



AUDITOR-GENERAL
SOUTH AFRICA

PREVENTATIVE CONTROL GUIDES

GUIDES

1-3

INTRODUCTION &
ORGANISATIONAL LEVEL





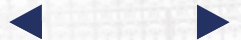
Congratulatory Greetings,

I have the immense pleasure and honour to commend you and convey my warmest congratulations and best wishes to you on your appointment as leaders of the 7th Administration of the Republic of South Africa. May your tenure be marked with accountability, good governance and progress for the betterment of all.

As a chapter 9 institution with a constitutional mandate to strengthen democracy by auditing government spending, the Auditor-General South Africa (AGSA) strives to provide you with tools and insight that will empower you to achieve your mandates.

One such a tool is the **Preventative control guide**, which is part of a series of guides on preventative controls and a system of accountability.

Internal controls are categorised as preventative controls, detective controls and corrective controls. Preventative controls are the controls designed and implemented by management to avoid threats to the objectives of the institution materialising. Detective and corrective controls focus more on identifying and correcting failures after they had already occurred.





Preventing poor-quality financial statements and performance reports, and non-compliance and material irregularities, is more effective and efficient than having to deal with their consequences – money and time is lost, investigations are costly and officials are subjected to the discomfort and anxieties associated with these processes, which at times take months and years to bring to finality.

The amended Public Audit Act (PAA) empowered the auditor-general to issue material irregularities (MI), refer matters to a relevant public body for investigation, to take appropriate legally binding remedial action and/or to issue a certificate of debt where the accounting officer or accounting authority failed to comply with the remedial action.

The AGSA's message has been consistent over the years: strong control environments and processes are key to achieving objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds for the benefit of citizens. Accounting officers and authorities have a legislated obligation to implement and maintain effective, efficient and transparent systems of financial and risk management, and internal control. Oversight structures and executive authorities should hold the accounting officers and authorities accountable (AO/AA) for the effectiveness of the internal controls.

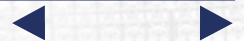
Preventive controls should be designed, implemented and work effectively in all the key processes to identify failures that could threaten the finances, performance, delivery and accountability processes. A preventative control can be in place, but for it to work effectively, in the right way, at the right time and every time, it must be built in a strong control environment. This includes a leadership tone and culture in the institution that supports the need for controls as well as institutionalised internal controls at an organisational level. Obtaining and providing assurance that the controls are in place and working effectively should be a key priority.

We developed these guides to assist and empower accounting officers and accounting authorities to invest in preventative controls in order to stem the tide of misappropriation of funds. They have relevant information for all roleplayers in the accountability ecosystem. In essence, if properly designed and implemented, preventative controls are an invincible fortress against all possible abuses of the public purse which will inevitably re-establish accountability as a cornerstone of our democracy. Once controls are in place and are diligently pursued, there will be more resources available to meet the obligations of the allocated budget towards its democratic mandate of improving the quality of lived experiences of citizens.

The National Treasury had an amicable agreement with the AGSA whereby the former director-general, Dondo Mogajane, noted: "These guides on preventative controls will add to our arsenal of measures to safeguard public money and rid our public sector of the scourge of malfeasance."

And so, as we usher in the appointed leadership of South Africa's 7th Administration, we undertake to collaborate with you to shift the culture of the public sector by introducing you to the tools that will, with a strong tone at the top, an ethical culture, integrity, performance measures and transparency set a concrete foundation for good governance. Where you implement preventative controls with diligence, they become a natural source of consequences.

” These guides on preventative controls will add to our arsenal of measures to **safeguard public money** and rid our public sector of the scourge of malfeasance.



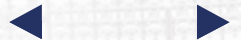


I wish to appeal to all roleplayers entrusted with various responsibilities in the accountability ecosystem to effectively play your part and do everything within your mandates to safeguard public funds which are already struggling to meet demand.

I extend gratitude to all of you for your contribution to managing public resources and acknowledging the importance of the National Treasury and the AGSA working shoulder to shoulder in our relentless pursuit of good public sector financial management and accountability.

Tsakani Maluleke
Auditor-General

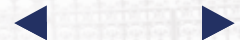
” The AGSA's message has been consistent over the years: strong control environments and processes are key to achieving objectives.





