

7

Recommendations

7. Recommendations

All role players in national and provincial government should continue to work together to strengthen the capacity, processes and controls of departments and public entities, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and delivery of services. The recommendations that follow are consistent with our messages for the past three years and also informed by the best practices in place at some auditees. They are grouped according to the drivers of internal control:

Leadership

1. In order to improve and sustain audit outcomes, auditees require **effective leadership** (political and administrative) that is based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the auditee.

The following are some of the key aspects that should be considered:

- Implement formal codes of conduct and regularly communicate their existence and continued applicability to officials.
 - Monitor key officials' performance regarding the maintenance of adequate systems of internal control that ensure credible monthly financial reporting, reliable reporting against predetermined objectives, and compliance with key legislation.
 - Establish clear lines of accountability.
 - Take corrective or disciplinary action against key officials for misconduct.
 - Honour commitments made to the AGSA for interventions in response to audit outcomes.
2. Policies and procedures should be applied fully to enable auditees to implement **consequence management** for officials who fail to comply with the applicable legislation, while appropriate and timely action must be taken against transgressors. A less tolerant approach should be followed by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences instituted against those who intentionally fail to comply with legislation.
 3. Executive authorities and accounting officers or authorities should ensure **stability in key senior management positions** specifically those of accounting officer, chief financial officer and heads of SCM unit. The ability to attract and retain competent officials remains a major challenge, but is key to consistent performance and a strong control environment.

4. Accounting officers and authorities should insist on **credible in-year reporting** on financial and service delivery performance and in particular on the progress and achievement of targets or key projects.

Financial and performance management

1. **Proper and timely record keeping** ensures that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affected all areas of the audit outcomes, including SCM. Senior managers should ensure proper record keeping so that records supporting financial and performance information as well as compliance with key legislation can be made available when required for audit purposes. They should also implement policies, procedures and monitoring mechanisms to manage records and make staff members aware of their responsibilities in this regard.
2. Controls should be in place to ensure that **transactions** are processed in an accurate, complete and timely manner, which in turn will reduce errors and omissions in financial and performance reports.

Some of the matters requiring attention from senior management include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliation of key accounts.
 - Collect performance information at intervals appropriate for monitoring, set service delivery targets and milestones, and validate recorded information.
 - Confirm that legislative requirements and policies have been complied with before initiating transactions.
3. Accounting officers should ensure that auditees have mechanisms to **identify applicable legislation** as well as changes to legislation; assess the requirements of legislation; and implement processes to ensure and monitor compliance with legislation. **Compliance checklists** should be implemented as a tool to supplement policies and procedures. These will enable officials, supervisors and monitoring units (e.g. internal audit units) to independently check whether all legislative requirements are met in the daily transactional, management as well as SCM processes.
 4. **Regular reports** to management and governance structures on compliance with key legislation, specifically in the area of SCM, will also promote awareness of legislative requirements and ensure that management deals with compliance in a regular and structured manner.

5. The implementation and monitoring of **audit action plans** are key measures to support financial management and governance.

The matters requiring attention by accounting officers and senior manager include the following:

- Devise action plans to specifically address the external and internal audit findings.
 - Assign clear responsibility to specific staff members to carry out action plans and ensure that the responsibilities assigned are executed effectively and consistently through monitoring.
 - Develop audit action plans early enough in the financial year to resolve matters by year-end.
 - Ensure that audit action plans address all three areas of audit outcomes, namely qualifications, findings on APRs and compliance with legislation.
 - Focus the actions to be taken on the root causes of findings, thereby ensuring that sustainable solutions are found.
6. Management should give focused attention to improving the **IT control environment**. The following actions should be taken:
 - Auditees should customise IT governance frameworks and structures for their specific environments to ensure that IT controls are governed appropriately. Policies, standards and procedures should be sufficiently documented, implemented and monitored for compliance. Continuous monitoring of the implementation and operating effectiveness of governance structures already established should be prioritised.
 - Management should ensure that service providers are monitored on a regular basis and that corrective actions are taken against them where deviations from the expected quality and standards are detected. A plan for the transfer of skills should be required when vendors bid for work at auditees.
 - Auditees should initiate user awareness campaigns to ensure that all users are aware of their roles with regard to security of the IT environment.
 7. Management should ensure that the arrangements with **implementing agents** are clear in terms of responsibilities and deliverables, including the SCM principles to be followed and the accounting to be done, of the projects. The monitoring of their activities and deliverables should be improved.
 8. The **financial position of departments** will only improve if expenditure is more effectively monitored in-year, as and when incurred (and not just when paid), and by improving systems to promptly account for liabilities incurred. At both departments and public entities, the process and controls to ensure

effective **revenue collection and payments of creditors within 30 days** should receive attention.

9. Reducing the cost of services provided is part of the solution for **improved financial health** and we believe that more could be done with less if, among other cost-saving initiatives, a concerted effort is made to curtail the extent and costs of using external providers. The SCM process should be used effectively to procure goods and services from the best-qualified providers at the best price.
10. The capacity and capability of auditees **to plan, manage and report on service delivery** need urgent and increased attention. **Project management** is required for key projects to succeed and auditees should be guided and supported in a more focused manner in this regard.

Governance

1. Executive authorities, accounting officers or authorities and senior managers should **implement the recommendations** of internal audit units and audit committees and use the opportunity to interact with these structures to assist in improving governance and control.
2. Areas where these governance structures can jointly **make significant contributions** to the audit outcomes include the following:
 - Encourage senior management to submit regular financial and performance reports for audit committee review.
 - Assist with designing the audit action plan and monitor its implementation.
 - Review financial statements and APRs before submission for auditing to identify material misstatements.
 - Monitor the appropriateness and timeliness of actions taken by management in instances of known transgressions by officials.
 - Play a more active and effective role in tracking the progress made in implementing management commitments in respect of previously raised IT audit findings and in improving IT controls generally.
3. The audit committee chair needs to play a leading role in ensuring the committee remains focused on ensuring that **management fulfils its responsibilities**.
4. Departments that **oversee public entities** should ensure they receive credible in-year reporting on the financial health of the public entities and timeously intervene or provide support where problems are identified.

Our detailed recommendations on strengthening the support of coordinating or monitoring departments and oversight are included in section 5.6.