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The role of auditing in corporate governance practice in emerging economies: insights from South African state-owned enterprises (SOEs)

Adeyemi Adebayo
Department of Auditing, College of Accounting Sciences, University of South Africa – Muckleneuk Campus, Pretoria, South Africa, and

Barry Ackers
Department of Auditing, College of Accounting Sciences, University of South Africa, Pretoria, South Africa

Received 24 November 2023
Revised 26 February 2024
25 April 2024
27 June 2024
Accepted 27 June 2024

Abstract

Purpose – Within the context of public sector accountability, the purpose of this paper is to examine South African state-owned enterprises (SOEs) auditing practices and how they have contributed to mitigating prevalent corporate governance issues in South African SOEs.

Design/methodology/approach – This paper utilised a thematic content analysis of archival documents relating to South African SOEs. Firstly, to assess the extent to which the auditing dimension of the corporate governance codes, applicable to South African SOEs, conforms with best practices. Secondly, to determine the extent to which the audit practices of all the 21 South African SOEs listed in Schedule 2 of the Public Finance Management Act, have implemented the identified best audit practices.

Findings – The findings suggest that South African SOEs appear to have adopted and implemented best audit practices to enhance the quality of their accountability in relation to their corporate governance practices, as contained in their applicable corporate governance frameworks. However, despite the high levels of conformance, the observation that most South African SOEs continue to fail and require government bailouts, appears to suggest that auditing has no bearing on poor SOE performance, and that other corporate governance factors may be at play.

Practical implications – The discussion and findings in this paper suggest that the auditing practices of South African SOEs are adequate. However, that SOEs in South Africa continue to be loss-making may imply that this has contributed little to mitigating their corporate governance problems. Thus, policymakers and standard setters, including the Institute of Directors South Africa and relevant oversight bodies should pay attention to better developing means by which to curtail fruitless and wasteful expenditures by South African SOEs through improved corporate governance practices.

Social implications – Most SOEs' mission statements encourage SOEs to be socially responsible and utilise taxpayers' monies efficiently and effectively without engaging in fruitless and wasteful expenditure. This study is conceived in this light.

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Meditari Accountancy Research
Vol. 32 No. 7, 2024
pp. 171-196
Emerald Publishing Limited
2049-372X
DOI 10.1108/MEDAR-11-2023-2237

Originality/value – To the best of the author's knowledge, while acknowledging previous studies, this paper is the first to explore this topic in the context of SOEs and in the context of Africa.

Keywords Accountability, Audit committee, Audit practices, Corporate governance, Disclosure, State-owned enterprises (SOEs)

Paper type Research paper

1. Introduction

Concerns remain about how emerging economies will fare in the face of rising levels of debt, falling oil prices, as well as the impact of COVID-19 on fiscal capacity (Scarpa *et al.*, 2023; Gelter and Puaschunder, 2021). Thus far, emerging economies have been agile in responding to these negative occurrences, especially the economic fallout from the COVID-19 pandemic, by introducing unprecedented rescue packages for their hard-hit sectors and households (Descalzo-Ruiz, 2022; Duttagupta and Pazarbasioglu, 2021). Emerging economies are remarkably resilient, strengthening their macroeconomic policies by adopting alternative means of diversifying their economies, which contributes to economic development in the face of unforeseen socioeconomic circumstances (Al Lawati *et al.*, 2021; Alregab, 2021). Hence, emerging economies are thoroughly and diligently working towards achieving their strategic agendas and visions, such as the global sustainable development goals (SDGs) (Agenda, 2030), "Vision 2030" in Saudi Arabia, "Vision 2040" in the Sultanate of Oman and the African Union's "Agenda 2063" (Al Lawati *et al.*, 2021; Al Lawati and Hussainey, 2021). In this context, South Africa's specific vision is the "National Development Plan (NDP) 2030: Our future – make it work". South Africa's NDP was adopted in 2013, a year before the African Union's Agenda 2063 and two years before the United Nations' SDGs. The NDP prioritises job creation, the elimination of poverty, the reduction of inequality and growing an inclusive economy by 2030 (South Africa, 2012). The NDP 2030 notes that state owned entities (SOEs) are important instruments for attaining South Africa's developmental goals and contends that SOEs can only meaningfully contribute to these developmental objectives when effectively governed through strong corporate governance mechanisms (South Africa, 2012).

The aim of these agendas and visions includes monitoring and shaping the sustainable value creation of organisations, improving their ability to contribute to diversifying the economy and providing a dynamic platform to facilitate embracing new technologies, tools and skills, while providing greater functional flexibility and contributing to sustainable development (Al Lawati *et al.*, 2021; Alregab, 2021). For this approach to succeed, corporate governance codes must positively impact audit practices, thereby ensuring that all organisations, whether new or old, can contribute towards national efforts to not only survive in these trying times, but to thrive. In this regard, this study describes the impact of corporate governance codes on South African SOEs, with particular reference to improving audit practices.

Despite the lack of a formal definition for emerging economies, emerging economies are generally identified based on attributes such as sustained market access, progress in reaching middle-income levels and global economic relevance (Duttagupta and Pazarbasioglu, 2021). Moreover, these economies tend to be dissimilar, with the distinction between emerging economies and other developing or developed economies also being imprecise.

It is widely acknowledged that corporate governance is essential for organisational survival (Ochien'g Abang'a and Wang'ombe, 2021; Nyuur *et al.*, 2020). Thus, there is a general belief among public sector officials, practitioners and academics, that corporate

governance influences long-term organisational value and performance (Andrades *et al.*, 2021; Khongmalai *et al.*, 2010). Effective corporate governance represents one of the key strategic areas faced by management in the private, public and non-governmental sectors (Domokos *et al.*, 2016). Although the "Principles of Corporate Governance" issued by the OECD in 2015, focuses on "publicly traded companies" (OECD, 2015a), the subsequent release of the "OECD Guidelines on Corporate Governance of State-Owned Enterprises", positions good SOE governance as vital for sustained socio-economic development, especially because SOEs are often the primary providers of essential public services and utilities in many countries (OECD, 2015b). King IV deliberately uses the term "corporate governance" to differentiate from other forms of governance, such as political governance (IoDSA, 2016). King IV suggests that corporate refers to all organisations incorporated as legal entities, separate from their founders, which therefore applies to all forms of incorporation, whether as a company, non-governmental organisation and legislated entity.

Khan and Liu (2023), de Villiers and Dimes (2021) and Keasey and Wright (1993) suggest that poor corporate governance is one of the most problematic issues facing organisations, which they largely ascribe to organisational corporate governance codes not usually being sufficiently robust to cover the entire corporate governance framework. A robust corporate governance framework should comprehensively address all pertinent aspects of corporate governance, including the audit expectations gap. Thus, to meaningfully impact audit practice, corporate governance codes should cover the components of the corporate governance framework considered essential for corporate accountability and governance.

Khan and Liu (2023), de Villiers and Dimes (2021) and Keasey and Wright (1993) appear to have suggested that audit practices are a key component of achieving effective corporate governance. This is also reflected in South Africa's King IV corporate governance code. In the context of South African SOEs that are facing numerous corporate governance problems (as described in Section 1.1 below), and frequently requiring bailouts, using Keasey and Wright's (1993) corporate governance framework illustrated in Figure 1, we explore the condition of auditing practices and how they have assisted with mitigating the numerous corporate governance problems faced by these SOEs.