What this guide is about

The system of accountability has reached a point where government must invest in preventative controls. This guide is the first in a series on preventative controls. It describes the aim of the guides and introduces them by explaining some key concepts.





The AGSA's message has been consistent over the years that a strong control environment and processes are the key to achieving objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds to the benefit of citizens.

Accounting officers and authorities (AO/AA) have a legislated obligation as defined in the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) to implement and maintain effective, efficient and transparent systems of financial and risk management and internal control. Oversight structures and executive authorities should keep the AO/AA accountable for the effectiveness of the internal controls.

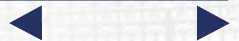
Internal controls can be categorised as preventative controls, detective controls and corrective controls. Preventative controls are the controls designed and implemented by management to avoid threats to the objectives of the institution materialising. Detective and corrective controls focus more on identifying and correcting failures after they had already occurred.

Preventing poor-quality financial statements and performance reports, non-compliance and material irregularities is more effective and efficient than having to deal with the consequences thereof – money and time are lost, costly investigations have to be instituted, and officials are subjected to the discomfort and anxieties associated with these processes, which often take a number of years to be finalised.

Preventive controls should be designed, implemented and working effectively in all the key processes of an institution. This will give comfort to the AO/AA, executive authority and oversight structures that any failures that could threaten the finances, performance, delivery and accountability processes of their institution will be prevented.

A preventative control can be in place, but for it to work effectively (in other words, in the right way, at the right time, every time) it must be built on a strong control environment. This includes a leadership tone and culture in the institution that supports the need for controls as well as institutionalised internal controls at organisational level. Obtaining and providing assurance that the controls are in place and working effectively should be a key priority of the AO/AA and senior managers.

The diagram that follows illustrates these concepts.





TYPICAL BUSINESS PROCESSES OF THE INSTITUTION



SUPPLY CHAIN MANAGEMENT



CONTRACT MANAGEMENT



PAYMENT



EMPLOYEE PROCESSES AND PAYROLL



ASSET AND LIABILITY MANAGEMENT



REVENUE MANAGEMENT

PREVENTATIVE CONTROLS

Built on **strong control** environment with assurance provided by:

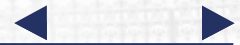
- SENIOR MANAGEMENT
- ACCOUNTING OFFICER/AUTHORITY
- INTERNAL AUDIT UNIT AND AUDIT COMMITTEE

Preventative controls not designed or implemented or not working effectively

MATERIAL IRREGULARITIES AND POOR AUDIT OUTCOMES

CONSEQUENCES

- FINANCIAL LOSS
- COSTLY INVESTIGATION
- DISCIPLINARY PROCESSES
- LITIGATION





Where to start

It takes time to institutionalise good preventative controls, especially in large and complex environments, but the AO/AA need to build their institutions towards accomplishing this in a deliberate manner.

They should identify the areas of greatest risk in their institutions and focus on strengthening those areas first with preventative controls – by applying the 80:20 rule, the greatest impact can be achieved through the lowest effort by focusing on the 20% that will bring 80% of the results. Oversight structures should also focus their efforts towards obtaining assurance that preventative controls are in place in these areas of greatest risk to the institutions.

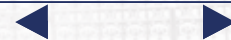
Why these guides

The general report on the 2018-19 audit outcomes of national and provincial government was tabled in November 2019 with a strong message that good preventative controls should be institutionalised in a deliberate and focused manner.

The message was well received by oversight structures and executive authorities, and the need for the AGSA to support this new administration in their commitment to focus on prevention was apparent. The overall aim of these guides is thus to support this new chapter in the accountability journey.

The objectives of these guides are to:

- Enable oversight structures to assess whether the most important preventative controls are implemented by institutions to address their main areas of risks. This will assist oversight structures to diagnose weaknesses in preventative mechanisms and focus their oversight efforts on obtaining assurance from the executive authority and the AO/AA that those weaknesses are being effectively addressed in accordance with their legislated obligations.
- Enable the AO/AA and the executive authority to effectively address the assurance needs of oversight structures pertaining to preventative controls.
- Create general awareness of the role of the AO/AA and their legislated obligations towards good financial and performance management in their institutions.





