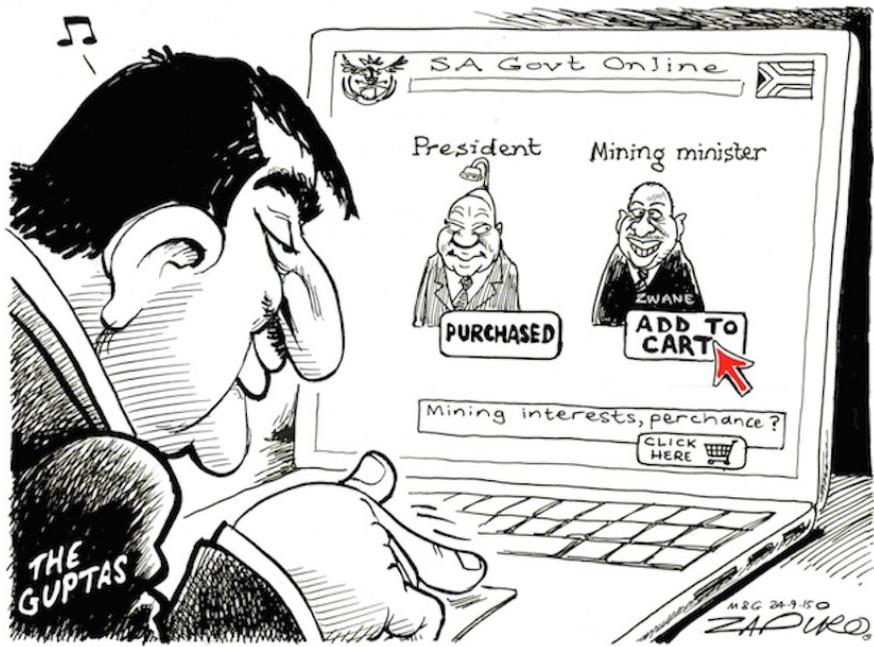


Do ministers matter for audit performance?

Evidence from cabinet appointments during
South Africa's 'State of Capture'

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Research supported by ODI and the Bill & Melinda Gates Foundation



Background and motivation

- Cabinet appointments are in the spotlight, not only in South Africa – but do they matter and to what extent?
- We study this with audits, drawing on tools from a literature that assesses leadership effects in sports, business and government.
- Our focus is important for at least two reasons:
 - Reliable information on the stewardship of public funds (and on objectives and compliance) is a necessary foundation for effective service delivery.
 - Citizens have a right to know how their money is spent.

How we did it

- We matched audit results from the Auditor-General of South Africa to all national departments for FYs 2006-7 to 2020-21 (using the ENE).
- To determine attribution, we researched the individual minister in charge for each month over this period (and Directors-General).
- Our statistical model tests whether ministers matter even when we account for portfolios and the years they were in charge, as well as DGs.
- Following Bertrand & Schoar (2003), we focus on ministers who ran at least two departments (but we vary this to ensure robustness).
- Individual effects for 28 out of 95 (30%) ministers, accounting for almost half of observations (others constitute the reference category).

Table 1 Audit outcome categories

Audit outcome	Description	Numeric value
Clean	The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.	5
Unqualified	The financial statements contain no material misstatements, but findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both.	4
Qualified	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.	3
Adverse	The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.	2
Disclaimer	The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.	1

Note: Clean audits have at times been called ‘unqualified with no findings’, in which case unqualified audits were called ‘unqualified with findings’. Audit outcomes can also be ‘outstanding’, indicating that the audit was not yet finalised (the results are most often filled in subsequently, and listed in the next year’s report from where we source them in such cases). We treat the very small number of such outcomes remaining in our panel as missing values (all are for the last year of the panel in cases that had not yet been filled in).