1.1 Institutional settings – South Africa

South African SOEs are owned under centralised and decentralised organising models. In the centralised model, SOEs are organised under a special ministry for SOEs, and in the decentralised model, SOEs are owned by their respective line ministries; for example, a power-generating SOE (such as ESKOM) is owned by the Department of Energy. At the time of writing in 2024, the shareholding ministry in South Africa [Department of Public Enterprises (DPE)] is responsible for seven SOEs: Alexkor, DENEL, ESKOM, SAA, SAE, SAFCOL and Transnet. The bulk of South Africa's SOEs have a dual focus on both social and commercial objectives. Because of the way they are structured, and given their specific state-provided mandates, they tend to prioritise social objectives over profit maximisation. Over 700 SOEs operate at the national, provincial and local levels in South Africa today, as stated in a report on the country's investment climate published by the US Department of State in 2023 (United States of America Department of State, 2022). However, the majority of South African SOEs are currently facing financial difficulties due to several problems that SOE literature has broadly categorised under the umbrella term corporate governance problems of SOEs. These problems include soft budget constraints, free riders and wasteful and fruitless expenditure. While a majority of SOEs in South Africa are affected, notable ones include ESKOM, that has been struggling to deliver on its core mandate of providing

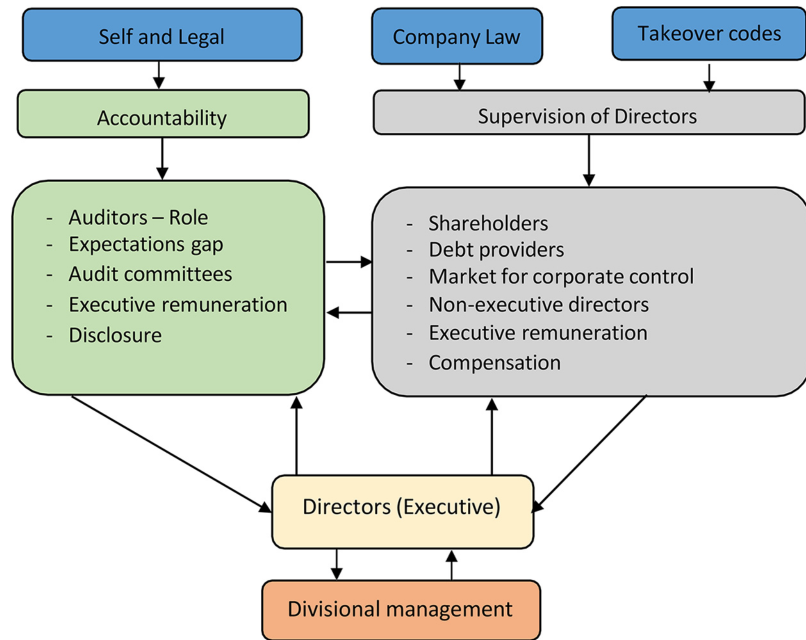


Figure 1. The corporate governance framework

Source: Authors' own elaboration based on Keasey and Wright (1993, p. 292)

South Africa with a stable supply of electricity and South African Airways (SAA) and South African Express (SAE) that last produced audited results in 2017/2018 and 2016/2017, respectively (Daily Maverick, 2019). The aftermath of these problems is that South African SOEs usually require substantial government bailouts due to numerous corporate governance failures. Since the beginning of 2020, the South African government has bailed SOEs out to the value of about R325 billion (about US$17.2bn) (BusinessTech, 2024). Thus, notwithstanding South Africa often being lauded for the quality of its corporate governance frameworks and reporting practices (especially as exemplified by certain listed companies), this is seldom reflected in SOEs.

Thus, in attempting to mitigate corporate governance problems in SOEs, it makes sense to explore the role of auditing. In this context, this paper makes five contributions. The first is to update the literature on auditing's corporate governance role, within an SOE context, which appears missing in the contemporary academic discourse. The second identifies the corporate governance codes applicable to SOEs in South Africa. The third reflects on how these codes provide for auditing in SOEs. The fourth assesses whether the codes are aligned with Keasey and Wright's (1993) corporate governance framework, while the fifth establishes whether the publicly available reports of SOEs, conform with the auditing provisions contained in the corporate governance codes applicable to SOEs in South Africa. The fifth contribution provides important insights into the causes of corporate governance failures of South African SOEs, aimed at reducing fruitless, wasteful and irregular expenditure, while improving their ability to fulfil their mandates and reducing the need for bailouts from the state.

This paper proceeds by first discussing empirical studies on the role of auditing in corporate governance, before conceptually discussing the relationship between corporate governance and auditing, with reference to their ability to improve the ability of organisations to achieve their objectives. The paper then describes the methodology used for this study, before discussing how SOE corporate governance issues can be mitigated as an entrée to discussing SOE corporate governance codes and the role of the Auditor General as one of the assurance providers in respect of accountability in relation to the corporate governance framework. Thereafter, using Keasey and Wright's (1993) framework, the paper assesses the robustness of South African codes in terms of its provisions, before assessing the audit practices of SOEs in relation to their conformance with the SOE codes. The paper discusses observations, presents policy and practical implications and concludes by providing avenues for further research.

2. Literature review

2.1 Scholarly literature on role of auditing and corporate governance

There is considerable research convergence on the subject of how auditing influences corporate governance. Perhaps, the most relevant literature to the current study is that of Hay *et al.* (2017). Arguing that corporate governance is of growing importance all over the world and acknowledging the interaction between corporate governance and auditing, Hay *et al.* (2017) explored whether better governance is a substitute for, or complementary to auditing. These authors conclude that considerable uncertainty exists about how corporate governance mechanisms relate to auditing and of the relationship between auditing and corporate governance. An important implication of this study for the current study is that it covers all aspects of auditing, including internal and external audit, as well as audit committees, among others. Our study adopts a similar approach, by discussing all aspects of auditing within a South African context, but excluding a topic discussion on internal and external audits and audit committees, as a result of extensive coverage in the contemporary academic discourse on this subject.

Aside from the study by Hay *et al.* (2017) which focused on general audit and corporate governance, most studies on the role of auditing and corporate governance have tended to extensively focus on internal audit and external audit quality. This is not surprising because Baker and Owsen (2002) highlighted the need to consistently increase the role of auditing in corporate governance. For studies focussing on internal audit, using a literature-based analysis of the role of internal auditing from a Foucauldian perspective, Mihret and Grant (2017) explored the conceptual foundations of the role of internal auditing in corporate governance. They argued, following their study, that Foucault's concept of governmentality offers analytical frameworks for studying internal audits as a disciplinary mechanism within the corporate governance context of modern organisations. Their study presents a preliminary conceptual definition of internal auditing as providing retrospective assurance on the implementation of economic operations within predetermined frameworks set by management, as well as offering proactive advisory services to improve the rationality of economic activities and related controls. Furthermore, focussing on internal audit, Aksoy (2010) analyses the corporate governance and internal auditing performance metrics of listed companies in Turkey. The author reported mixed results, the summary of which was discussed in terms of board compositions, and the organisation of audit and corporate governance committees, as well as their primary responsibilities. Also, in a study focussing on internal audit, Khan and Liu (2023) examine the role of internal audit as an influence on corporate governance, albeit within the context of sustainability, corporate sustainability, firm performance and environmental performance. They found that internal audit and

corporate governance significantly influence corporate sustainability, firm performance and environmental performance.

