audit is a non-biased review of a company's financial procedures. (Doyle, Ge & McVay, 2005: 197). The financial statements are what binds the audit and financial management together. As a result, the audit examines the internal controls and representations made to the auditor by the financial reporting team about the financial statements' details (Motubase, 2016:14).

Having said that, the key question that this research study tries to address, in accordance with the problem statement, is: what needs to be done to improve the audit outcomes of the North West Department of Health?

6 PRIMARY AND SECONDARY OBJECTIVES

For this review, the following objectives were established:

6.1 PRIMARY OBJECTIVES

The primary objective will be outlined as follows:

- To determine the North West Department of Health's perceived problems with qualified audit results.

6.2 SECONDARY OBJECTIVES

The secondary objectives are:

- What obstacles does the department face in obtaining a clean audit?
- What is the department's official capability and competency in handling the department's issues in relation to audits?
- How have officials and management at the North West Department of Health responded to the AG's findings and recommendations?
- What function does internal audit play in allowing the department ensure compliance in order to obtain a clean audit?

7 CONTRIBUTION OF THE STUDY

The Provincial Treasury within the North West Province is the only department which has been able to maintain a clean audit. This study will contribute towards not only The Department of Health striving towards obtaining a clean audit. This study will in no doubt assist the other departments within the province. Given the various mandates they must comply with, no two departments are alike, but they all seem to suffer the same fate of obtaining qualified audit reports and in some cases, more severe audit outcomes. The study's findings and conclusions can be seen as a starting point for conversations on how to efficiently incorporate audit recommendations in the public sector.

8 RESEARCH APPROACH

The distinction between quantitative and qualitative data in social science is the same as the distinction between numerical and non-numerical data in mathematics (Babbie, 2010:23).

Quantitative methodologies are used in business research to assess customer behaviour, awareness, beliefs, and attitudes. These approaches offer answers to questions such as how much, how often, how many, where, and who (Cooper and Schindler, 2014:146). To prevent biasing the data, quantitative analysis is often used for hypothesis testing, which necessitates the researcher maintaining a detachment from the study.

Qualitative research is also known as interpretive research because it attempts to create comprehension through detailed explanation. It often develops hypothesis but seldom tests it (Cooper and Schindler, 2014:146). During the data collection process for a qualitative analysis, you try to immerse yourself completely in a variety of data while being vigilant for new insights. You might wonder how you can best capture the richness, texture, and feeling of vibrant social life.

One can combine the strengths of quantitative and qualitative research (mixed methods). The hypothesis is supported by the fact that there is not a one faceted solution to planning research projects (Mauch and Park, 2003). (Babbie, 2010:25) states that while both methods can be used by researchers, they require different skills and procedures. As a result, one may find that they prefer one over the other and become more proficient in one.

The qualitative research methodology will be used in this study to achieve the research goals, focusing primarily on a systematic literature review and a review of key documents. As a result, the study would look at the sense of why audit guidelines aren't being followed in government agencies.

9 EXECUTION OF THE STUDY

9.1 STUDY CONTEXT

The study will be carried out within the North West Department of Health.

9.2 POPULATION AND SAMPLING

The population from which the sample will be drawn in order to achieve the study's primary and secondary objectives will be addressed in the following section.

9.2.1 POPULATION

A collection from which a sample is extracted from is referred to as the population. Since the whole set of cases does not have to be individuals, the term "population" is not used in the conventional sense in sampling (Saunders, et.al, 2007: 206). The population within The North West Department of Health is made up of 28 852 employees.

9.2.2 SAMPLING

A sample is described as a segment of the larger population who will participate in the survey, and sampling is the method of deciding who from that population the researcher will contact (MacDonald and Headlam, 1986:12).

9.2.2.1 SAMPLING TECHNIQUE

By focusing on data from a selection of cases or elements rather than all possible cases or elements, sampling techniques offer a range of methods for reducing the amount of data you need to collect (Babbie, 2010:225). There are two types of sampling techniques and they are known as Probability Sampling and Non-probability Sampling. Probability sampling is most often correlated with survey-based polling approaches in which information about a given sample must be interpreted in order to address your research question(s) or accomplish your objectives (Cooper and Schindler 2014:368). Non-probability sampling is a method of choosing samples depending on the researcher's preferences and interests. In the exploratory stages of some research ventures, such as a pilot survey, a non-probability sample might be the most practical, but it would not cause the severity of the issue to be determined (Cooper and Schindler 2014:368).

9.2.2.2 SAMPLING SIZE

According to (Zamboni, 2018), sample size is the number of selected variables or observations in some statistical setting, such as a study project or a public opinion survey. Despite being a relatively easy concept, choosing a sample size is an important decision for a project. A sample that is too small provides inaccurate results, whereas a sample that is too large necessitates a considerable amount of time and effort.

10 CONCLUSION

The above mentioned in summary is the proposal of the mini-dissertation of the study to be embarked upon towards the factors to be analysed which a sing qualified audit opinions within The North West Department of Health.

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