

## **15** Recommendations

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All role players in national and provincial government should continue to work together to strengthen the capacity, processes and controls of departments and public entities, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery. The recommendations that follow are consistent with our messages over the past years and are grouped according to the drivers of internal control, as well as linked to the plan+do+check+act cycle.

### Leadership

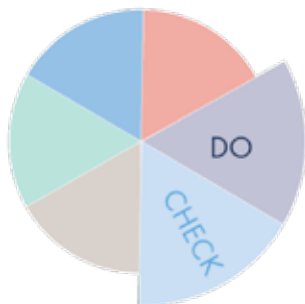


1. In order to improve and sustain audit outcomes, auditees require effective leadership (political and administrative) that is based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the auditee.

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

- Implement the required formal codes of conduct and regularly communicate their existence and continued applicability to officials.
  - Monitor key officials' performance regarding the maintenance of adequate systems of internal control that ensure credible monthly financial reporting, reliable reporting against predetermined objectives, and compliance with key legislation.
  - Establish clear lines of accountability.
  - Take corrective or disciplinary action against key officials for misconduct.
  - Honour commitments for interventions made to us in response to audit outcomes.
2. Policies and procedures should be applied fully to enable auditees to implement **consequence management** for officials who fail to comply with the applicable legislation, while appropriate and timely action must be taken against transgressors. A less tolerant approach should be followed by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences being instituted against those who intentionally fail to comply with legislation.
  3. Executive authorities and accounting officers or authorities should ensure **stability in key senior management positions**, specifically those of accounting officers, chief financial officers and heads of SCM units. The ability to attract and retain competent officials remains a major challenge, but is key to consistent performance and a strong control environment.
  4. Accounting officers and authorities should insist on **credible in-year reporting** on financial and service delivery performance and in particular on the progress and achievement of targets of key projects.
  5. Government should work towards a **consistent strategy** for SOEs, which includes firm commitments to support viable SOEs where the economic climate is affecting their sustainability. The **oversight** by the departments, ministers and parliamentary committees responsible for the SOEs should include strong in-year monitoring and ensuring that governance policies and practices are in place. Boards and chief executive officers should be **held accountable** for the deliverables and financial results of the SOEs, and there must be immediate and effective consequences for poor performance and transgressions.

## Financial and performance management



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

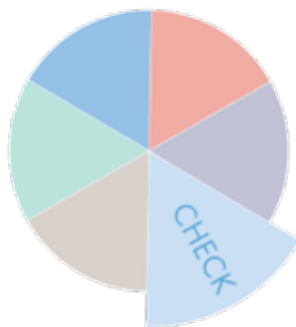
Some of the matters requiring attention from senior management include the following:

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

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

- Devise action plans to specifically address the external and internal audit findings.
- Assign clear responsibilities to specific staff members to carry out action plans and ensure that these responsibilities are executed effectively and consistently through monitoring.
- Develop audit action plans early enough in the financial year to resolve matters by year-end.
- Ensure that audit action plans address all three areas of audit outcomes, namely qualifications, findings on performance reports and non-compliance with legislation.
- Focus the actions to be taken on the root causes of findings, thereby ensuring that sustainable solutions are found.

6. Management should specifically focus on improving the **IT control environment**. The following actions should be taken:
- Chief information officer and IT manager positions should be filled with appropriately qualified and experienced persons, and the shortage of IT skills on lower levels should be addressed.
  - Policies, standards and procedures should be sufficiently documented, implemented and monitored for compliance. Continued efforts should be made towards implementing the IT governance framework and continuous monitoring of the implementation and operating effectiveness of governance structures already established should be prioritised.
  - The weaknesses in security management, user access management and IT continuity should also be addressed before the risks created by these weaknesses materialise.
  - Management should ensure that service providers are monitored on a regular basis and that corrective actions are taken against them where deviations from the expected quality and standards are detected. A plan for the transfer of skills should be required when vendors bid for work at auditees.
  - Reporting on key service delivery at auditees needs to be improved by investing in application systems with built-in key automated controls that can provide additional assurance to the public and those charged with governance.
7. Management should ensure that the arrangements with **implementing agents** are clear in terms of responsibilities and deliverables, including the SCM principles to be followed and the accounting to be done on the projects. The activities and deliverables of implementing agents should also be monitored.
8. The **financial position of departments** will only improve if expenditure is more effectively monitored in-year, when incurred (and not just when paid), and by improving systems to promptly account for liabilities incurred. At both departments and public entities, the process and controls to ensure effective **revenue collection and payment of creditors within 30 days** should receive attention.
9. Reducing the cost of services provided is part of the solution for **improved financial health**. We believe that more could be done with less if, among other cost-saving initiatives, a concerted effort is made to curtail the extent and costs of using external providers. The SCM process should be used effectively to procure goods and services from the best-qualified providers at the best price – and only if the need cannot be addressed internally or through other means.
10. The capacity and capability of departments and public entities **to plan, manage and report on service delivery** need urgent and increased attention. **Project management** is required for key projects to succeed and auditees should be guided and supported in a more focused manner in this regard.
11. Departments responsible for key programmes of government should implement robust financial and performance management systems that will ensure credible monitoring and reporting of financial and non-financial information. Corrective steps should be taken timeously if the monitoring process highlights any project failures and targets not being achieved.



1. Executive authorities, accounting officers or authorities and senior managers should implement the recommendations of **internal audit units and audit committees** and use the opportunity to interact with these bodies to assist in improving governance and control.
2. The accounting officer or authority supported by the executive authority should focus on the following:
  - Ensure that there is an **adequately resourced and functioning internal audit unit** overseen by the audit committee that can identify internal control deficiencies and recommend corrective action effectively.
  - Ensure that the **audit committee promotes accountability and service delivery** through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.
  - Implement **appropriate risk management activities** to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
3. Areas where these governance structures can jointly **make significant contributions** to the audit outcomes include the following:
  - Encourage senior management to submit regular financial and performance reports for audit committee review.
  - Assist with designing the audit action plan and monitor the implementation thereof.
  - Review financial statements and performance reports before submission for auditing to identify material misstatements.
  - Monitor the appropriateness and timeliness of actions taken by management in instances of known transgressions by officials.
  - Escalate matters of concern raised by the audit committee to the executive authority to be dealt with as appropriate.
  - Track and prioritise items that could derail the audit outcomes.
  - Play a more active and effective role in tracking the progress made in implementing management commitments in respect of previously raised IT audit findings and in improving IT controls generally.
4. The audit committee chair needs to play a leading role in ensuring that the committee remains focused on ensuring that **management fulfils its responsibilities**.
5. Departments that **oversee public entities** should ensure that they receive credible in-year reporting on the financial health of the public entities and timeously intervene or provide support where problems are identified.

## Conclusion

In order for national and provincial government to position itself to achieve the goals as set out in the MTSF, it is vital that the leadership and management diligently execute their responsibilities to enable a professionalised national and provincial government that embraces the concepts of transparency and accountability. The enabling role of the accounting officer and the oversight functions of executive authorities will play an important role in creating an environment where effective, efficient and economical service delivery and a clean audit are natural products of performing the correct actions. By implementing these simple practical steps, substantially improved financial management and performance reporting can be brought about. This is a goal within reach and a key ingredient in building trust in the credibility and accountability of national and provincial government and its capacity to deliver services to citizens. All auditees should keep striving to improve accountability, good governance and consequence management to attain or maintain clean administration.

In conclusion, we again draw your attention to the plan+do+check+act cycle that can be used when implementing our recommendations.

Figure 1: Plan+do+check+act cycle – committing to accountability

