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Status of internal control

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What are internal controls?

Internal controls are processes and measures instituted by an auditee to:

- ensure that it meets its mandated objectives
- conduct its business in an effective, efficient and economical manner
- safeguard its assets and resources
- deter and detect errors, fraud and theft
- ensure the accuracy and completeness of its accounting and performance information
- produce reliable and timely financial and non-financial reports
- ensure compliance with legislation and adherence to its policies and plans
- promote accountability and transparency.

Good **internal control** is the key to ensuring that auditees deliver on their priorities in an effective, efficient and economical manner. It will also ensure that auditees produce quality financial statements and performance reports, and comply with applicable legislation – especially in the area of procurement and contract management. It is the responsibility of accounting officers, chief executive officers, senior managers and officials to implement and maintain effective and efficient systems of internal control.

Figure 1 and table 1 show the status of the different drivers of internal control and their overall movement over the past four years. We determined the movements taking into account either increases in good controls or reductions in controls requiring intervention.

Figure 1: Drivers of internal control

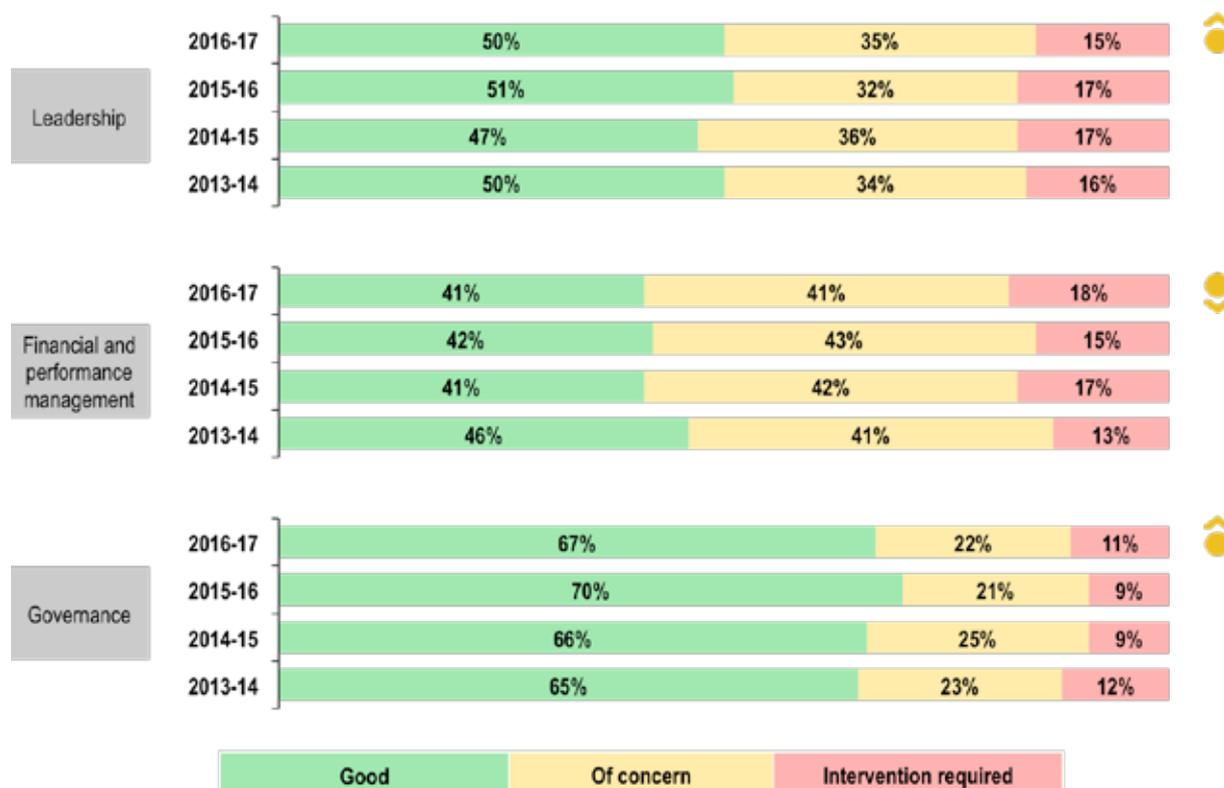


Table 1: Progress made in improving drivers of internal control in national and provincial government over four years