In a study focussing on audit quality and corporate governance, Reyad (2013), using a literature review as in the study by Hay *et al.* (2017), explores the relationship between external audit quality and the level of earnings quality in Egypt. The author found an acceptable level of earnings and auditing quality. In a similar study on audit quality and corporate governance, Ibrahimagic and Kvrgic (2017) investigate the connection between audit quality and corporate governance. Using a survey questionnaire, they found a strong connection between audit quality and corporate governance.

An important takeaway here is that studies focussing on audit quality and corporate governance tend to be more focused and thus their findings are straightforward compared to studies focussing on internal audit and general audit. Taken together, the findings in these studies have implications for the current study.

2.2 Theoretical approach – agency theory

The establishment of modern corporations, managed by parties other than those that formed them, introduced the agency problem (Lazzarini *et al.*, 2021; Eisenhardt, 1989), which arguably gave rise for the need for corporate governance systems. The advent of the modern corporation required the owners of organisations to appoint managers, as agents, to whom they delegated certain powers relating to the organisation, to exercise on their behalf (Dragomir *et al.*, 2021; Fama and Jensen, 1983). To mitigate the agency problems caused by this delegation required the establishment of appropriate monitoring mechanisms to reduce the propensity for opportunism that could arise from to this power delegation (Jones and Hill, 1988) because agents may want to use firm's resources for personal consumption, because people tend to be risk averse, self-interested and opportunistic (Styhre, 2018; Jensen and Meckling, 1976). Moreover, this is also important because organisation-specific information is not usually freely available, which may result in a conflict of goals within organisations (Eisenhardt, 1989). In addition, in searching for profitable opportunities agents may perform below expectation, especially if it means that investing more time and effort, and demanding new skills. Thus, corporate governance originates from the separation of ownership and control in organisations. Firstly, in respect of managing and monitoring top-level managers and secondly, in terms of adopting and implementing measures that will compel management to account to shareholders and other stakeholders.

The agency theory provides a more comprehensive explanation of the above phenomena. Agency theory is a dominant theory in studies of economic interaction and organisation (Pouryousefi and Frooman, 2017). Although the existence of firms makes it look like there are no contracts existing within firms, contracts do exist because there will be a need for principals to delegate a firm's management to agents (Ès̆aga, 2017; Fama and Jensen, 1983). We can view a firm as a nexus of contracts among individuals (Fama and Jensen, 1983; Jensen and Meckling, 1976). Consequently, there will be a need to draw up contracts that will take care of any opportunism that may arise as a result of this power delegation (Jones and Hill, 1988) because agents may want to use the firm's resources for personal consumption (Ahmed Haji and Anifowose, 2016; Jensen and Meckling, 1976), given that people are risk averse, self-interested and rationally bound (Pouryousefi and Frooman, 2017). Hence, the concern of agency theory is to determine the most efficient structure for protecting the interests of principals.

As in private sector enterprises (PSEs), agency problems also arise in SOEs. However, agency in SOEs is more problematic than in PSEs. This results from a more complex and unclear contract specification in SOEs (in terms of their conflicting social and economic

objectives) as well as more problematic incentives because, in most cases, bureaucrats are often managers and not private role players, and there is usually no pressure to deliver socioeconomic efficiency, at least not in the short run. Hence, a behaviour that can be easily observed in managers of SOEs is that they may not be pressured to search for cost-minimising opportunities, especially if this means that it will involve investing more time and management effort and demand new skills from them, because public executives are often torn between the different assignments to which they allocate their time (Subramanian, 2015; Aharoni, 1981). In addition, this also results from fruitless and wasteful expenditures and a lack of adequate oversight by the owning states. Taken together, these issues partly account for agency problems in SOEs.

2.3 Auditing and corporate governance

Vergotine and Thomas (2016) postulate that effective corporate governance and auditing are necessary for organisational survival because organisations are usually plagued with corporate governance problems (Khan and Liu, 2023; de Villiers and Dimes, 2021; Keasey and Wright, 1993), with Peng *et al.* (2016) asserting that corporate governance issues in SOEs are more pronounced than in the private sector. This section discusses pertinent corporate governance issues related to auditing. There are different accounts of the origin of corporate governance. Some commence with a discussion of the origin of auditing, whereas others discuss corporate governance in isolation of auditing (Cheffins, 2013; Wells, 2010). To address this divergence, and to understand their interrelatedness both aspects are described in this section.

As depicted in Figure 1, the corporate governance framework involves the regulatory framework (self and legal, company law), accountability, supervision and management. These aspects that constitute corporate governance feed into each other, such that corporate governance comprises both internal and external processes. The accountability component, which is arguably the most crucial, involves auditors, their role and the expectations of users of audited statements, audit committees, executive committees, executive remuneration and disclosure. The regulatory framework entails both internal and external regulations guiding the conduct of organisations. The supervisory aspect entails monitoring agents and the management part is concerned with executive and non-executive officials managing organisations to achieve the objectives of the organisation.

The term corporate governance is much used, but rarely defined. The Cadbury Committee (1992) identified corporate governance as the systems by which companies are directed and controlled. King IV defines corporate governance as the exercise of ethical and effective leadership by the governing body towards the achievement of ethical culture, good performance, effective control and legitimacy (IoDSA, 2016). Within the context of this paper, King IV is a South African principles-based voluntary governance code that provides sound principles of corporate governance to guide South African organisations. Keasey and Wright (1993) assert that corporate governance involves the structures and processes related to production, decision-making and control within an organisation. In this regard, accountability, which is a sub-set of governance, involves monitoring, evaluating and controlling the agents of an organisation to ensure that they discharge their responsibilities in the best interests of the organisation's shareholders and other stakeholders (Keasey and Wright, 1993).

There are a number of corporate governance frameworks differing in scope and content (de Villiers and Dimes, 2021; Rehman *et al.*, 2021; European Commission, 2011; McCarthy and Puffer, 2003; Keasey and Wright, 1993). The framework by Keasey and Wright (1993) stands out in terms of its broad content and generalised applicability, making it appropriate

for this study. The corporate governance framework positions auditors as independent third parties and links the accountability problems to the role of auditors and the expectations that result from audit activities, as well as the supervisory role of non-executive directors through audit committees (Collier, 1997). The corporate governance framework in Figure 1 above, suggests that accountability, requiring both internal and external auditors, audit committees and executive committees to perform certain functions relating to the organisation's activities, is arguably the most important aspect of corporate governance (Keasey and Wright, 1993). However, this gives rise to audit expectations gap which represents the divergence between society's expectations of auditors and the auditors' performance (Porter, 1993), as perceived by society. The audit expectations gap arises from the general public not correctly distinguishing between the responsibilities of the auditors, and those charged with governance who are actually responsible for the preparation of the financial statements presented for auditing (Maroun and Atkins, 2014). Thus, the framework clarifies that auditing is merely a component of corporate governance.

Auditing is widely acknowledged as one of the world's oldest professions. The need for auditing arose when one party assumed stewardship over the property of another. While the literature is unclear about how long auditing has existed, recorded evidence of "tick and check" patterns goes back over 5,000 years to the ancient Egyptians, Babylonians and Chinese in the Hsia Dynasty, followed sometime later by the ancient Greek and Roman civilisations (Ackers, 2014). Prior to 1750, landlords in the UK were not involved in farming activities, instead allowing farmers to cultivate their land or estates (Adeniyi, 2004). To safeguard their interests, these landlords commissioned independent parties to regularly monitor the operations of the farmers, providing oversight over and auditing estate and farm accounts (Adeniyi, 2004).

