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# CONTRIBUTION OF RECORD-KEEPING TO AUDIT OPINIONS: AN INFORMETRICS ANALYSIS OF THE GENERAL REPORTS ON AUDIT OUTCOMES OF THE AUDITOR-GENERAL OF SOUTH AFRICA

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## Abstract

*At the end of every audit cycle the Auditor-General of South Africa (AGSA) publishes consolidated general reports on audit outcomes (GRAOs) for all municipalities, government departments and public entities. GRAOs of AGSA identify broad themes (e.g. document management, asset management, risk management, etc) and highlight specific trends that were detected during an audit cycle. These reports induce discourse on the audit findings. This article partly reports on the findings of a doctoral research project (Ngoepe 2012) aimed at developing a framework for embedding the records management function into the auditing process. In this study a total of 15 Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) GRAOs for the 2005/06 to 2009/10 financial years were reviewed using an informetric content analysis to identify the types of audit opinions issued, the frequency and contextual usage of the keyword "record" and its contribution to the audit opinion. The study revealed that the root cause of qualified and adverse audit opinions was in most cases a lack of proper record-keeping. In addition, auditors had to contend with delays or government bodies' inability to provide records, which lead to disclaimer opinions. The study recommends that records management should be embedded into the auditing process of governmental bodies. It is concluded that government bodies will continue to obtain disclaimer opinions and that government's 2014 clean audit target will remain a mere mirage if this is not implemented.*

## Key words

Audit reports, document management, internal controls, records management, record-keeping, Auditor-General of South Africa

## Introduction

In his editorial remarks De Jager (2006/07:3) contends that the "beginning of the 21<sup>st</sup> century can be described as the era of accountability, transparency and good governance, specifically in the area of auditing in the public sector". Ngulube (2004:24) and Withthöft (2003/04) posit that accountability implies that organisations and individuals should be able to explain their actions to others in a transparent and justifiable manner. Accountability in the sense of modern governance is not an easy matter. It requires that the systems of reporting and controls in an organisation are appropriate and transparent. Record-keeping forms the base of these systems (Ngoepe 2004:3). In the case of the public sector, accountability is ultimately the responsibility of the head of an organisation. If there is a distinction between the owners and the administrators of the funds, there is a need for mechanisms that assure both the owners of the funds and the public that information is accurate and reliable (Roos 2009/10:31). This is particularly required of public listed companies, elected representatives who are accountable to the public, and of operational structures that render a service in the public sector (De Jager 2004/05:4). "Mechanisms that enhance the reliability of information, thereby fostering accountability, transparency and good governance, are the internal audit function and the audit committee within the reporting entity,

and the external auditors outside the reporting entity" (De Jager 2006/07:4). If these mechanisms are non-existent or dormant in an organisation, the accountability chain is broken (De Jager 2006/07:3; Roos 2009/10:31). Therefore, a lack of records management is unthinkable.

Accountability is required from the South African public sector in terms of the 1996 Constitution, the Public Finance Management Act (Act No 1 of 1999), the Municipal Finance Management Act (Act No 56 of 2003) and lately the King Report III on Corporate Governance, which is applicable to both the public and private sector. PFMA and MFMA enable accounting officers to manage the resources allocated to their institutions and hold them accountable for these resources at the same time (Du Plessis 2004/05). The external audit function is designed to promote accountability and to improve the reliability and trustworthiness of financial reports. External auditing adds credibility to the information provided, strengthens oversight, accountability and good governance in the public sector, gives momentum to the transformation of financial management in the public sector, provides insight and improves the foresight of decision-makers (Fadzil, Haron & Jantan 2005:833). The Supreme Audit Institutions (SAIs) of many countries act as watchdog agencies that carry out external audits of the expenditure, income and assets of government institutions in general (Norgen 2010:10). These SAIs are regarded as prominent bodies that ensure public sector transparency and accountability. Any lack of functional, institutional and financial independence is detrimental to the proper functioning of these institutions. They are granted legal power and tools in order to audit all public funds, resources and activities, they report their audit findings to parliament to reinforce parliamentary oversight over the executive branch and publish their findings (Kayrak 2008:62).

The role that SAIs play in public finance management and performance by enabling oversight, accountability and good governance has always been regarded as one of the cornerstones of a democratic society. In a democracy elected representatives implement the will of the people and act on their behalf. An important point in the structuring of democratic institutions is the misuse of power and resources which leads to a breach of trust and the undermining of the democratic system. It is, therefore, critical that the citizens of a country should be able to hold their leaders accountable (Norgen 2010:1). The democratically elected representatives can be held accountable only if they, in turn, hold accountable those who have to implement their decisions. Legislatures, therefore, need a body in the form of a SAI that can put into practice the checks and balances of public accountability and can promote accountability by making public its audit reports (Kayrak 2008:62). Such a body has to be independent in order to be trustworthy. In South Africa this responsibility lies with AGSA.