What we will provide

Guides on preventative controls will be published covering the following categories:

1. The control environment as a basis for all preventative controls, presented within two broad categories:
 - Tone and control culture – dealing with controls that should be in place at an organisational level to enable an ethical and effective control culture, including leadership effectiveness and conduct.
 - Institutionalised internal controls – dealing with controls that should be in place at an organisational level to enable the implementation and monitoring of, and the assurance on, preventative controls.
2. Transactional level controls – dealing with controls within the key business processes of institutions, such as procurement, payments, financial statement preparation, and asset management.
3. Project management and delivery controls – dealing with key delivery areas, including infrastructure development and maintenance.

The guides cover the main preventative controls that should be in place and include key questions that oversight structures and executive authorities can ask to obtain assurance on whether the controls have been implemented and are working effectively. In each guide, this is presented as questions to ask the AO/AA.

The preventative control guides are available on the AGSA's website (www.agsa.co.za).





What this guide is about

Preventative controls are measures built into the processes of an institution at transactional level to prevent errors, fraud or any failure to achieve specific objectives.

A preventative control can be in place, but for it to work effectively (in other words, in the right way, at the right time, every time) it must be built on a strong control environment.

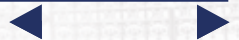
The control environment is the set of standards, processes and structures that provides a basis for carrying out internal control across the institution.

A key element of this control environment is an ethical and effective control culture at the institution. Leadership sets the tone at the top. If an institution's leaders are unethical; have a disregard for governance, compliance and control; and are not committed to transparency and accountability, it will filter through to the lower levels.

Inevitably, a culture of poor discipline and impunity will develop – a culture in which preventative controls will not be effective.

This guide deals with the tone and culture controls that should be in place at institutions as the foundation for preventative controls.

Oversight structures and executive authorities can use this guide to require assurance from accounting officers and authorities (AO/AA) that these controls have been implemented and are working effectively – this is presented as questions to ask the AO/AA.





Controls accounting officers and authorities should implement

A commitment to integrity and ethical values is demonstrated through:

- The tone at the top – Through their directives, actions and behaviour, the AO/AA and management at all levels should demonstrate the importance of integrity and ethical values to support the functioning of the system of internal control.
- Established standards of conduct – The expectations of the AO/AA and senior management concerning integrity and ethical values should be defined in the institution's standards of conduct and understood at all levels of the organisation. For most public sector institutions, the basis for any standards of conduct is included in legislation.
- Evaluating adherence to standards of conduct – Processes should be in place to evaluate the performance of individuals and teams against the expected standards of conduct.
- Addressing deviations in a timely manner – Deviations from the expected standards of conduct should be identified and remedied in a timely and consistent manner.



Questions oversight structures and executive authorities could ask to obtain assurance

1. Is a formal code of conduct in place and does it clearly set out expected standards of ethical and moral behaviour to all officials? What was the basis for the code?
2. How is it ensured that all officials are aware of, and have committed to, this code?
3. How is officials' adherence to the code of conduct evaluated?
4. If deviations from the code of conduct are identified, what processes are in place to address this appropriately and in a timely and consistent manner?
5. Provide reports on the transgressions identified in the past year, how these were addressed and how similar instances can be prevented in future.





Why it is important

Even if an institution has very good internal controls, it can be circumvented if those responsible for implementation and enforcement choose to do so. Such behaviour can be as a result of negligence or a wilful act for personal gain. Being clear on what the expected conduct of all officials in line with the ethical values of the institution should be, and evaluating and enforcing such conduct, demonstrate the commitment by leadership to integrity and ethical values.

But even such commitment can be overshadowed by leadership's own behaviour – unethical behaviour that is in sharp contrast with the code of conduct of the institution will inevitably result in such behaviour being echoed across the institution.



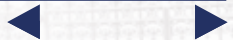
Applicable legislation

Section 195(1)(a) of the Constitution of the Republic of South Africa prescribes that a high standard of professional ethics must be promoted and maintained.

The Public Service Regulations describe the code of conduct expected from public officials and the management of ethics in parts 1 and 3 of chapter 2, respectively.

Section 50(1)(b) of the Public Finance Management Act (PFMA) stipulates that the accounting authority for a public entity must act with fidelity, honesty, integrity and in the best interest of the public entity in managing the financial affairs of the public entity.