Similarly, the growth of commerce and industry following the industrial revolution resulted in the establishment of various forms of businesses (Adeniyi, 2004). These businesses were often managed by agents rather than owners, necessitating owners requiring some form of assurance that the resources of the business, were being used for the purposes for which they were intended and not for different purposes (Lenghel, 2015). To discharge their accountability to the business owners, the agents were therefore expected to regularly prepare accounts for the businesses they managed. However, these agents may have used irregular or fraudulent accounting practices to conceal inefficiencies, abuse and other lapses. Governments, as well as other regulatory bodies and professional accounting and auditing bodies introduced legislation and regulations requiring accounts of organisations to be checked and reported on by persons (i.e. auditors) independent of the preparers of the accounts.

2.4 Audit

Despite the existence of several types of audits, only the internal and external audit functions are relevant to this paper. An important distinction between internal and external audits, is that the latter are usually mandatory, imposed by statute and highly regulated, whereas with a few exceptions, internal audit tends to be a voluntary intervention. For example, the prescripts of the (South African) Public Finance Management Act (PFMA) of 1999, make internal audit mandatory for the public sector.

To improve assurance coverage and to counter management's possible influence, King III first introduced the concept of combined assurance in 2009 (IoDSA, 2009). The combined assurance model consolidates and enhances all assurance services and functions to facilitate an effective control environment, by improving the veracity of information used for internal decision-making by management, the governing body and its committees, while supporting

the integrity of an organisations' external reports (IoDSA, 2016; Martins, 2015). This allows the assurance function to be holistically reviewed and shared among all assurance providers, not only the internal and external auditors (Engelbrecht and Deegan, 2010). Internal audit should therefore not simply be compliance-based, but also fully risk-based, as advocated by King III.

Accountability relating to corporate governance results from the work undertaken by both internal and external audit, as well as by audit committees to ensure that the interests of shareholders and stakeholders are protected. The corporate governance framework depicted in Figure 1 reveals that the two major components of corporate governance are accountability on the part of agents, as well as the concerted effort of directors who provide oversight, to get the best possible results out of agents and organisations. As previously indicated, this paper focuses more on the former than the latter.

2.5 Mitigating corporate governance issues in state-owned enterprises

Audit practices are amongst the measures that can be introduced to mitigate corporate governance problems in SOEs (Abuazza *et al.*, 2015; Maloa and Bussin, 2016; Radasi and Barac, 2015; Vergotine and Thomas, 2016). A well established and maintained audit function should assist management to successfully run their organisations (Farooq and de Villiers, 2019), in our case SOEs, by acting as an independent business partner to the board to improve the quality of governance and mitigate risk (Radasi and Barac, 2015). Abuazza *et al.* (2015) assert that the role of internal audit cannot effectively contribute to improving corporate governance and accordingly adding value, unless their auditing activities cover other internal SOE functions, such as continuous and final audits, and audits of management within a risk management context. Vergotine and Thomas (2016) concur, emphasising that risk management is an essential component of SOE corporate governance. Vergotine and Thomas (2016) identified reviewing effectiveness reports, detecting failures, assessing the effectiveness of risk management, reviewing compliance with strategies, reporting to the board, ensuring compliance and reviewing the internal audit plan, as internal audit's key contributions to risk management in SOEs (Vergotine and Thomas, 2016). This explains why some corporate governance frameworks now include a risk management component (Rehman, 2021). Similarly, Vijayakumar and Nagaraja (2012) maintain that a strong internal audit function is vital for effective organisational risk management, because in addition to providing assurance and consulting services, internal audit also contributes to timeously detecting and preventing fraud, despite fraud detection not being a core function of internal auditors.

3. Research approach and method

Of the six studies discussed in Section 2.1, three used literature reviews (Hay *et al.*, 2017; Mihret and Grant, 2017; Reyad, 2013), two used a survey questionnaire (Khan and Liu, 2023; Ibrahimagic and Kvrgic, 2017), one used content analysis (Aksoy, 2010). Another relevant study used conceptual analysis (de Villiers and Dimes, 2021). The key point here is that review, content analysis and conceptual analysis are appropriate methodologies in this research area. In this context, de Villiers and Dimes (2021) helpfully note that numerous research works examine the factors that influence corporate governance reporting, encompassing both external elements, such as country-specific legislations and scandals as well as internal elements such as size, culture and financial success. Others evaluate the effects of corporate governance reporting on the calibre of financial reporting and the valuation of the firm by using straightforward stand-ins for corporate governance systems, such as characteristics of the board membership. The current study is more in line with the

former than the latter, focussing on country-specific frameworks and scandals – in this case, the frameworks of SOEs in South Africa and scandals relating to their frequent loss-making resulting in bailouts by the owning state. As illustrated in Table 1, the frameworks applicable to South African SOEs are the PFMA, King IV, Companies Act, Protocol on Corporate Governance, Treasury Regulations and the Public Audit Act. These frameworks, as they apply to relevant dimensions of the Keasey and Wright (1993) corporate governance framework, are in the top rows of Table 1.

Thus, we used a variety of research methods, including review as well as content and conceptual analysis of pertinent documents, as used in previous studies. In addition to the initial literature review that points to relevant documents, further data for this study were gathered using content analysis, guided by pragmatism described by Rossman and Wilson (1985), and exemplified by Sogunro (1997) and Thomas (2012). To understand the context of the study and to identify and document the corporate governance codes applicable to SOEs, the first phase thematically analysed the contents of archival documents to identify the fundamental characteristics of corporate governance to inform the corporate governance framework developed for this study to evaluate SOE conformance, as described below. These included internal and external legal and regulatory frameworks, corporate governance codes, practice guides and other pertinent corporate governance reports applicable to South African SOEs. The second phase, involved empirically analysing the websites, annual reports and reviews, publications, corporate governance documents, board charters of all 21 major public enterprises (SOEs) listed in Schedule 2 of the amended PFMA (South Africa, 1999). Thomas (2012) observes that these Schedule 2 SOEs are mandated to raise money to fund their operational costs and expansion programmes. This profit-orientation differentiates Schedule 2 SOEs from other public entities contained in the PFMA.

These SOEs are identified and listed in Table 1. Apart from Telkom SA that has been partially privatised and partly owned by the private sector and the Public Investment Corporation (PIC), the remaining SOEs are owned and controlled by various government departments, with the National Treasury overseeing some and others under the DPE, at the time of writing in 2024.

To understand the impact of corporate governance codes on audit practice in South African SOEs, data related to the study phenomenon were extracted from the publicly available annual reports of the 21 identified SOEs, obtained from their corporate websites. Abhishek and Divyashree (2019) noted that annual reports were a good means of tracking organisational activities and processes. The reports of the SOEs used were for the period 2019/2020, with some relating to 2020/2021 and others to 2018/2019. Two notable exceptions were those of SAA and SAE whose latest reports were for the periods 2017/2018 and 2016/2017, respectively, caused by serious financial and governance failures (Daily Maverick, 2019). We developed a framework, informed by the audit related provisions of the identified corporate governance codes applicable to South African SOEs. Relevant audit-related information contained in the annual reports of these SOEs, provided the data used for evaluating the audit-related practices contained in the framework.