Through the mandate enshrined in the Constitution of South Africa and the process of auditing, AGSA plays a critical role in facilitating the accountability cycle and thereby promoting democratic governance. AGSA facilitates accountability and promotes good governance in the use of public resources by way of the general report on audit outcomes. The audit reports of AGSA form the basis of the GRAOs that are prepared in each audit cycle. These GRAOs provide a summary of the audit outcomes of provinces and national entities. The GRAOs identify broad themes and highlight specific trends that were detected during an audit cycle (AGSA 2010:23). These reports induce discourse on the audit findings, ideally to a point where both the executive and senior management are able to commit to specific actions and interventions to address the findings (AGSA 2010:23; Bhana 2008). Bhana (2008) posits that the issue of record-keeping receives a considerable amount of what he calls "deserved" attention in AGSA general reports. The AG places a high premium on proper record-keeping to the extent that in the GRAOs a "clear trail of supporting documentation that is easily available and provided timely" is listed as the first of six good-practice indicators of positive audit results (Bhana 2008).

In this study a total of 15 PFMA and MFMA general reports on audit outcomes of national and provincial government departments as well as municipalities for the period 2005/06 to 2009/10 were examined using an informetrics content analysis to identify the trends in audit opinions and the frequency and contextual usage of the word “record” in order to established the contribution of record-keeping to audit opinions. It is hoped that the study will stimulate further research in the area of integrating records management with the auditing process. In addition, it is hoped that the study will serve as a guideline to the management echelon in government bodies to work towards unqualified audit opinions. For the purpose of this paper, the acronyms “AGSA” will be used to refer to the institution and “AG” to the person who heads this institution.

### **Problem statement**

Nair (2006/07:11) argues that despite PFMA and MFMA's noble intentions to improve financial management in the public sector, some governmental bodies still appear to struggle with certain aspects of its implementation. This has led the AG to express his concern in the general report on audit outcomes about certain areas of financial management in the public sector which are still problematic. In this regard the AG has specifically identified record-keeping as one of the areas that hinders government entities from achieving and sustaining clean audits. It would seem that there is a correlation between record-keeping and audit opinions. This study seeks to analyse the GRAOs of AGSA from 2005/06 to 2009/10 in terms of certain findings on record-keeping. In view of the above, the study sought to:

- (i) investigate the reporting trends in the AGSA's general reports in relation to record-keeping from 2005/06 to 2009/10
- (ii) investigate the contribution of record-keeping to audit opinion
- (iii) investigate the frequency of the word “record” and its synonyms in general reports
- (iv) determine the contextual usage of the word “record” and its synonyms in the audit findings

### **Scope and research methodology**

This study was limited to the analysis of AGSA's general report on the audit outcomes of national and provincial departments, as well as municipalities and public entities in South Africa from the period 2005/06 to 2009/10. The private sector reports were beyond the scope of this study because this sector does not fall under the PFMA and MFMA.

In this study an informetrics analysis of AGSA's consolidated reports on audit outcomes from 2005/06 to 2009/10 was conducted. Informetrics is the quantitative study of information production, storage, retrieval, dissemination, and utilisation (De Bellis 2009). Informetrics is unobtrusive because its focus is on the products of human activity (eg reports, books, articles, web pages, and so forth) and not on humans. This means that there is no need to control for experimenter, interactional investigator or other similar effects arising from the influences that researchers and human subjects exert on each other (Beck & Manuel 2008:167). Furthermore, informetrics data sources pre-exist the study and are usually readily accessible, as was the case with the current study. The data have been generated for other purposes than those for which the researcher uses them (Singleton & Straits 2010:11). Available-data research often avoids reactive measurement errors because the data are used without the knowledge or participation of those who produced it (Singleton & Straits 2010:403). Prominent among such data sources would be written records, letters, diaries, and reports. In the present study, the consolidated general reports on audit outcomes were freely accessible on AGSA's website [www.agsa.co.za](http://www.agsa.co.za). Some reports that were not available online were provided to the researcher by AGSA's web

content manager and library project administrator. All of these factors make informetrics one of the more straightforward ways to get started in research.

