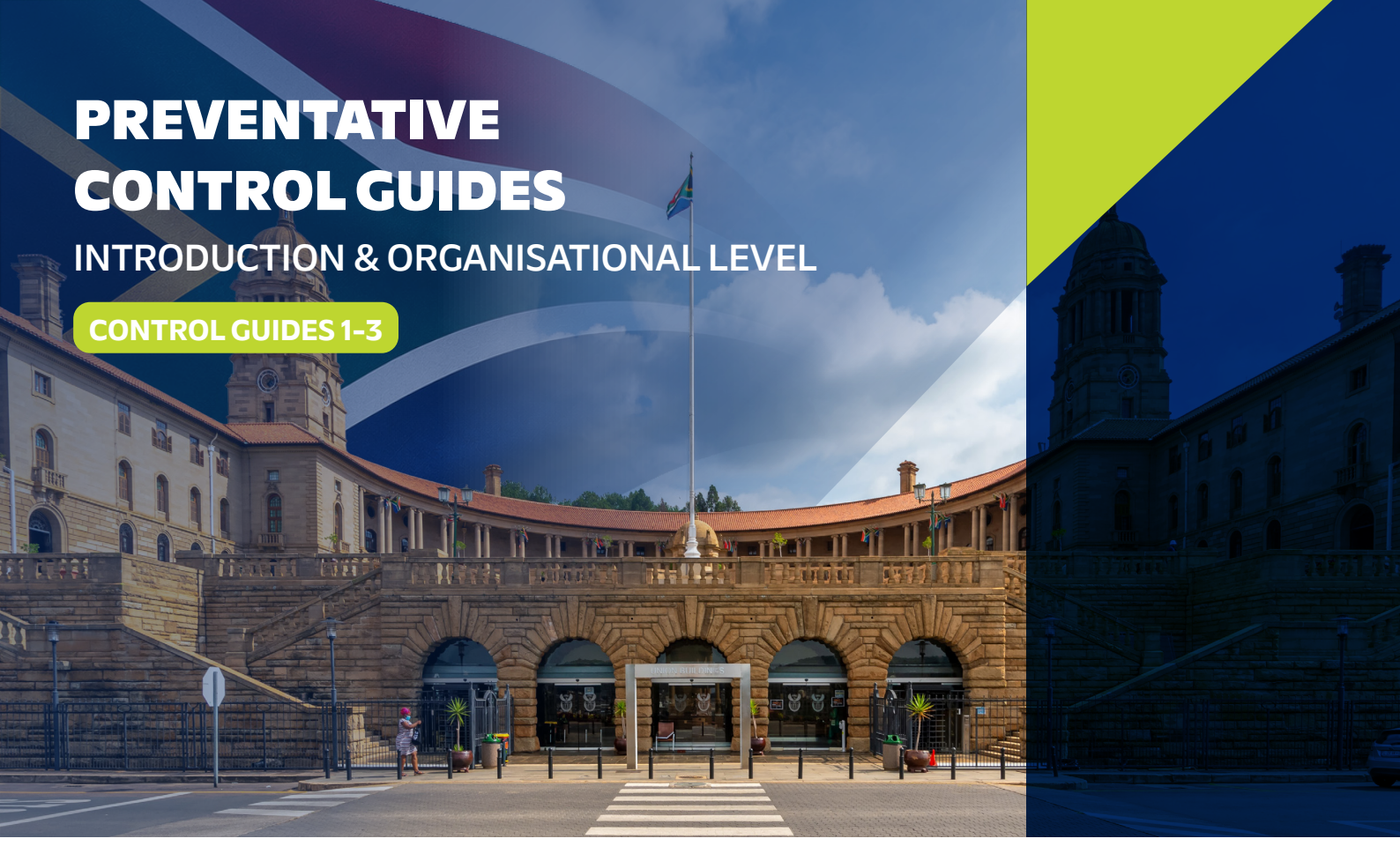
PREVENTATIVE CONTROL GUIDES

INTRODUCTION & ORGANISATIONAL LEVEL

CONTROL GUIDES 1-3



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AUDITOR-GENERAL SOUTH AFRICA

115 YEARS 1911 - 2026

PREVENTATIVE CONTROL GUIDES

This guide forms part of a series of preventative control guides developed to support a stronger system of accountability. The series of guides provides practical insights to help leadership, management and oversight structures strengthen governance, effectively manage risks and create environments where accountability can thrive.