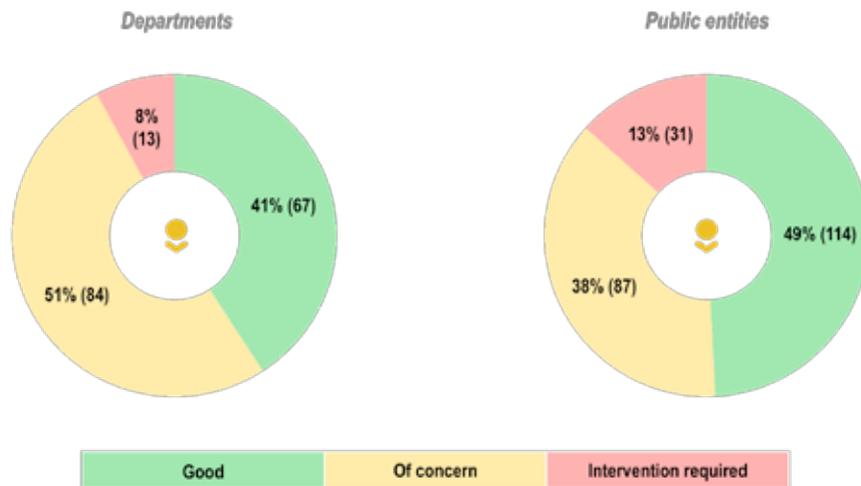
| Portfolio | Leadership | Financial and performance management | Governance |
|-------------------|------------|--------------------------------------|------------|
| National auditees | | | |
| Eastern Cape | | | |
| Free State | | | |
| Gauteng | | | |
| KwaZulu-Natal | | | |
| Limpopo | | | |
| Mpumalanga | | | |
| Northern Cape | | | |
| North West | | | |
| Western Cape | | | |
| Total | | | |

As illustrated in figure 1, two of the three drivers of internal control had shown a slight improvement since 2013-14, with financial and performance management showing a slight regression over the four-year period. Leadership was the only driver of internal control that had improved slightly since the previous year, while financial and performance management as well as governance slightly regressed. This corresponds to the limited improvement in audit outcomes as detailed in section 6.1.

The lack of overall improvement was the result of the progress made by some national and provincial auditees being offset by the regression and stagnation of other auditees, as seen in table 1.

Figure 2 shows the overall status of internal control for departments and public entities.

Figure 2: Status of internal control of departments and public entities



Since the previous year, the overall status of departments and public entities that we have assessed as good had regressed slightly from 44% to 41% and from 50% to 49%, respectively. All the public entities in North West were assessed as requiring intervention, while the Free State had the highest number of departments in this category during 2016-17. A contributing factor to the regression at public entities was that 21% of the public entities did not have a **chief executive officer** at year-end – an indication of instability in the management of these entities and a lack of attention to their control environment.

Basic controls

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We discuss five of the seven basic controls that should receive specific attention in the remainder of this section, and discuss HR management and IT controls in sections 11 and 12, respectively. Figures 3 to 7 show the movement in these five basic control areas over the past four years.

The following legend applies to the figures shown:

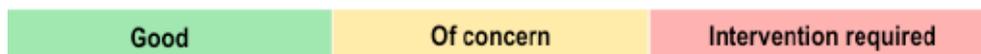
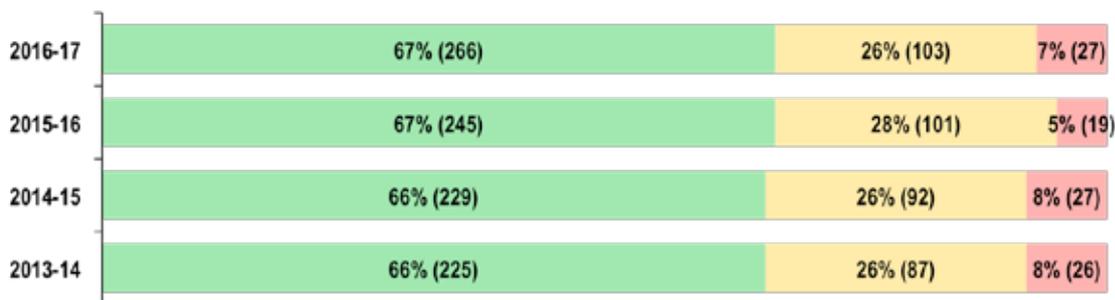


Figure 3: Effective leadership



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

Effective leadership controls had slightly improved over the four-year period, but slightly regressed from the previous year. Effective leadership controls were more prominent at public entities (72% – a slight regression from the previous year’s 70%) than at departments (63% – a slight improvement from the previous year’s 62%).

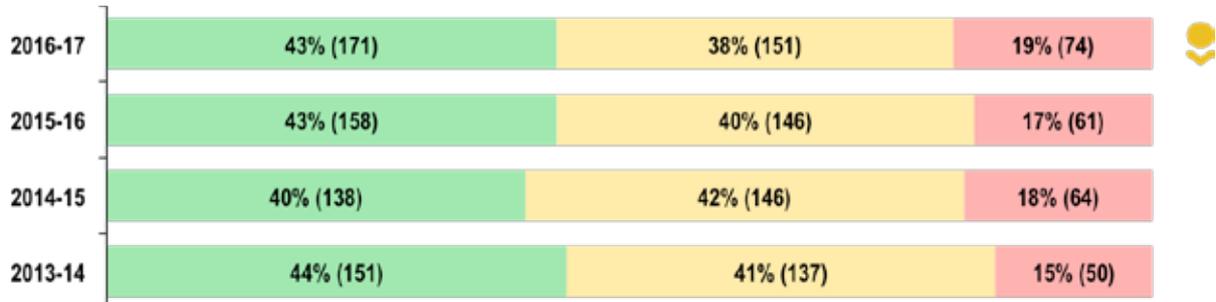
Figure 4: Audit action plans



Developing action plans and monitoring their implementation to address identified internal control deficiencies are key elements of internal control that are the responsibility of heads of departments, chief executive officers and their senior management teams.