The PDF reports were converted into a Word application and analysed using the TextSTAT and WordSmith programmes to identify the trends in audit opinions issued, the frequency or occurrence of the keyword “record” and related words in the reports, as well as the context in which these words are used in the audit reports. It is worth noting that in some instances the keyword “record” acts as a verb. No differentiation was made between the keyword acting as a verb or a noun. TextSTAT and WordSmith are concordance programmes used for combining texts to form corpora. In addition, WordSmith provides synonyms by way of its thesaurus functionality. The programme analyses these text corpora and displays word frequency lists and concordances of search terms.

### **Presentation of research results**

The results are presented according to the objectives of the study.

#### *Frequency and concordance of words*

The methodological approach involved searching for and extracting analysis references to the keyword “record” and related words such as “evidence”, “document”, “information”, and “data” in the body of the general reports of AGSA. WordSmith software was used to provide such information. The analysis of the words related to "record" in the reports provides another perspective on the usage of these words in the audit reports.

**Table 1:** Frequency of words in the audit reports (N=20)

<b>No.</b>	<b>Word</b>	<b>Frequency</b>
1	Audit	8 024
2	Unqualified	5 819
3	Matters	5 694
4	Financial	3 984
5	Municipality	2 893
6	Disclaimer	2 862
7	Departments	2 837
8	Report	2 733
9	Opinion	2 262
10	Qualified	2 706
11	Municipalities	1 902
12	Information	1 661
13	Controls	1 360
14	National	1 284
15	Provincial	1 007
16	Adverse	836
17	Record	694
18	Leadership	447
19	Governance	400
20	Risk	343

As demonstrated in the next paragraph, these related words were used interchangeably with the keyword “record”. With regard to the frequency of words, it was noted, not surprisingly, that the word “audit” was the most common with 8 024 counts, followed by "unqualified" (5 819), "matters" (5 694), "financial" (3 984) and "municipality" (2 893) as reflected in Table 1. The word “information” was number 12 with 1 661 counts, whereas “record” was number 17 with 694 counts.

*Contextual use of the keyword “record” and its synonyms*

There are two ways to discuss contextual usage of the terms, namely to the left and to the right. A closer examination of the context to the left within which the keyword "record" was used in the reports revealed that the word was largely used in relation to a *lack of proper record-keeping, inadequate record-keeping and poor record-keeping* contributing to negative audit results. In other contexts, this and other keywords were used as follows:

- Municipalities received a disclaimer of audit opinion due to poor record-keeping.
- Adequate record-keeping was not implemented and communicated.
- Some municipalities had problems with proper record-keeping.
- Entities experienced a severe lack of appropriately skilled staff and inadequate record-keeping.
- Adequate record-keeping.
- Accurate records.
- Inaccurate record.
- Insufficient record-keeping.
- Proper record-keeping.
- Improved record-keeping.
- Lack of sufficient and appropriate evidence.
- Could not provide sufficient evidence.
- The main drivers of audit qualifications were as follows: sufficient appropriate audit evidence not provided.
- Disclaimer opinions were the results of insufficient audit evidence.
- Inability to obtain sufficient audit evidence.
- No corroborating evidence.
- Data integrity.
- Data loss.
- No supporting evidence.
- Proper document management.
- Inadequate document.
- Adequate documentation.
- Appropriate documentation.
- Incomplete information.
- Accurate information.
- Reliability of information.
- Quality of information.
- Financial statements could not be substantiated by documentation.
- Incomplete document.
- No documentation.
- Unavailability of documentation.

- Absence of document management.
- Document retention/management.

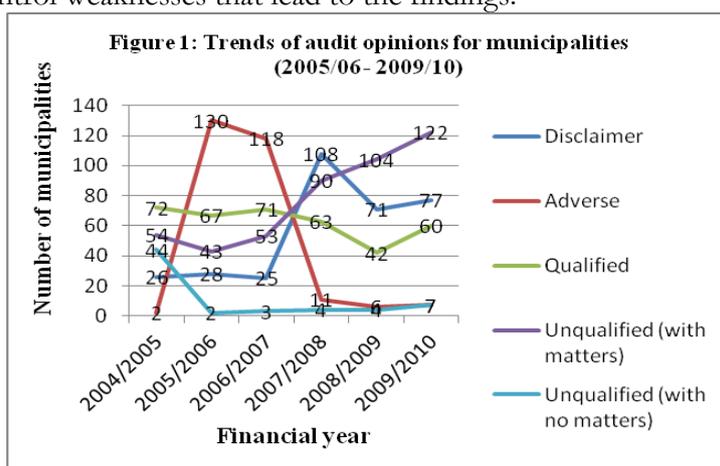
The contextual usage of the words to the left supports the argument that records management contributes to the audit opinion. The contextual usage of the words to the right was as follows: *records management, document management, document control, document retention, record-keeping, records retention, and record retrieval.*

*Trends of audit opinions*

This section provides trends of audit opinions for the period 2005/06 to 2009/10 for municipalities, national departments, provincial departments, and public entities.