Upward trend but with volatility

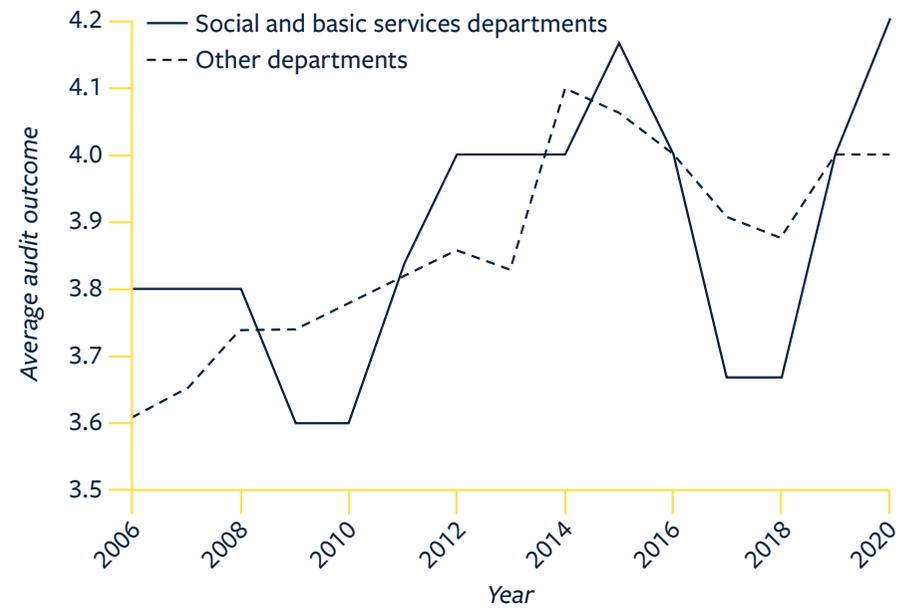
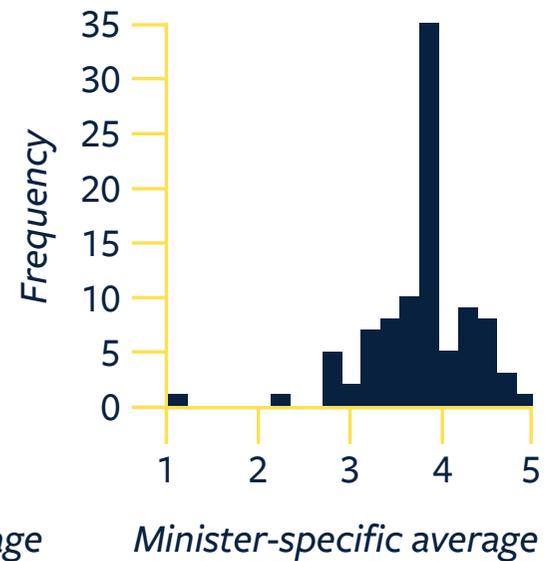
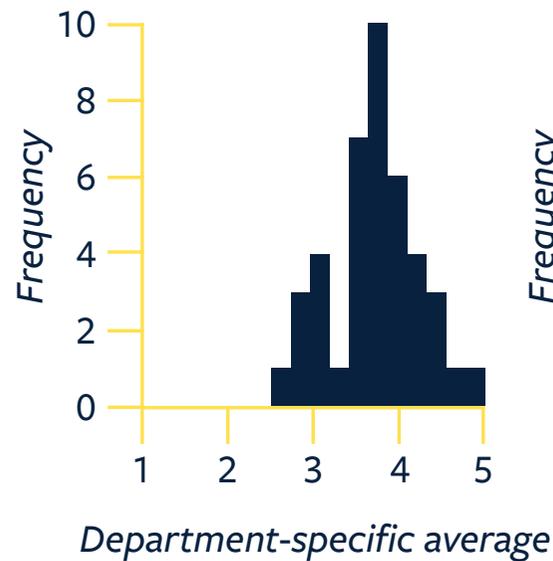
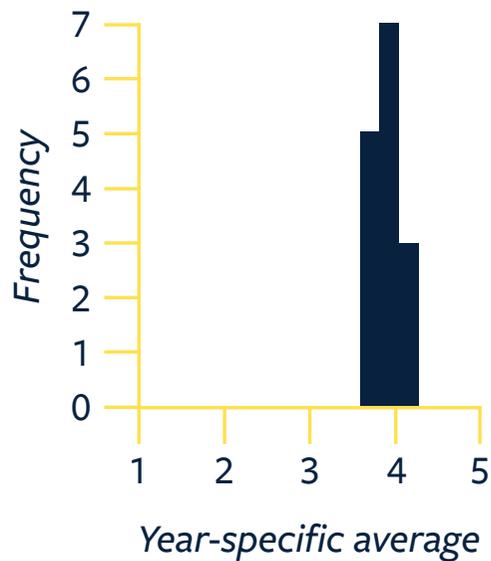