GUIDES 1–3: INTRODUCTION & ORGANISATIONAL LEVEL

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Implement project management to ensure infrastructure is completed timeously, within budget and at required quality
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AUDITOR-GENERAL'S FOREWORD

Good governance does not begin when problems are detected; it begins when risks are prevented.

Congratulations on your election as leaders of South Africa's 7th local adminsitration. As custodians of public resources and servants of our democracy, you have been entrusted with an important responsibility: to ensure that public institutions deliver on their mandates, use resources responsibly and improve the lives of the citizens they serve. We wish you every success as you embark on this important journey.

As a chapter 9 institution, the Auditor-General of South Africa (AGSA) has a constitutional mandate to strengthen democracy by auditing and reporting on the use of public resources. Through our audits, we provide independent assurance and insight on how well government institutions are managing public funds, delivering services and meeting their obligations to citizens. Equally important, however, is our commitment to supporting accountability through practical guidance that helps leaders prevent failures before they occur.



Tsakani Maluleke
Auditor-General

This guide forms part of a series of preventative control guides developed to support a stronger system of accountability across the public sector.

It provides practical insights to help leadership, management and oversight structures strengthen governance, effectively manage risks and create environments where accountability can thrive.

The AGSA's message has remained consistent throughout the years: institutions that perform well are invariably supported by strong control environments, ethical leadership and a culture of accountability. Such institutions understand that good governance is not achieved through corrective action alone. It is also achieved through deliberate and sustained efforts to prevent problems from occurring in the first place.

Therefore, preventative controls are among the most important building blocks of effective governance. They are the policies, processes, disciplines and behaviours that reduce the likelihood of failures occurring and that protect institutions against threats to their objectives. Unlike detective controls, which identify and correct problems after they have occurred, preventative controls seek to stop those problems from materialising.

The value of prevention cannot be overstated. When preventative controls are absent or ineffective, institutions become vulnerable to poor-quality financial and performance reporting, non-compliance with legislation, service delivery failures, financial losses and material irregularities. The consequences are often significant. Resources are diverted from service delivery, corrective actions can take years to conclude, investigations are costly and public confidence in institutions is weakened.

The implementation of the amended Public Audit Act has further reinforced the importance of prevention and accountability. The act empowers the AGSA to identify material irregularities, refer matters to relevant public bodies for investigation, take remedial action and, where necessary, issue certificates of debt. While these powers strengthen accountability, they also highlight a fundamental truth: the most effective way to achieve accountability is to prevent losses, non-compliance and harm from occurring.

Leadership remains the single most important component in creating a strong control environment. Effective preventative controls can only flourish where leaders demonstrate integrity, set the right tone, enforce accountability and promote ethical conduct throughout their institutions. When leaders consistently model these values, preventative controls become embedded in organisational culture and are applied in the right way, at the right time — every time.

Accounting officers and authorities carry a legislated responsibility to establish and maintain effective, efficient and transparent systems of financial and risk management and internal control. Oversight structures and executive authorities play an equally important role by holding leadership accountable for the effectiveness of these systems. Together, they form a critical line of defence in protecting public resources and ensuring that institutions deliver on their mandates.

The preventative control guides have been developed to support that collective responsibility. They are intended to equip all roleplayers within the accountability ecosystem with practical guidance on strengthening preventative controls, improving governance and protecting the public purse. When preventative controls are properly designed, implemented and monitored, they safeguard resources, improve performance, enhance public trust and allow institutions to focus on what matters most: delivering meaningful outcomes for citizens.

As we begin this chapter with the leadership of South Africa's 7th administration, we reaffirm our commitment to working alongside you in strengthening accountability, integrity and good governance across the public sector. Together, through principled leadership and a steadfast commitment to effective preventative controls, we can build institutions that are resilient, accountable and worthy of the trust placed in them by the people of South Africa.

Tsakani Maluleke
Auditor-General



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.



IMPORTANCE OF 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 have a legislated obligation as defined in the Public Finance Management Act and the Municipal Finance Management Act 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 accounting officers and authorities 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 accounting officers and authorities, 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 accounting officers and authorities 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 accounting officers and authorities 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

As part of its culture shift strategy, the AGSA has been advocating for a government culture characterised by performance, accountability, transparency and institutional integrity.

The AGSA shares its insights widely and advocates for roleplayers across all spheres of government to play their part in realising this culture shift. The preventative control guides can assist oversight structures and executive authorities in this pursuit.

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 accounting officers and authorities that those weaknesses are being effectively addressed in accordance with their legislated obligations.
- Enable the accounting officers and authorities 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 accounting officers and authorities and their legislated obligations towards good financial and performance management in their institutions.