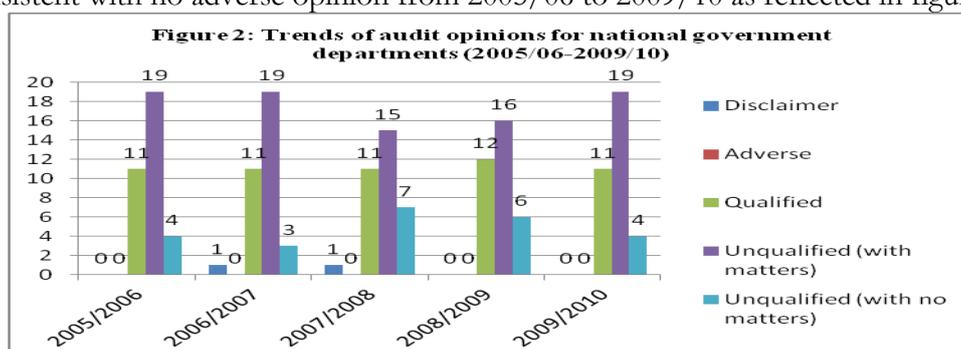
Municipalities

Figure 1 provides trends of the audit outcomes for all municipalities from the 2005/06 to the 2009/10 financial years. There has been little improvement in terms of the audit outcomes. In most instances there has been a decline. For example, 26 municipalities received a disclaimer opinion in 2005/06 compared to 77 in 2009/10; 72 municipalities received qualified reports in 2005/06 compared to 60 in 2009/10. Municipalities are at the coalface of service delivery and this trend of financial qualifications requires decisive leadership to develop action plans to address internal control weaknesses that lead to the findings.



National departments

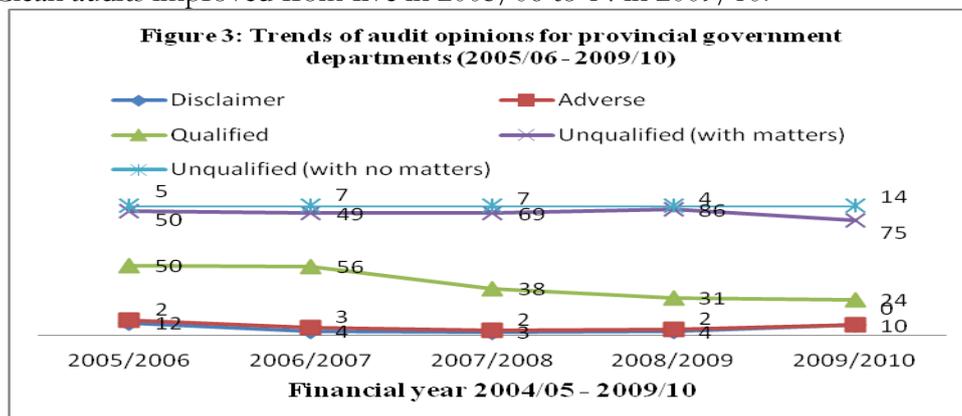
As was the case with municipalities, there has been little improvement in terms of the audit outcomes of national departments from 2005/06 to 2009/10. However, national departments were consistent with no adverse opinion from 2005/06 to 2009/10 as reflected in figure 2.



National departments were consistent with clean reports from four in 2005/2006 to four in 2009/10. In the 2009/10 financial year national departments improved to a position where no disclaimer and adverse opinions were recorded. Only 12 departments were qualified in 2009/10 compared to 13 and 31 respectively in 2008/09.