Table 3 Audit outcomes of the Department of Cooperative Governance

Fiscal year	Minister	Audit opinion	Objectives	Compliance
2006–7	S. Mufamadi	Unqualified	Findings	Findings
2007–8	S. Mufamadi	Unqualified	Findings	Findings
2008–9	S. Shiceka	Qualified	Findings	Findings
2009–10	S. Shiceka	Unqualified	Findings	Findings
2010–11	S. Shiceka	Qualified	Findings	Findings
2011–12	S. Shiceka	Unqualified	Findings	Findings
2012–13	R. Baloyi	Unqualified	Findings	Findings
2013–14	S. Tsenoli	Unqualified	Findings	Findings
2014–15	P. Gordhan	Unqualified	Findings	Findings
2015–16	P. Gordhan	Qualified	Findings	Findings
2016–17	D. van Rooyen	Qualified	Findings	Findings
2017–18	D. van Rooyen	Disclaimer	Findings	Findings
2018–19	Z. Mkhize	Disclaimer	Findings	Findings
2019–20	N. Dlamini-Zuma	Qualified	–	Findings
2020–21	N. Dlamini-Zuma	Qualified	–	Findings

Note: Initially called the Department of Provincial and Local Government, the entity was renamed and then split into two departments, Cooperative Governance and Traditional Affairs. From 2014–15, audit outcomes refer to the Department of Cooperative Governance only. For each fiscal year in our dataset, the table shows the minister in charge of the department for the majority of that fiscal year, the overall audit opinion as reported by the Auditor-General, and whether this included findings on reporting on performance objectives or non-compliance with legislation. A dash indicates the absence of findings in the relevant category.

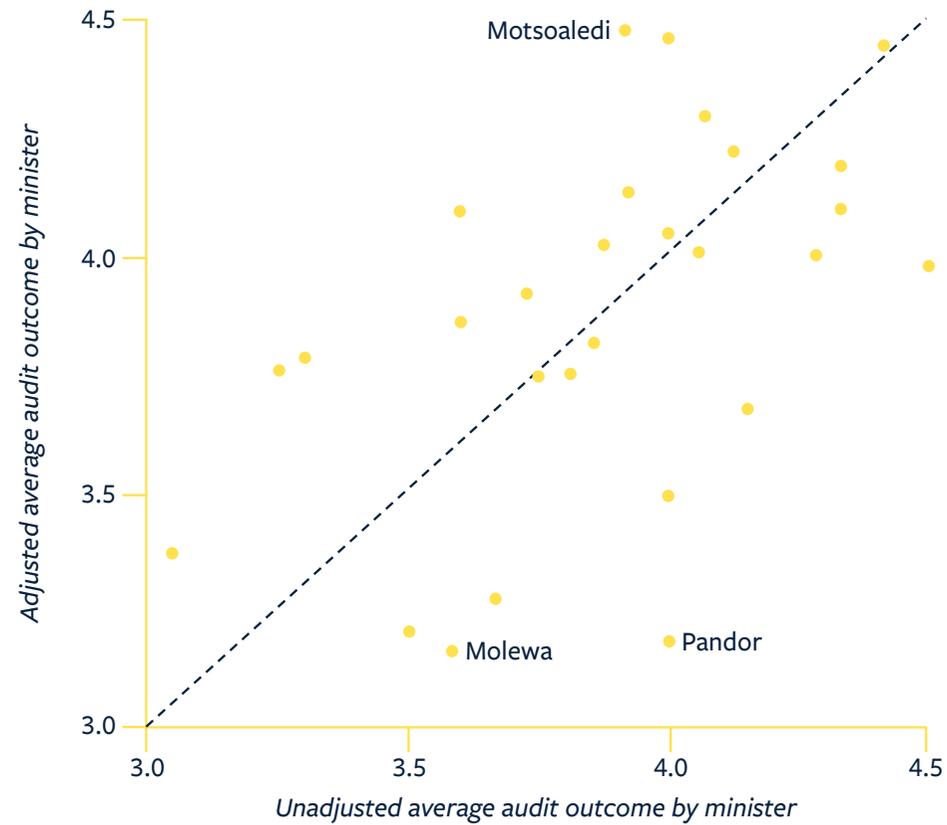
Substantial variation in average outcomes across departments and ministers