What we will provide

Our series of preventative control guides covers 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 control: 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 control: 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 accounting officers and authorities.

The full series of preventative control guides is 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 that these controls have been implemented and are working effectively – this is presented as questions to ask the accounting officers and authorities.



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 accounting officers and authorities 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 accounting officers and authorities 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. Request 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 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 accounting officers and authorities 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 accounting officers and authorities 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 accounting officers and authorities do with the information – what questions are asked and how do the accounting officers and authorities satisfy themselves of the integrity of the answers provided?
3. How often do the accounting officers and authorities 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 accounting officers and authorities to ensure that these are addressed?
5. Are the accounting officers and authorities 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 accounting officers and authorities? How were these identified and how will the accounting officers and authorities through their oversight address the deficiencies?



Why it is important

The accounting officers and authorities take overall responsibility for the financial management of an institution and the achievement of its objectives. The actions, directives and focus of the accounting officers and authorities 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 Public Finance Management Act 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 Public Finance Management Act 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 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 enabledthrough 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? Request 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 Public Finance Management Act 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 Public Finance Management Act 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 Municipal Finance Management Act 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 transgression

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. Request 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 Public Finance Management Act 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 Public Finance Management Act 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 or fruitless and wasteful expenditure.

Section 32(2) of the Municipal Finance Management Act 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 Municipal Finance Management Act 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.

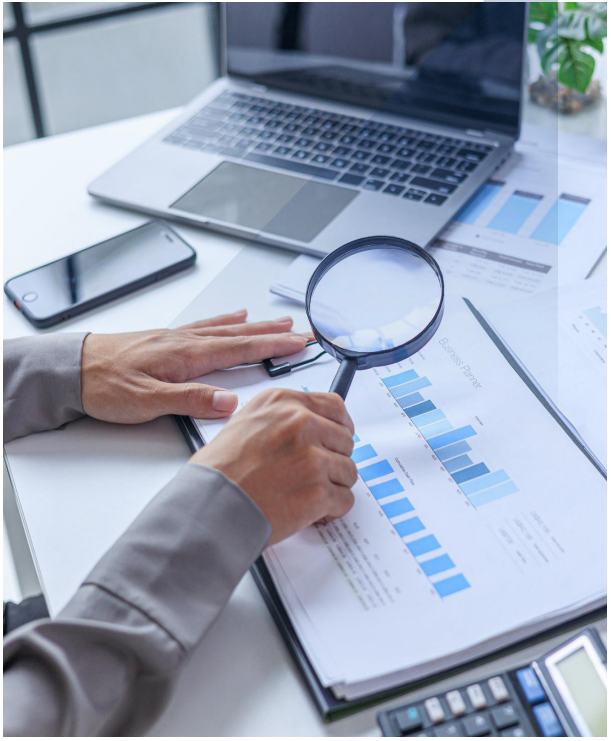
The control environment is the set of standards, processes and structures that provides a basis for carrying out internal control across the institution.

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 that these controls have been implemented and are working effectively – this is presented as questions to ask the accounting officers and authorities.

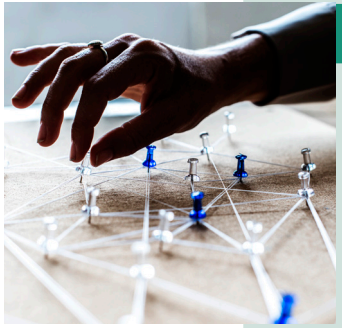


Controls accounting officers and authorities should implement

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 consider 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?
7. 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 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 Public Finance Management Act 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 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

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. Request 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.
2. 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
   - Overtime
   - Allowances (including acting allowances)
   - Investments
   - Debt collection

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

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

- Recruitment
- Performance management
- Disciplinary processes

3. Are there any long-outstanding draft policies that have not been approved by leadership?
4. How often should the policies of the institution be reviewed? Are these timelines adhered to?
5. Are documented standard operating procedures in place for all financial management processes of the institution?
6. 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 Public Finance Management Act 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 Public Finance Management Act 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 Municipal Finance Management Act 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 support the achievement of 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?

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

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?
6. Why was a consultant deemed necessary and how is it being ensured that skills are transferred?
7. 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 accounting officers and authorities.. 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 accounting officers and authorities. 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. Request 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 accounting officers and authorities 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 Public Finance Management Act 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 Public Finance Management Act 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 Municipal Finance Management Act 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 Municipal Finance Management Act requires each municipality and each municipal entity to have an audit committee.

NOTES

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