Similar to the first phase, as noted earlier, the second phase also used content analysis to make sense of the data obtained from the data points, leading to the discussion in Sections 4 and 5. However, instead of assigning scores to the information obtained from the SOE annual reports, this study simply deployed a binary approach, using the terms "observed" and "not observed" to document the findings, because the aim of the study was not to evaluate the extent of compliance, but rather to determine whether or not, the identified audit related practices reflected under accountability, in Figure 1 and Table 1, were disclosed. While it may be argued that the use of a scoring system may have been

Table 1. Audit practices of Schedule 2 SOEs in line with the provisions of applicable corporate governance codes

SOE	Role of auditors (PFMA; King IV; Companies Act; Protocol; Public Audit Act; Treasury Regulations)	Expectations gap (stakeholder expectations) (King IV)	Audit committee (Companies Act; King IV; Protocol; Treasury Regulations)	Disclosure (Companies Act, King IV; Protocol)	Combined assurance (King IV)
Air Traffic and Navigation Services (ATNS)	observed – Nexia SAB&T	observed	observed	observed, integrated report – robust	observed
Airports Company of South Africa (ACSA)	observed – AGSA	observed	observed	observed, integrated report – robust	observed
Alexkor	observed – Ngubane & Co	observed	observed	observed, integrated report – robust	observed
Armaments Corporation of South Africa (ARMSCOR)	observed – AGSA	observed	observed	observed, annual report – partially robust	observed
Broadband Infrastructure Company (Pty) Ltd (BIC)	observed – SNG Grant Thornton	observed	observed	observed, integrated report – robust	observed
Central Energy Fund Pty (Ltd) (CEF)	observed – AGSA	observed	observed	observed, integrated report – robust	observed
DENEL	observed – AGSA	observed	observed	observed, integrated report – robust	observed
Development Bank of Southern Africa (DBSA)	observed – AGSA	observed	observed	observed, integrated report – robust	observed
ESKOM	observed – AGSA	observed	observed	observed, integrated report – robust	observed
Independent Development Trust (IDT)	observed – AGSA	observed	observed	observed, annual report – partially robust	not observed
Industrial Development Corporation (IDC)	observed – SNG Grant Thornton and Nexia SAB&T	observed	observed	observed, integrated report – robust	observed
Land and Agricultural Bank (Landbank)	observed – AGSA	observed	observed	observed, integrated report – robust	observed

(*continued*)

Table 1.

SOE	Role of auditors (PFMA; King IV; Companies Act; Protocol; Public Audit Act; Treasury Regulations)	Expectations gap (stakeholder expectations) (King IV)	Audit committee (Companies Act; King IV; Protocol; Treasury Regulations)	Disclosure (Companies Act, King IV; Protocol)	Combined assurance (King IV)
South African Airways (SAA)	observed – AGSA	observed	observed	observed, integrated report – partially robust	observed
South African Broadcasting Corporation (SABC)	observed – AGSA	observed	observed	observed, annual report – partially robust	observed
South African Express (SAX)	observed – AGSA	observed	observed	observed, annual report – partially robust	observed
South African Forestry Company (SAFCOL)	observed – AGSA	observed	observed	observed, integrated report – robust	observed
South African Nuclear Energy Corporation (SANEC)	observed – AGSA	observed	observed	observed, integrated report – robust	observed
South African Post Office (SAPO)	observed – AGSA	observed	observed	observed, annual report – partially robust	observed
Telkom	observed – PwC and SNG Grant Thornton	observed	observed	observed, integrated report – robust	observed
Trans-Caledon Tunnel Authority (TCTA)	observed – AGSA	observed	observed	observed, integrated report – robust	observed
Transnet	observed – AGSA	observed	observed	observed, integrated report – robust	observed

Source: Authors' own analysis

appropriate, because the study was explorative and not definitive, quantitative statistical analysis software was not used, improving the flow of discussion, without unnecessary distraction by too many figures (Creswell and Plano Clark, 2018).

4. Analysis and interpretation of the content analysis observations

The discussions in this section are based on the conceptual analysis and interpretation of the observations emerging from the content analysis of archival documents described in the methodological section of this paper, and grouped according to the document type. Recall that this study focuses on the accountability part of the corporate governance framework in Figure 1. Thus, topical themes relating to the accountability part of Figure 1, were used in structuring the discussion in this section. Wherever possible, we tried to follow the listing arrangement in Figure 1.

4.1 Corporate governance frameworks

Our study found that South African SOEs are not regulated or governed by a central Act, but rather by the specific enabling legislation of each SOE, as well as by the Companies Act, the PFMA and its associated Treasury Regulations, the Public Audit Act, the Protocol on Corporate Governance in the Public Sector (the Protocol) and King IV (particularly the SOE sector supplement included in part six). Collectively, the prescripts of these legislations and regulations represented the constituent components of the corporate governance framework we specifically developed for this study.

The Companies Act stipulates that its provisions relating to publicly listed companies apply equally to SOEs. To resolve possible inconsistencies between a specific SOE Act and the Companies Act, Section 5(4) of the Companies Act prescribes that (a) "the provisions of both Acts apply concurrently, to the extent that it is possible to apply and comply with one of the inconsistent provisions without contravening the second; and (b) to the extent that it is impossible to apply or comply with one of the inconsistent provisions without contravening the second".

The Protocol was originally introduced in 1997, and substantially revised in 2002 to inculcate the principles of good governance into South African SOEs (South Africa, 2002a, 2002b). Unlike the King code, which covers a wide spectrum of both private and public sector entities, the Protocol provides the public sector with specific guidance, cognisant of the unique mandates of each SOE, which include assisting government achieve its socio-political and economic objectives (South Africa, 2002a). Part 5 of the Protocol provides specific guidance for SOE corporate governance, particularly in relation to issues such as boards of directors and financial governance. Paragraph 2.1 of the Protocol, specifically identifies the King code as the primary corporate governance and legal and policy framework for SOEs in South Africa, indicating that "The purpose of the King Report is to promote the highest standards of corporate governance in South Africa. The Code of Corporate Practices and Conduct contained in the King Report applies *inter alia* to SOEs and agencies that fall under the PFMA" (South Africa, 2002a, p.3).

The PFMA was promulgated to regulate financial management in the South African public sector, to ensure that all revenue, expenditure, assets and liabilities are efficiently and effectively managed in pursuit of predefined objectives (Bekker, 2009; South Africa, 1999). The PFMA does not explicitly list or categorise SOEs in South Africa, with some SOEs included under Schedule 2 (Major Public Entities), and others under schedule 3B (National Government Business Enterprises). As indicated previously, the scope of this paper is confined to the 21 SOEs listed in Schedule 2 of the PFMA. The Treasury Regulations is also

issued in terms of the PFMA and applicable to departments, constitutional institutions and public entities.

Since 2016, Telkom SA has received exemptions from the PFMA's requirements. However, it is still an SOE, as stated on its website. As we will further observe below, only Telkom SA, out of all the SOEs, has partial ownership. The Department of Telecommunications and Postal Services and the National Treasury, through the PIC, have a 40.5% and the PIC a 15.3% stake in Telkom SA (South Africa News, 2024). Telkom SA is listed on the Johannesburg Stock Exchange.

4.2 Accountability corporate governance codes for state-owned enterprises in South Africa

The accountability component of Keasey and Wright's (1993) framework includes the respective role of auditors, the audit expectations gap, audit committees, executive remuneration and disclosure, which are discussed below with reference to how South African codes provide for them. However, given that some aspects have been widely documented in literature, they are excluded from the discussion. These include internal auditing, audit committee and external auditing, thus, only discussing the role of the Auditor-General of South Africa (AGSA) as it relates to the subject matter.