Headline results (in words)

- We test whether minister fixed effects are jointly significant, which is the case in all models and robustness checks (except in “placebo” regressions, when they should not matter).
- In a separate variance decomposition analysis, a full set of minister indicators explains 29% of overall variation in audit outcomes, compared to 32% for entity and 3% for year indicators.
- Also little evidence that leadership transitions are timed or targeted based on audit performance (although ministers obtaining clean audits are more likely to be moved to lower-performing entities).
→ Ministers “matter” and to a substantial extent.

Adjusted versus unadjusted minister scores



Implications

- Despite limitations, our analysis highlights the importance of thinking beyond uniform systems, structures and procedures in analysing PFM and organisational performance more generally.
- Good governance depends not only on institutional design or legal frameworks, but also on who is in charge.
- Further work: add provinces and SOEs (closer to service delivery).
- Possible policy implications:
 - Target audit activity also based on political risk (ministerial turnover and the past audit record of incoming ministers, including at provincial level)
 - Develop performance audit capacity to boost accountability for results

Supplementary slides

Audit outcomes across national departments

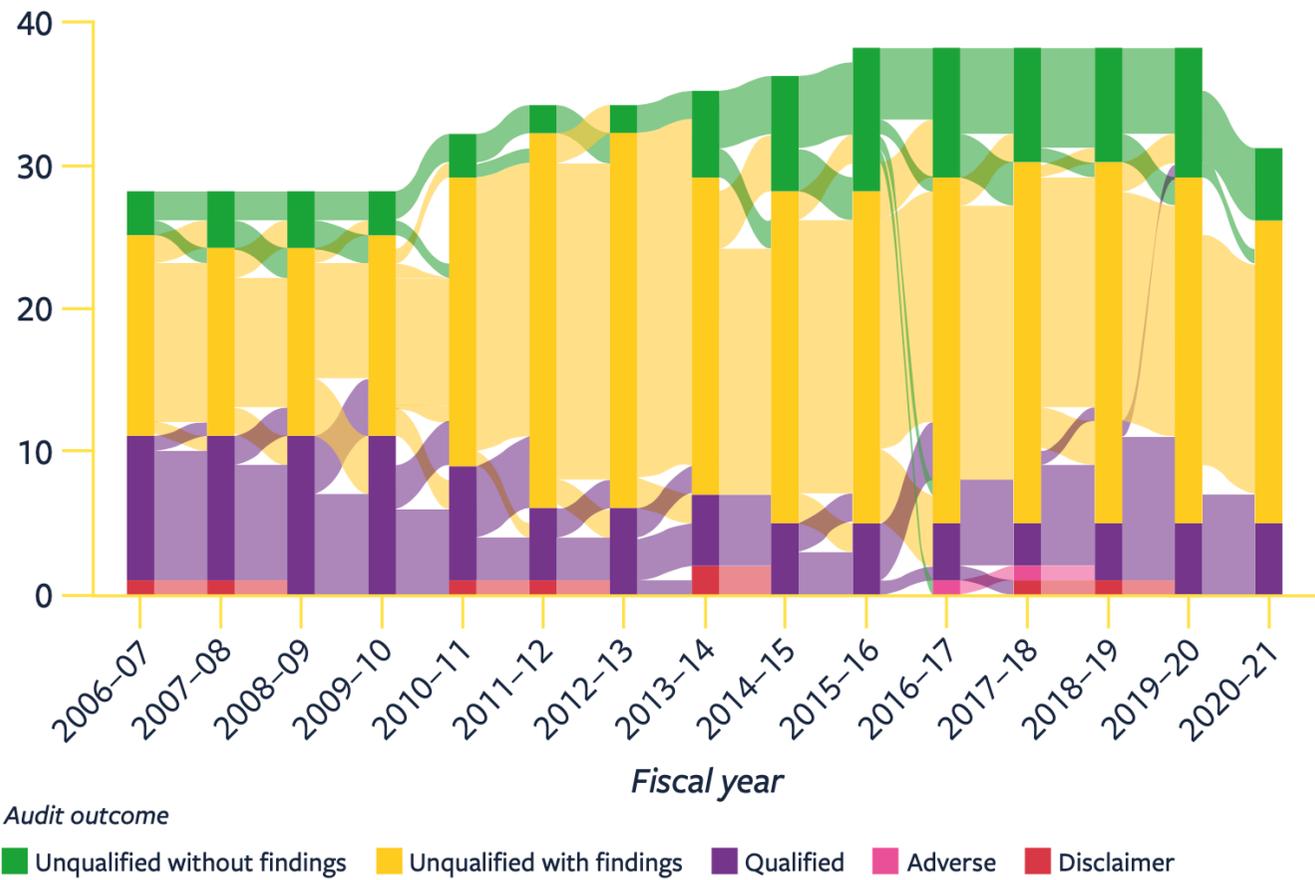


Table 4 Results of F-tests comparing pairs of models with and without leader fixed effects