Schedule 2 of the Municipal Systems Act describes the code of conduct for municipal staff members.





Controls accounting officers and authorities should implement

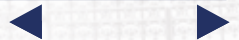
Independent oversight is provided through:

- Performing oversight of the development and performance of internal control and raising difficult questions and pursuing answers from management where applicable.
- Regularly engaging with the internal audit unit and the external auditors (AGSA), the chair of the audit committee, and others as appropriate, to discuss the effectiveness of internal control over financial reporting, performance reporting and compliance with legislation.
- Taking appropriate actions to ensure that identified deficiencies in internal control are addressed by management on a timely basis.
- Demonstrating a positive attitude towards accountability through credible financial and performance reporting and for the rule of law.
- Demonstrating independence from the institution and objectivity in its oversight.



Questions oversight structures and executive authorities could ask to obtain assurance

1. What is the view of the AO/AA on why internal control, accountability and compliance with legislation are important for the institution to succeed? Why should the institution produce credible financial and performance reports?
2. How do the AO/AA oversee the implementation and monitoring of internal controls? What information is reported by management on the status of internal control and how often? What do the AO/AA do with the information – what questions are asked and how do the AO/AA satisfy themselves of the integrity of the answers provided?
3. How often do the AO/AA engage with the internal audit unit, the external auditors (AGSA) and the chair of the audit committee on the effectiveness of internal control over financial reporting, performance reporting and compliance with legislation? What is typically the outcome of such engagements?
4. If deficiencies in internal control are identified (e.g. by auditors or management), what steps are taken by the AO/AA to ensure that these are addressed?
5. Are the AO/AA independent from the institution? How is objectivity in oversight enabled?
6. What internal control deficiencies in the institution are currently the main focus of the AO/AA? How were these identified and how will the AO/AA through their oversight address the deficiencies?





Why it is important

The AO/AA take overall responsibility for the financial management of an institution and the achievement of its objectives. The actions, directives and focus of the AO/AA set the tone for the institution.

If the importance of internal controls and accountability is not accentuated at this level, there will be little commitment and discipline towards it in the institution.

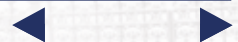


Applicable legislation

Section 38(1)(a)(i) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 51(1)(a)(i) of the PFMA prescribes that an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 62(1)(c)(i) of the Municipal Finance Management Act (MFMA) specifies that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.





Controls accounting officers and authorities should implement

The discipline of adherence to controls on a daily basis should be ingrained into the culture of the institution.

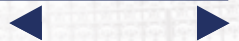
Officials should know, accept and embrace their responsibilities towards controls; understand how to execute the control activities; and be enabled through standardised processes, checklists, templates, reports, automation, etc. to execute these activities at the right time, in the right way, every time.

Officials should be enabled and encouraged to raise the alarm if controls are being circumvented.



Questions oversight structures and executive authorities could ask to obtain assurance

1. Is there a strong control culture in the institution? Provide motivations for the answer.
2. How has it been ensured that all officials in the institution understand their responsibility toward controls and what is expected from them in this regard on a day-to-day basis? Do their job descriptions include this? Is it included in their performance contracts? [The question can be asked for all officials or for a specific group, e.g. senior management, the finance unit, or supply chain management officials.]
3. Do officials receive training, manuals or communication explaining how to execute the control activities? Are all processes and required control activities documented? What is in place to help officials execute the control activities at the right time, in the right way, every time? [The question can be asked for all officials or for a specific group, e.g. senior management, the finance unit, or supply chain management officials.]
4. Is a mechanism in place for officials to report the circumvention of controls in a manner that safeguards the official? How are officials encouraged to use such a mechanism? Provide reports on the type of incidents reported in the past year and how these are being dealt with.
5. If it was found (by the external auditors (AGSA), internal audit unit or another institution) that there are significant control deficiencies in a process of the institution:
 - a. Were specific officials responsible for the execution of the control?
 - b. How were these officials enabled by the institution to execute the control?
 - c. What is the reason for the officials not executing their control activities or not executing them timeously/correctly?
 - d. What actions are being taken to improve the execution of the control?





Why it is important

Control activities should be part of the normal day-to-day activities of officials, as the routine will ensure consistency in application and effective implementation of controls.