4.3 The role of the auditor general of South Africa

Section 53 of the Public Audit Act of 2004 (South Africa, 2004), gives effect to the provisions of the South African Constitution by providing the mandate for the AGSA to perform regularity audits over all public sector institutions, including SOEs (Nzewi and Musokeru, 2014). As the constitutional external auditor for the South African public sector, the AGSA is registered as an audit firm with the South African Institute of Chartered Accountants, as well as with the Independent Regulatory Board (IRBA) (Adebayo and Ackers, 2022).

Although Section 4 of the Public Audit Act prescribes that the AGSA "must audit" certain public sector institutions, significantly, it passively refers to "may audit" any public entity listed in the PFMA. Thus, the AGSA may outsource statutory audits, or components thereof, to other registered auditors. Moreover, despite the AGSA being the statutory auditor of public sector organisations, as noted earlier, SOEs are currently allowed to appoint their own auditors.

Table 1 indicates that the AGSA audited 16 of the 21 SOEs' accounts, with only five audited by external auditors. Perhaps it should be noted that only one of the big four (PWC) was involved in the audit, where they partnered with SNG Grant Thornton to audit the accounts of Telkom SA. It may be argued that had Telkom SA been fully owned by the other SOEs, PWC may not have been used as indicated by the findings in the other SOEs.

4.4 Combined assurance

Combined assurance aims to coordinate the credibility-enhancing efforts of management, internal and external assurance providers, by providing a collective and more holistic assessment of an organisation's risk profile and related internal controls, thereby reducing duplication of audit efforts and mitigating audit fatigue (Decaux and Sarens, 2015; Dzomira, 2016). The tripartite arrangement of internal auditors, external auditors and audit committees therefore have different, but interrelated roles to perform in organisations. Harnessing the roles of these three discrete assurance providers, should improve corporate governance practices in organisations. As a result, principle 3.5 of King III recommends that the audit committee should ensure that a combined assurance model is applied to provide a coordinated approach for all assurance activities, prevent material issues falling through the cracks. Management, internal assurance providers and external assurance providers represent the three lines of defence of the initial

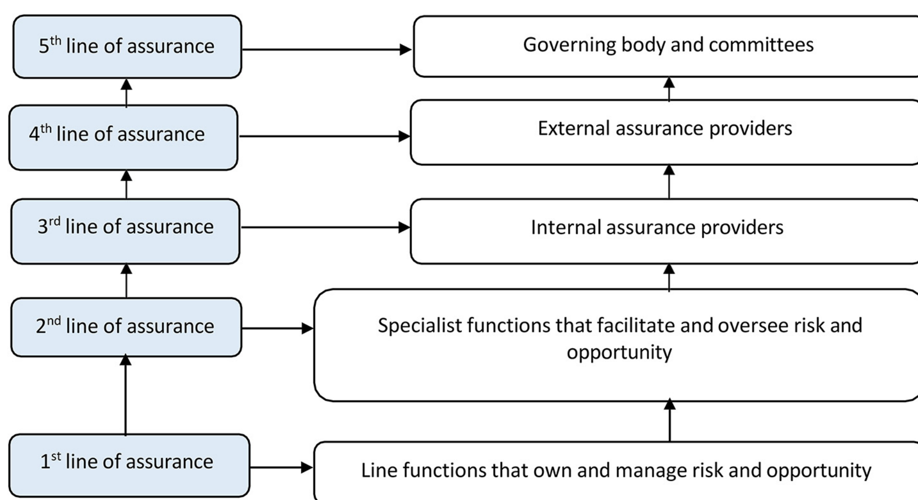
combined assurance model (Decaux and Sarens, 2015) advocated by King III. However, the dynamic and rapidly changing organisational environment (PwC, 2014), not only increased the significance of assurance, but more importantly requires responsive agility. As a result, King IV, principle 15, takes a wider view of assurance providers and credibility-enhancing mechanisms (Maroun, 2018), by expanding the original three lines of defence to five lines of assurance, as illustrated in Figure 2, by including the governing body, other external assurance providers, the audit committee and regulatory inspectors as additional parties in the combined assurance model (IoDSA, 2016).

Similar to King III, the essence of combined assurance described in King IV, remains to optimally harness the work of different types of assurance providers, as well as various types of audit, while including other appropriate external parties that may provide assurance on different aspects of an organisation's activities. For example, in a telecommunication company, these external providers could include, standards bureaux, occupational health and safety bodies, the Independent Communications Authority for telecommunications companies, as well as other independent third-party assurance providers. For companies operating in other industries, include regulators appropriate for that industry, such as the Energy Regulator for companies generating, supplying or distributing electricity.

As illustrated in Table 1, of the 21 Schedule 2 SOEs, only the Independent Development Trust (IDT) did not observe the combined assurance model. One could argue that the other 20 Schedule 2 SOEs, despite observing the combined assurance model, failed to provide the required level of reporting. Due to the current state of awareness of the importance of the combined assurance model, it is believed that the SOEs' reporting in terms of the combined assurance model will improve over time.

4.5 Executive remuneration

Although Keasey and Wright (1993) assert that good corporate governance correctly motivates managerial behaviour towards improving organisational performance, while



Source: Authors' own elaboration based on Institute of Directors South Africa (2016)

Figure 2. Combined assurance model based on King IV's five lines of assurance

directly controlling the behaviour of managers, they postulate that executive remuneration, especially relating to increasing the ownership stake of directors, further encourages good behaviour. However, serious issues could arise when developing appropriate remuneration contracts that are in the best interests of shareholders, increasing the need to disclose and monitor such information. Thus, King IV, principle 14, dealing with governance of executive remuneration, requires the governing body to ensure that organisations remunerate fairly, responsibly and transparently, to promote achieving strategic objectives and positive outcomes in the short, medium and long term.

In the SOEs considered, only Telkom SA has a remuneration package that is in line with what Keasey and Wright (1993) suggest. Because Telkom SA is also listed on the JSE, Telkom SA's middle management and bargaining unit employees are permitted to purchase company shares through the employee share ownership plan on the open market, which is designed to motivate long-term sustainable performance and align the interests of management with those of the shareholders.

4.6 Stakeholder expectations

Stakeholder expectations make it obvious that third parties, especially auditors and non-executive directors, have a key role to play in ensuring that directors and management are held to account. However, these third parties may be uncertain of what their expected roles as auditors and non-executive directors should be, leading to the emergence of an expectations gap (Keasey and Wright, 1993), confirmed by King IV noting that stakeholders expect more. King IV, principle 16, relating to stakeholder relationships, suggests that when discharging its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders, in the best interests of the organisation over time.

It is impressive that all the SOEs discussed their stakeholder relations in the annual/integrated reports. It may be argued that this is influenced by King IV, especially the importance of stakeholder relationships, and that the governing body should exercise ongoing oversight of stakeholder relationship management, as indicated in Part 5.5 of the King IV corporate governance code.

