Preventative control guides | GUIDES 1-3

PREVENTATIVE CONTROLS

INTRODUCTION & ORGANISATIONAL LEVEL

SEPTEMBER 2020

AUDITOR-GENERAL
SOUTH AFRICA

AUDITOR-GENERAL'S FOREWORD

Re-establishing accountability

In the most recent times, South Africans have been numbed by the staggering numbers of wasteful, fruitless, unauthorised and irregular expenditure. This is the type of expenditure that should not be tolerated by citizens whatever technical justifications are attached to their occurrence. The very existence of such expenditure suggests that those that persistently incur it, are not bothered for as long as there is no accountability or consequences.

As a result, the country has been exposed to many projects that are abandoned midstream. Suppliers are being paid far more than what they were initially engaged for. Extensions and variations on contracts without following prescribed regulations are prevalent and pervasive. There is a widespread lack of proper and verifiable documentation to substantiate commitments and transactions entered into.

The many laws that govern public finances in South Africa are all clear as to the responsibilities of those charged with the administration and superintendence of these finances. They even stretch to the extent of prescribing certain sanctions should deviant behaviour persist. The leadership outside the administrative functions are assigned the most significant role, with a clear emphasis on preventing and correcting wrongdoing and the flagrant disregard of financial management disciplines.

With 15 years of persistent disregard of our audit findings and recommendations, the amendment of the Public Audit Act became the only plausible option left on the table. This step was preceded by many years of initiatives by the audit office – from door-to-door campaigns at all municipalities between 2009 and 2012 to regular briefings of all ministers, accounting officers, members of parliament, premiers, members of executive councils, municipal councils, audit committees, accounting authorities and various other bodies across the country. At this point, impunity was beginning to take centre stage as evidenced through the audit outcomes. **Impunity cannot coexist with accountability.**

The recently amended Public Audit Act introduces the concept of a material irregularity. It means that whenever the auditor-general performs an audit, the staff on the audit must satisfy themselves, through various tests of transactions, account balances and systems of control, that there has been no non-compliance or contravention of a financial statute; that the entity is not exposed to situations of fraud which could result in a financial loss or the loss of a public asset; or that the entity is not deprived of providing certain services due to the financial losses incurred. The auditor-general is empowered, once a material irregularity has been identified or is suspected during an audit performed under this act, to refer any such material irregularity to a relevant public body for investigation, take appropriate legally binding remedial action and/or issue a certificate of debt where an accounting officer or accounting authority has failed to comply with the remedial action.

However, if the whole of government invests in activating preventative controls across the key areas of accountability, it will not be necessary to set in motion these new powers. If properly designed and implemented, such controls will detect most material irregularities that could result in a financial loss. These controls are proactive and are an eloquent expression of the key guards being at their posts at all times. This is relatively cheaper than relying on investigations that will be triggered after money has changed hands in ways that are not credible or transparent. Preventative controls promote transparency, strengthen accountability, and are predictable with known expected outcomes. In essence, preventative controls are an invincible fortress against all possible abuses of the public purse.

Once these controls are in place and are diligently pursued, there will be more resources available to do most of the things that citizens aspire to or government allocates money towards. In order for a regime of preventative controls to see the light of day, a strong tone at the top and an ethical culture must be the concrete foundation on which such a discipline is built. This requirement is no different from what should be in place if the amended powers of the auditor-general are to have a lasting effect. Where preventative controls are implemented with diligence, they become a natural source of consequences. So there will be no need to debate so-called 'consequence management' – consequences will simply be part of the outcome.

Strong preventative controls create tension – especially when consequences are part of the deal. It is these positive and progressive tensions that must be embraced as they make preventative controls work for the entire value chain.

We developed these guides to further assist and empower accounting officers and accounting authorities to invest in preventative controls to stem the tide of misappropriation of funds and to re-establish accountability as a cornerstone of our democracy.

Kimi Makwetu
Auditor-General of South Africa

MESSAGE FROM THE NATIONAL TREASURY

Accountability is one of the cornerstones of any democratic state, its economic stability and its economic growth prospects. South Africa is no different!

A lot of the work that the National Treasury does – whether it is working with the Accounting Standards Board to create world-class accounting pronouncements, providing guidance or building capacity – aims to provide government with tools and processes that will build and strengthen accountability. 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. Preventative controls are intended to empower management to identify the risks of misappropriation, fraud and corruption before a transaction takes place. It provides accounting officers with a toolkit of possible solutions to make preventative controls a reality at departments, municipalities and entities throughout government, creating a fresh new mindset of managing public resources, based on the old adage of 'prevention is better than cure'. I strongly encourage accounting officers to use these guides as a basis for their day-to-day activities, in order to create a strict culture of accountability throughout the whole of government.