If officials understand the importance of controls and how these further the objectives of the institution, they will be more disciplined in their execution and alert to areas where controls can be improved or are being circumvented.

If officials know they are safe to raise concerns about controls being circumvented and are actively encouraged to do so, accountability failures can be identified early in the process and dealt with.

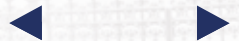


Applicable legislation

Section 45(a) of the PFMA prescribes that an official in a department, trading entity or constitutional institution must ensure that the system of financial management and internal control established for that department, trading entity or constitutional institution is carried out within the area of responsibility of that official.

Section 57(a) of the PFMA stipulates that an official in a public entity must ensure that the system of financial management and internal control established for that public entity is carried out within the area of responsibility of that official.

Section 78(1)(a) of the MFMA states that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently.





Controls accounting officers and authorities should implement

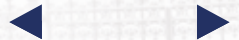
Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, a lack of action and poor performance. Consequences should be instituted against officials who fail to comply with applicable legislation, continuously underperform or are negligent, as well as against those whose actions and decisions cause financial losses.

Officials should be clear on their responsibilities and the performance expected from them as well as on the consequences for transgressions and poor performance. Leadership should consistently but fairly implement the policies and procedures of the institution relating to consequences.



Questions oversight structures and executive authorities could ask to obtain assurance

1. How is it ensured that officials are aware of the consequences for poor performance and transgressions?
2. What is the standard process followed to enable consequence management if the following matters are identified:
 - a. Irregular expenditure?
 - b. Fruitless and wasteful expenditure?
 - c. Unauthorised expenditure?
 - d. Financial misconduct?
 - e. Audit findings that point toward negligence and/or controls that failed?
 - f. Possible fraud and the abuse of the supply chain management system?
 - g. Transgressions of the institution's policies?
3. If findings on consequence management were raised by the external auditors (AGSA) and/or unauthorised, irregular or fruitless and wasteful expenditure has not been dealt with timeously:
 - a. What failed in the process of dealing with these matters?
 - b. What actions are being taken to improve the process?
4. Provide reports on investigations into allegations of fraud and financial misconduct and the progress and outcomes of the investigations.





Why it is important

When officials are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated. This could make even those that are giving their best under trying circumstances feel hopeless.



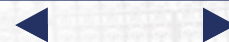
Applicable legislation

Section 38(1)(h) of the PFMA requires the accounting officer for a department, trading entity or constitutional institution to take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who contravenes or fails to comply with a provision of the act; commits an act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; or makes or permits any unauthorised, irregular or fruitless and wasteful expenditure.

Section 51(1)(e) of the PFMA prescribes that an accounting authority for a public entity must take effective and appropriate disciplinary steps against any employee of the public entity who contravenes or fails to comply with a provision of the act; commits an act which undermines the financial management and internal control system of the public entity; or makes or permits any irregular expenditure or fruitless and wasteful expenditure.

Section 32(2) of the MFMA stipulates that a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure, unless the expenditure (a) in the case of unauthorised expenditure, is authorised in an adjustments budget; or certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and (b) in the case of irregular or fruitless and wasteful expenditure, after investigating by a council committee, is certified by the council as irrecoverable and written off by the council.

Section 62(1)(e) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15 of the act.





What this guide is about

Preventative controls are measures built into the processes of an institution at transactional level to prevent errors, fraud or any failure to achieve specific objectives.

A preventative control can be in place, but for it to work effectively (in other words, in the right way, at the right time, every time) it must be built on a strong control environment.

The control environment is the set of standards, processes and structures that provides a basis for carrying out internal control across the institution.

A key element of this control environment is the institutionalised internal controls.

These are the controls that should be in place at an organisational level to enable the implementation and monitoring of, and assurance on, preventative controls.

This guide deals with the institutionalised internal controls that should be in place at institutions as the foundation for preventative controls.

Oversight structures and executive authorities can use this guide to require assurance from accounting officers and authorities (AO/AA) that these controls have been implemented and are working effectively – this is presented as questions to ask the AO/AA.





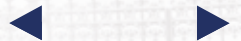
Controls accounting officers and authorities should implement

Appropriate risk management activities should be implemented to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.