The controls relating to audit action plans had regressed slightly over the four-year period and since the previous year. The reason for this was that in many cases audit action plans responded only to our audit findings and did not always address the associated root causes, while not all audit action plans that had been drawn up were fully implemented.

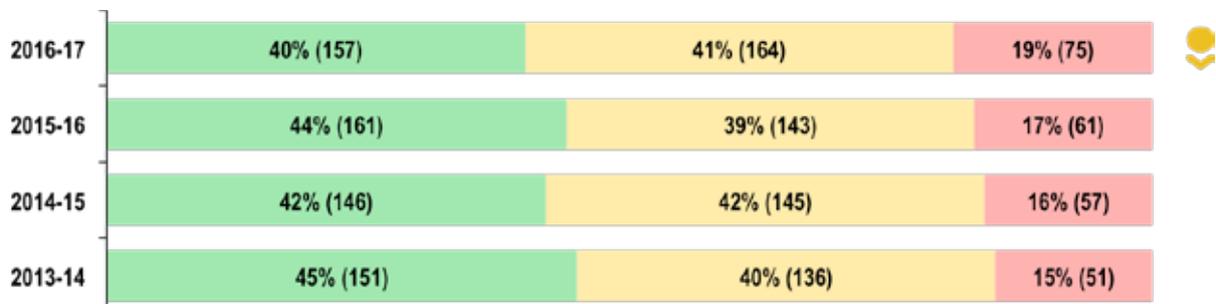
Figure 5: Proper record keeping



Proper and timely record keeping ensures that **complete, relevant and accurate information** is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affects all areas of the audit outcomes.

Record-keeping controls had slightly regressed over the four-year period as well as since the previous year.

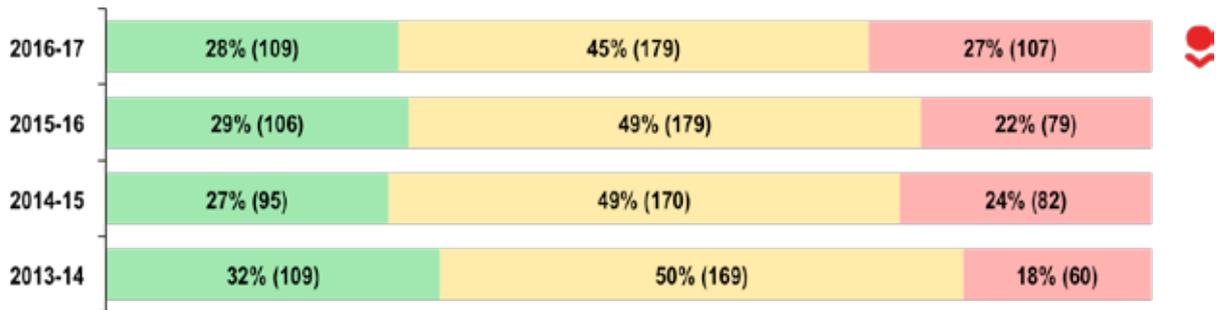
Figure 6: Daily and monthly controls



Controls should be in place to ensure that **transactions are processed in an accurate, complete and timely manner**, which in turn will reduce errors and omissions in financial and performance reports.

There had been a slight regression in the daily and monthly controls from 2013-14 as well as since the previous year. Good controls had been established at 34% of the departments and 44% of the public entities.

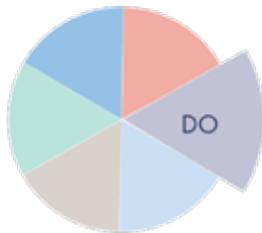
Figure 7: Review and monitor compliance



Auditees should have mechanisms that identify applicable legislation as well as changes to legislation, assess the requirements of legislation, and implement processes to ensure and monitor compliance with legislation.

The controls relating to **monitoring compliance** had regressed over the four-year period but only slightly so from the previous year. These controls continued to be the poorest control area at auditees. Many auditees did not comply with legislation, as detailed in section 9. This indicates that the internal controls of most auditees not only failed to prevent non-compliance with legislation, but also failed to timeously detect the deviations – some of which were only detected during, and responded to following, our audits. In 2016-17, good controls had been established at 27% of the departments and 28% of the public entities.

Conclusion



Strong internal controls are the key to unlocking improvements in national and provincial government. If underlying weak internal controls are not addressed, it increases the risk of the misappropriation of funds, unreliable financial and performance reporting as well as non-compliance with legislation. On the other hand, a sound internal control environment that is monitored in a robust manner by the different assurance providers (as further discussed in section 13) will enable **effective, efficient and economical service delivery, accurate and reliable financial and performance reporting** as well as **compliance with legislation**. This in turn will facilitate accountability and transparency in the management of public funds.