I thank the auditor-general and his office for this valuable contribution to the better management of public resources and acknowledge the importance of the National Treasury and the Auditor-General of South Africa working shoulder to shoulder in our relentless pursuit of good public sector financial management.

Dondo Mogajane
Director-General: National Treasury

Notes

Importance of preventative controls | GUIDE 1

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.

Preventative controls

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.

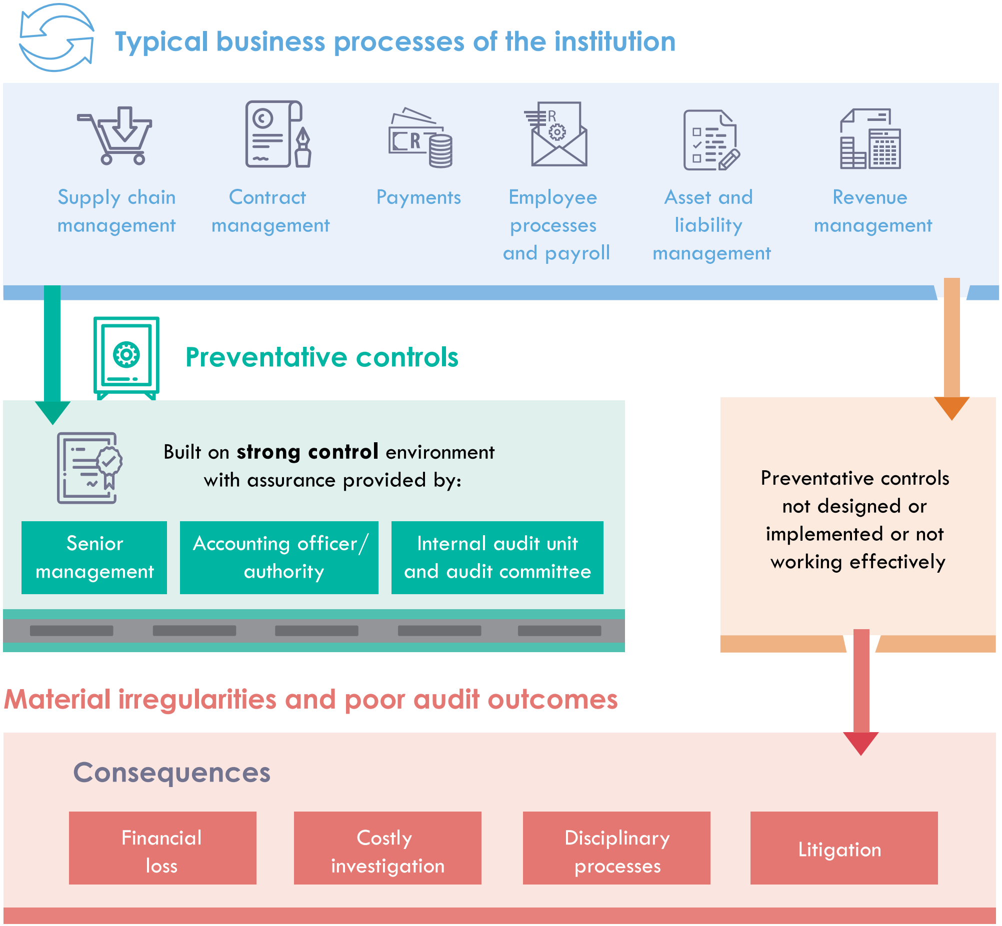
Internal controls can be categorised as preventative controls, detective controls and corrective controls. Preventative controls are the controls designed and implemented by management to avoid threats to the objectives of the institution materialising. Detective and corrective controls focus more on 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
Payments
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 is in 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).

Tone and control culture | GUIDE 2

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

1. A demonstrated commitment to integrity and ethical values

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.

2. *Accounting officers and authorities provide independent oversight*

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.

3. Building and maintaining a strong control culture

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.]

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

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.

4. Implementing effective consequences

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?

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

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.

Institutionalised internal controls | GUIDE 3

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

1. *Implement suitable risk management*

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)?

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

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

Section 38(1)(a)(i) of the Public Finance Management Act (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 requires an accounting authority of a public entity to 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) 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.

2. *Establish and communicate policies and procedures*

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 decision-making, 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

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

- Remuneration of employees
- Subsistence and travel
- 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.

3. Demonstrate commitment to competence

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.

4. Use assessments of independent assurance providers

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?

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

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.