4.7 Normative values and ethics

A further dimension of the corporate governance framework relates to normative ethical and societal values regarding the notion of accounting to the public at large (Gupta and Vegelin, 2016). Equally, concerns exist that organisational disclosures may only be prepared for purposes, such as green-wash or perception management, rather than for meaningful performance-based accountability purposes (Ackers and Eccles, 2015). Part 3 of King IV describes the disclosure regime, based on the principle of "apply and explain" which evolved from the "apply or explain" approach advocated by King III. This apply and explain approach, attempts to move away from a compliance-based orientation which tends to limit the organisation's engagement with the spirit of the code. This part also reflects on what should be disclosed when applying King IV, as well as where these disclosures should be made. To assist in achieving these objectives, the number of principles contained in King IV was significantly reduced (16 plus an additional one for institutional investors, compared to the 75 principles of King III), with recommended practices described to achieve each principle. Because organisations are always able to explain or rationalise their reasons for not applying specific principles, King IV's change from an "apply or explain" to an "apply and explain" approach, moving away from the unintentional compliance orientation that inadvertently emerged from the application of King III (IoDSA, 2019).

As illustrated in Table 1, all the SOEs complied with the "apply or explain" approach. As indicated above, while the explain part may afford the SOEs the opportunity to give weak excuses for not applying the King IV principles, the SOEs actually presented good reports in terms of their application of the King IV principles. As noted earlier, the main area that requires improvement is the presentation of the combined assurance model, mainly in terms of moving from the three to the five lines of defence.

4.8 Supervision of directors

The second part of Keasey and Wright's (1993) framework, dealing with supervision of directors, suggests that the responsible government departments, provide oversight over SOEs through corporate plans/strategic intents and budgets. In this regard, section 52 of the PFMA, appropriately requires public entities and government business enterprises to submit projections of revenue, expenditure and borrowings for that financial year as well as a corporate plan covering their anticipated affairs for the following three financial years. The accounting officer for the relevant department must submit the budget to the executive authority, who may recommend the approval of, or amendment to the budget. The National Treasury has developed a framework to guide this corporate planning and shareholder compact (South Africa, 2002b). The executive authority of national SOEs, is the Cabinet minister accountable to Parliament for a particular public entity, or into whose portfolio it falls; whereas the accounting officer is the chief executive officer of the SOE, with fiduciary responsibilities as prescribed by the PFMA (South Africa, 1999) and the Companies Act (South Africa, 2008).

With regards to the requirements of the PFMA, all the SOEs mentioned in their annual/integrated reports that they prepared budgets as well as corporate plans/strategic intents as required. In addition, all the SOEs presented their governance structure framework, detailing how their owning department (and other shareholders, in the case of Telkom SA) provide oversight through board representation.

4.9 Alignment of corporate governance codes

Assessing the alignment of South Africa's corporate governance codes applicable to SOEs with Keasey and Wright's (1993) framework, reveals that that the codes adequately cover the accountability dimension. The South African codes contain robust provisions that SOEs should follow to mitigate the myriad of corporate governance problems facing SOEs around the world. Despite this robustness, South Africa acknowledges the need for continuous improvement to respond to the dynamic environment, resulting in two recent amendments to the PFMA 1999 (in 2017 and 2018). The observation that the Protocol on Corporate Governance in the Public Sector has not been revised since being released in 2002, is attributed to it being a guideline and not a policy directive. However, despite not revising the Protocol on Corporate Governance in the Public Sector, the DPE (which issued the Protocol) subsequently issued a number of other related frameworks. These include the State-Owned Company Board Evaluation Framework (which provides a robust board evaluation framework intended to improve the effectiveness of SOE boards) (South Africa, 2021), the Guide for State Owned Companies Remuneration and Incentives for Executive Directors, Prescribed Officers and Non–Executive Directors (which is key to guiding the remuneration of executives described in Section 4.5 above) (South Africa, 2018), as well as the Handbook for the Appointment of Persons to Boards of State and State Controlled Institutions (South Africa, 2009).

Although King IV had not yet been revised at the time of writing, the Institute of Directors South Africa deploys several ways of updating and communicating important

components of King IV, as circumstances require. For example, several relevant articles are published on its website intended for the use of auditors, boards of directors and audit committees, such as the recent guidance on responding to and dealing with COVID-19 (IoDSA, 2020a, 2020b). It should be noted that King IV is the current iteration of the King Codes for corporate governance, confirming that the King Code is regularly updated in response to emerging issues.

Perhaps, it should be noted that the adherence of a majority of the SOEs to the codes, as indicated in Table 1 and highlighted in the sections above, is that the codes are clear in terms of disclosure/reporting requirements. In this context, as noted earlier, the "apply or explain" requirement of the King IV is a point of reference here. In addition, the Companies Act also provides a guidance in terms of how to proceed when codes clash, as indicated earlier. In this regard, the Acts suggests to resolve possible inconsistencies between a specific SOE Act and the Companies Act, Section 5(4) of the Companies Act prescribes that "the provisions of both Acts apply concurrently, to the extent that it is possible to apply and comply with one of the inconsistent provisions without contravening the second; and to the extent that it is impossible to apply or comply with one of the inconsistent provisions without contravening the second".

4.10 *State-owned enterprise* conformance with audit best practice

Although the assessment of the corporate governance codes applicable to South African SOEs in relation to the accountability dimension of Keasey and Wright's (1993) framework, suggests that the codes adequately address pertinent aspects of accountability, it is important to establish the extent to which SOEs in South Africa observe and disclose these audit practices (Abhishek and Divyashree, 2019). As reflected in Table 1, the dimensions assessed for each SOE in relation to the audit practices identified from the corporate governance codes in line with the framework in Figure 1, include the respective roles of auditors and audit committees, the audit expectations gap, disclosure and combined assurance, as well as the applicable frameworks in the first rows. As indicated in Table 1, and described in Sections 4.1–4.8, all SOEs described the roles of internal and external auditors in their annual reports, particularly the role of internal audit in risk management. The reports contain specific sections on internal audit, providing additional information relating to combined assurance, supporting the external audit functions, the audit expectations gap and audit committees. The SOEs robustly disclose their stakeholder engagement, addressing issues that may be of concern to stakeholders. All SOEs have audit committees as required by the relevant frameworks depicted in Table 1. Except for the IDT, all SOEs have adopted the combined assurance model as recommended by King IV, principle 15, as noted earlier. Combined assurance is one of the recent key innovations relating to audit practices, introduced by King III. As indicated earlier, despite being the external auditor of the public sector, the AGSA is not compelled to audit an SOE, but may delegate this responsibility to the SOE's board to appoint an independent external auditor. It was nevertheless observed that the AGSA still audited the majority of SOEs (16 of the 21), except for ATNS, Alexkor, BIC, IDC and Telkom (audited by independent external audit firms), as highlighted earlier. Despite SOEs apparently having the latitude to appoint their own external auditors, in its 2020 integrated report, the AGSA revealed that because "SOEs use a substantial part of the national budget to provide utility services or infrastructure to the people of South Africa", they intended taking over the statutory audits of SOEs, declaring that "We are therefore systematically taking over these audits to enhance oversight of SOEs" [1]. This partly appears to suggest the reason why only Telkom SA, a

partly owned SOE, used the services of PWC, one of the big four and not any other SOE. And also the reason why a majority of the SOEs were audited by the AGSA.

In general, as required by King IV, the SOE disclosures were robust, particularly those SOEs that prepared integrated reports. Except for SAA, the remaining 15 SOEs that prepared integrated reports, reported on all six capitals – financial, human, intellectual, manufactured, social and relationship, as well as natural capitals. Being fundamental elements of an integrated report, disclosing these capitals increases the robustness of reports. It is therefore suggested that SOEs that did not prepare integrated reports, or disclose how they had leveraged the capitals to create sustainable value, produced less or partially robust reports. Taken together, Table 1 confirms the assertion that the SOEs adequately complied with the provisions relating to audit practices contained in the corporate governance frameworks applicable to SOEs in South Africa. The reports of the SOEs were similar and straightforward in terms of how they have complied with their applicable frameworks, with the exception of Telkom SA, in a few instances, as highlighted in Sections 4.1–4.9. There were no comprehensive details about how they had complied. As noted in Section 4.9, this may be due to that they understand what is expected of them as clearly contained in their guiding frameworks.