Test	Sample	N	F-test statistic	F-test p-value	Increase in Adjusted R-sq.
1	Full	504	2.45	0.0001 ***	.055
2	Social and basic services depts.	84	5.73	0.0000 ***	.253
3	Other depts.	420	2.19	0.0006 ***	.055

Note: For each test, equation 1 regresses audit outcomes on entity and year fixed effects, while a benchmark equation regresses audit outcomes on entity, year and leader fixed effects. The ‘F-test’ columns show the test statistics and p-values from F-tests between the two equations. The column ‘Increase in Adjusted R-Square’ shows the increase in adjusted R-square between the benchmark equation and equation 1.

Statistical significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

Table 5 Results of regression models testing for audit outcome effects on leader turnover

	Model 1	Model 2	Model 3	Model 4
	DV: Leader turnover	DV: Leader turnover	DV: Leader turnover	DV: Leader turnover
Audit outcome	-0.0064 (0.0294)	-0.0234 (0.0374)	-0.0219 (0.0302)	-0.0353 (0.0363)
Entity FE		X	X	X
Year FE			X	X
Leader FE				X
R-squared	0.0001	0.0721	0.4410	0.5949
Num. obs.	504	504	504	504

Note: Statistical significance: *** p<0.001, ** p<0.01, * p<0.05.

Table 6 Results of regression models testing for audit outcome effects on leader transfers

	Model 1	Model 2
	DV: Previous audit outcome of new dept.	DV: Previous audit outcome of new dept.
Previous audit outcome of incoming Minister	-0.2987 * (0.1404)	
Previous audit < Unqualified		0.2000 (0.2390)
Previous audit > Unqualified		-0.5679 * (0.2509)
R-squared	0.0624	0.0995
Num. obs.	70	70

Note: Statistical significance: *** p<0.001, ** p<0.01, * p<0.05.