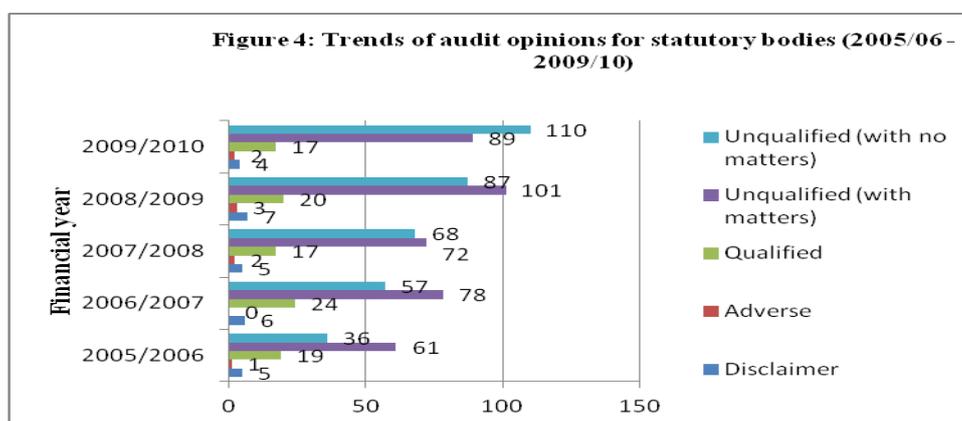
Provincial departments

As indicated in figure 3 disclaimer opinions for provincial departments improved from 12 in 2005/06 to 10 in 2009/10. Adverse opinions also improved from two in 2005/06 to zero in 2009/10. Clean audits improved from five in 2005/06 to 14 in 2009/10.



Statutory bodies

As reflected in figure 4, there was an improvement in all audit opinions from 2005/06 to 2009/10. For example, five statutory bodies received disclaimer opinions in 2005/06 compared to four in 2009/10. Owing to clean reports, the situation improved even more from 36 in 2005/06 to 110 in 2009/10.



Discussion of research findings

An informetrics analysis of the general reports of AGSA revealed that records management contributes to the audit opinion. If the keyword “record” has to be combined with synonymous words such as “information”, “data”, “document” and “evidence” in the report, these entries would amount to 2 924 counts, taking it to number five on the frequency list in the audit reports as reflected in table 1. The suggested combination is done given the fact that the context and conceptual meaning and usage of the words in the audit reports are the same. In almost all cases the contextual usage, especially to the left, indicates that negative audit opinions were received

due to “lack of records, poor records management, no records, inadequate or insufficient records.” This shows a strong link between records management and the auditing process.

An analysis of historical trends of AGSA’s general audit reports indicated that in recent years there have been marginal improvements in clean audit opinions for both MFMA and PFMA audits. While there has been some positive movement in clean audit opinions of statutory bodies, the trend is negligible, especially in MFMA audits. While national and provincial governments face similar challenges with regard to audit qualifications, the number at local government level is far higher. It is generally recognised that public sector service delivery essentially rests on the shoulders of local government as it is at the coalface of service delivery. Because municipalities continue to receive disclaimer opinions, it is no wonder there are so many service delivery protests in South Africa. According to AG (2011c) proper records management is an important contributing factor in clean audit reports.

It is clear that although the trend is slightly positive in some government bodies, the improvement is minimal and unsparing efforts are required if government bodies want to reach the 2014 clean audit target. Launched on 14 July 2009, the 2014 Clean Audit Project commitment statement indicates that:

by 2014, all 283 municipalities and government departments of all nine provinces in South Africa will have achieved clean audits of their Annual Financial Statements (AFS) and maintaining systems for sustaining quality financial statements and management information (Shiceka 2009:2).

The process of achieving clean audits by 2014 was started when the late Minister of Cooperative Governance and Traditional Affairs (CoGTA) Sicele Shiceka announced the 2009-2014 Operations Clean Audit Programme. In line with this programme, which is coordinated by the national department for CoGTA, the provincial departments for CoGTA, provincial treasuries and municipalities have committed themselves to renewing their efforts to oversee the ongoing implementation of credible action plans with clear milestones to address the 2008/09 and future audit findings with a view to achieving sustainable clean audit outcomes by 2014.

The audit opinions for the period under review can best be summarised in the degree of comparison as better (statutory bodies), bad (national government departments), worse (provincial government departments) and worst (municipalities).

## **Conclusion and recommendations**

In conclusion, the root cause of qualified and adverse audit opinions resulted in most cases from a lack of a clear trail of supporting documentation. In addition, difficulties were experienced by auditors due to a delay or the unavailability of records from governmental bodies, which lead to disclaimer opinions. It is noticeable from AGSA’s general reports that government needs to intervene immediately and decisively. Proper records management will take the process a step further and can assure all stakeholders, including citizens, that funds are indeed used for achieving predetermined objectives.

The study recommends that records management should be embedded in the auditing process of governmental bodies. Without transformation governmental bodies will continue to receive disclaimer opinions. As the regulator of this function in the public sector, the National Archives and Records Service of South Africa (NARS) should assist government bodies in the implementation of proper records management. NARS has a statutory responsibility to preserve records (including financial records) of value. In addition, it should ensure that all government financial records are managed from the point of creation. It has an obligation to respect the

interests of other stakeholders, especially AGSA, by controlling the security, use and treatment of financial records. Otherwise all efforts by AGSA to identify records management as one of the key good-practice indicators will be futile. A high percentage of clean audit opinions will free up AGSA's resources and allow them to concentrate on other types of public sector audits, particularly performance audits.

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