Consistent with the findings in Hay *et al.* (2017), our results, especially with regard to SOEs conforming with the requirements as observed above, and indicated in Table 1, tend to suggest that for there to be an effective relationship in terms of how auditing influence corporate governance practices, then there must be an effective implementation of corporate governance practices along with auditing practices. A point Hay *et al.* (2017) stressed in their study. This appears to suggest why Mihret and Grant (2017) assert that studying internal auditing may only be a mechanism within the corporate governance context of modern organisations. Thus, core corporate governance issues may not be addressed with a focus on only auditing. Applying this to the case of South African SOEs that are always requiring bailouts, our results tend to suggest that because the SOEs observed most of the auditing requirements relating to corporate governance, but yet are still involved in wasteful and irregular expenditures, soft budget constraints, free-rider and other problems resulting in steady bailouts by the owning governments, attention should shift from a focus on the accountability part of the corporate governance framework in Figure 1 to the supervision part, which contain core corporate governance topics and which is consistent with the contemporary discourse on SOEs management.

5. Implications for policy and practice

Using public funds in the form of taxpayers' monies typically increases the need for SOEs to account to the public, resulting in greater accountability expectations in the public sector compared to the private sector (Bovens, Schillemans and Goodin, 2024). This explains the high levels of scrutiny around the activities of SOEs in South Africa. Not only because they are mostly charged with the delivery of public goods and services, but also because many are usually involved in fruitless and wasteful expenditures, always requiring government bailouts (Ackers and Adebayo, 2024; Yaacob and Basiuni, 2014). In this regard, a number of factors have been documented in the contemporary academic literature on SOEs, the summary of which suggests that their corporate governance practices are the problematic issues (Khongmalai and Distanont, 2017), with these problems being grouped under the umbrella term "corporate governance problems of SOEs". In this regard, we explored how auditing contributes to mitigating corporate governance problems in SOEs and found that, despite SOEs in South Africa conforming to the applicable legislation and regulations, their performance does not suggest they have done so. It appears that conforming to auditing

practices does not assist in mitigating corporate governance problems. Thus, it appears that other factors are at play in terms of the difficulties experienced by the SOEs. As suggested by Hay *et al.* (2017) and Mihret and Grant (2017) that core corporate governance issues may not be addressed with a focus on only auditing, our findings appear to have important implications for policy and practice, particularly for stakeholders involved in the management of SOEs, such as practitioners, public sector role players and standard-setters, and may mean that they should better focus on the supervision part of the Keasey and Wright (1993) framework, as depicted in Figure 1. This is more important considering that, as noted earlier, there is a complex and unclear contract specification in SOEs (in terms of their conflicting social and economic objectives) as well as more problematic incentives because, in most cases, bureaucrats are often managers and not private role players, and there is usually no pressure to deliver socioeconomic efficiency, at least not in the short run. Hence, a behaviour that can be easily observed in managers of SOEs is that they may not be pressured to search for cost-minimising opportunities, especially if this means that it will involve investing more time and management effort and demand new skills from them, because public executives are often torn between the different assignments to which they allocate their time (Subramanian, 2015; Aharoni, 1981). Furthermore, this also results from fruitless and wasteful expenditures, as well as a lack of adequate oversight by the owning states. Taken together, these issues partly account for agency problems in SOEs. The role of oversight directors is particularly important in this regard, because they are the closest to the operations of the SOEs, with a fiduciary responsibility to ensure accountability for effective stewardship of resources and performance in relationship to their state-provided mandates. Thus, oversight directors should endeavour to effectively discharge their oversight roles, including desisting from constituting the board of SOEs with party loyalists (cadre deployment), which has been documented as one of the key problems of South African SOEs.

6. Conclusion

This paper, which focuses on South Africa, the country with the highest number of SOEs in Africa, has opened up new debates on the extent to which SOEs in emerging countries have adopted and implemented best governance frameworks. Therefore, although the study is based on South Africa, using South African SOEs, we submit that the observations apply equally to SOEs in other emerging countries, especially where SOEs are used as instruments for socio-economic development. The content analysis of the regulatory and voluntary corporate governance frameworks applicable to SOEs in South Africa, found that the fundamental corporate governance characteristics were adequately incorporated.

The extent of conformance with global audit best practices is not surprising, since prior to 2018 after which the ranking of South Africa's external audit profession dropped from number one (a position held for seven consecutive years) [2] to number 30. The strength of its internal audit profession is attributed to strong advocacy by Professor Mervyn King (the Chair of all iterations of the King Committees, and the former Chair of the Global Reporting Initiative and the International Integrated Reporting Initiative) and compliance with the prescripts of the PFMA and its associated regulations. Similarly, the high degree of conformance with global audit committee best practice, is ascribed to the various iterations of the King Code, as well as compliance with the PFMA and Companies Act. Collectively, these findings appear to confirm assertions that South Africa has amongst the world's best corporate governance frameworks (Atkins *et al.*, 2015; Wang *et al.*, 2020). Against the background of a strong audit profession and robust corporate governance practices, as confirmed by this paper, the question that then arises is why the majority of South African

SOEs, still continually fail, often requiring substantial government bailouts. It is submitted that this may be due to the emergence of a compliance orientation as posited by Ackers and Adebayo (2022), compounded by rampant corruption which has become endemic in the South African public sector as postulated by Ashman (2019), necessitating shifting attention to the supervision part of the corporate governance framework in Figure 1.

It is accordingly suggested that additional research be conducted into the factors contributing to the failure of South African SOEs, the possible emergence of a compliance orientation in the light of its strong audit profession and robust corporate governance practices. Further research could be undertaken to understand the extent to which the possible emergence of a compliance orientation may have given rise to false perceptions that South African SOEs were well governed. Moreover, studies could be conducted on the influence of corruption on the ability of South Africa's public sector to meaningfully contribute to sustainable socio-economic development, as well as to investigate possible complicity by the audit profession, as uncovered by the *"Judicial Commission of Inquiry into allegations of State Capture, Corruption and Fraud in the Public Sector, including organs of state, also known to the public and the media as the Zondo Commission"* [3]. Further research may also extend the objectives of this paper by comparing SOEs and other public sector entities/statutory boards or government departments. Future research may also explore the objectives of this study by including risk management in a corporate governance framework to make sense of research on auditing role in corporate governance.

Since SOEs in many developing countries, especially in Africa, frequently require bailouts, we encourage the replication of this study in similar national settings, which we believe will have implications for policy and practice in the countries. As previously stated, notwithstanding South Africa being perceived as having a strong audit profession and robust corporate governance practices, its SOEs have largely failed compared to SOEs in other emerging economies. Thus, this is a timely research and we encourage convergence on the highlighted avenues for further research to further stimulate research convergence in this important research field.

Notes

1. Extracted from the AGSA's Integrated Annual Report for 2020 (p. 89).
2. Extracted from the annual report of the Independent Regulatory Board for Auditors (IRBA) for 2017.
3. www.statecapture.org.za/

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Corresponding author
Adeyemi Adebayo can be contacted at: adebaao@unisa.ac.za

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