Questions oversight structures and executive authorities could ask to obtain assurance

1. Is there a documented integrated management strategy and risk assessment plan in place that considers the objectives of the institution and all the risks that potentially have an impact on the achievement of those objectives?
2. Does the risk identification process consider changes to external factors that can significantly affect the institution's ability to achieve its objectives?
3. How often is an assessment performed to identify emerging risks to the institution?
4. Does the risk assessment cover all critical financial management areas (e.g. supply chain management, financial sustainability, financial statement preparation, and asset management)?
5. Is the risk assessment used to identify deficiencies in internal control, which are then responded to in a timely manner?
6. What are the main financial management risks faced by the institution? What mitigations have been identified and what is the progress in implementing these mitigations?





Why it is important

Every institution faces a variety of risks from external and internal sources. Risks can be defined as the possibility that an event will occur and adversely affect the achievement of the institution's objectives.

Risk assessment forms the basis for determining how the risks will be managed. Risk assessment also requires management to consider the impact of possible changes in the external environment that may render internal control ineffective.

Knowing the risks and changes faced by an institution, and responding to the risks proactively through implementing appropriate controls, reduce the likelihood of failures in financial management and the non-achievement of objectives.

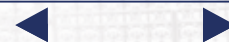


Applicable legislation

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Controls accounting officers and authorities should implement

Policies and procedures should be established and communicated to enable and support the understanding and execution of internal control objectives, processes and responsibilities. The policies should cover all the main areas of decisionmaking, governance and control of the institution.

Standard operating procedures should be in place that specify the actions (including control activities) that should be taken to give effect to policies. The responsibility for executing the policies should be specified and clear.

The policies and procedures should be reviewed periodically to determine their continued relevance and should be updated when necessary.

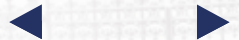


Questions oversight structures and executive authorities could ask to obtain assurance

1. Provide a register of all the policies of the institution. Based on the content of the register, questions can be asked to assess the completeness of the policies.

The standard policies that should be in place are often defined in legislation; but in general, the main financial management policies should deal with the following:

- Revenue (e.g. billing and taxes)
- Supply chain management
- Making payments
- Asset management
- Remuneration of employees
- Subsistence and travel



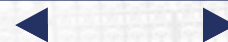


Questions oversight structures and executive authorities could ask to obtain assurance (continued)

- Overtime
- Allowances (including acting allowances)
- Investments
- Debt collection

Questions can also be asked about the typical human resources-related policies, such as:

- Recruitment
 - Performance management
 - Disciplinary processes
2. Are there any long-outstanding draft policies that have not been approved by leadership?
 3. How often should the policies of the institution be reviewed? Are these timelines adhered to?
 4. Are documented standard operating procedures in place for all financial management processes of the institution?
 5. If it was found (by the external auditors (AGSA), internal audit unit or another institution) that there are significant control deficiencies in a process of the institution:
 - a. Did a policy of the institution provide the requirements for dealing with the specific matter? If a policy was in place, why was it not adhered to?
 - b. Was a documented standard operating procedure in place that defines and describes the required control activities and who is responsible for them? If a procedure was in place, why was it not adhered to?
 - c. What actions are being taken to improve the process?





Why it is important

The implementation of controls can only be successful if the control activities are defined, communicated and built into an official's day-to-day activities.

Policies and procedures are the vehicle for management to communicate their expectations of control and to hold officials accountable for implementation.

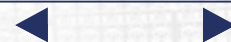


Applicable legislation

Section 38(1)(a)(i) of the PFMA prescribes that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 51(1)(a)(i) of the PFMA states that an accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 62(1)(c)(i) of the MFMA stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.





Controls accounting officers and authorities should implement

An institution that demonstrates a commitment to competence should ensure that they attract and retain competent officials and invest in their continuous upskilling. Effective human resource management should be implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Job descriptions that detail expectations in terms of knowledge, skills, expertise and credentials needed to effectively carry out responsibilities should exist for each position (e.g. detailed job descriptions for financial reporting, performance reporting and compliance reporting positions).

The skills and competencies of officials should be evaluated regularly to establish whether they are still relevant and adequate to carry out the institution's objectives.

The institution should provide training to officials aimed at improving and maintaining the core skills and competencies required. Performance agreements should be in place to define the responsibilities of officials and what they will be held accountable for.

Officials' performance should be regularly monitored and evaluated based on signed performance agreements to identify areas of improvement and areas where officials are performing well.

The institution should have a process in place to reward and retain officials who are performing well.

Management should identify situations where the skills and experience of outsourced service providers (consultants) are required to assist in achieving the institution's objectives. Controls should be put in place to monitor the performance of consultants and to ensure that skills are transferred to the officials in the division where outsourced services are utilised.





Questions oversight structures and executive authorities could ask to obtain assurance

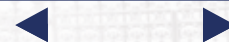
1. Is a human resource plan in place that addresses the skills and qualifications required from all levels of officials, retention (succession planning), development of officials' skills (training), etc.?
2. Are vacancies and stability monitored for key officials? Are vacancies, capacity and resourcing monitored in key divisions?
3. Which key positions are currently vacant? How long have they been vacant and what steps are being taken to fill the positions?
4. Is there a strategy/policy in place to regulate the appointment and monitoring of consultants?
5. Are consultants contracted for functions where officials are also employed to perform the same function? Why was a consultant deemed necessary and how is it being ensured that skills are transferred?
6. What has the staff turnover been in the past year for the institution, senior management and specific divisions (e.g. finance)? What is the reason for the high/low turnover?



Why it is important

The effectiveness of control activities is dependent on skilled and experienced officials. Controls can also be automated but a skilled individual will still be required to manage the information technology controls or monitor the reports from the system to identify and respond to anomalies and errors.

Vacancies and prolonged acting periods create risks in the form of inadequate segregation of duties and a short-term approach toward implementing control.

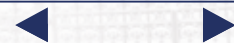




Applicable legislation

The Public Service Act and Chapter 4 of the Public Service Regulations prescribe how employment matters should be dealt with at departments.

Chapter 7, part 4 of the Municipal Systems Act prescribes the requirements for staff matters at municipalities.





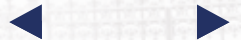
Controls accounting officers and authorities should implement

Independent assurance providers are those that independently look at the status of internal control and risk in order to provide an objective assessment to senior management and the AO/AA. The external auditors (AGSA) are independent assurance providers, but the internal audit unit and the audit committee are well placed internally to provide the required assurance.

There should be an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

The audit committee should promote accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

Management should address the findings and recommendations from the internal audit unit and the audit committee. They should also develop and monitor the implementation of action plans to address any internal control deficiencies identified.





Questions oversight structures and executive authorities could ask to obtain assurance

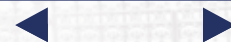
1. Has an internal audit unit been established?
2. Does the internal audit unit have enough competent, experienced and independent staff to conduct separate evaluations of the institution's internal control?
3. Does the internal audit unit communicate information about the strengths and deficiencies in internal control and make recommendations for improving internal control promptly to enable management to take corrective action?
4. Does management implement the internal audit recommendations?
5. Is an audit committee in place? What is the role of the audit committee?
6. How do the AO/AA make use of the expertise, advice and recommendations of the audit committee?
7. If it was found that the financial statements or performance report of the institution was not credible or that the institution materially did not comply with legislation:
 - a. Were these deficiencies also identified by the internal audit unit and/or the audit committee?
 - b. If it was identified, why was it not addressed?
 - c. If not identified, why not?
8. Provide the latest report of the audit committee and the internal audit reports for the past year. How are the matters highlighted in these reports being addressed?



Why it is important

The AO/AA receive assurance from the senior management of the institution that controls are in place and that risks are managed. Senior management performs a supervisory or review function but in most part also relies on the assurance they receive from their subordinates that all is well.

Independent assurance providers provide an objective view of the status of internal control. The audit committee along with a strong internal audit unit is best placed to do so, as a result of their independence to identify and promptly act in situations where management overrides controls or deviates from expected standards of conduct.





Applicable legislation

Section 38(1)(a)(ii) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77.

Section 51(1)(a)(ii) of the PFMA prescribes that an accounting authority for a public entity must ensure that the public entity has and maintains a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with the regulations and instructions prescribed in terms of sections 76 and 77.

Section 62(1)(c)(ii) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of internal audit operating in accordance with any prescribed norms and standards.

Section 166(1) of the MFMA requires each municipality and each municipal entity to have an audit committee.

