Reporting on internal control

A South African Experience

Presented by Shelmadene Petzer

April 2012

Reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.
Strategic goals of the AGSA

**Simplicity, clarity, and relevance of messages**
- Objective: Identify root causes and make recommendations in all reports

**Visibility of our leadership**
- Objective: Develop stakeholder relationships so as to encourage clean administration

Simple, clear and relevant messages based on comprehensive reporting

- Analysis of audit outcomes of entire government
- Key control status updates
- Root cause analysis of key control status
- Simple, clear and relevant messages
External visibility of SA SAI leadership

- Quarterly assessments of key controls
- Annual road-shows
- Door to door visits

- Monthly AG column
- Web publications
- Annual media briefings

Key elements of the initiatives to influence audit outcomes

- Escalations of matters for higher impact
- Monitor and evaluate outcomes of stakeholder engagements
- Value-adding interactions with legislatures to deepen their oversight capacity
- Analysis of environment
- General report road shows to share insights and clarify audit outcomes
- Deeper understanding of root causes and environmental challenges
- Value-adding quarterly interactions with executives on root causes, key controls and corrective actions
- Clean administration
- Execute annual audit reporting mandate Focus areas- HR, SCM, IT systems
Analysis of root causes

• It is important to understand the underlying causes or drivers of a finding. This helps ensure that actions taken address the real issue or opportunity, thus preventing or reducing the incidents of reoccurrence as opposed to just providing a one time or short term fix.

• If a root cause is not clear, try asking questions that start with “why” until there are no more questions that can be asked. The answer to the last “why” is probably the root cause of the finding.

• Because there may be many potential root causes, it is important to focus on the key causes. That is, the actions need to address the primary drivers of the findings, and not necessarily all of the potential, yet minor, causes.

• Sometimes the root cause is quite simple or obvious (e.g. management simply did not think about doing something). The auditor should not assume that the root cause is an elaborate or complicated set of circumstances.

• The root cause should be described in concise, direct language. It is typically necessary to share the root causes with the process owner who is typically looking for a brief explanation of why a finding is raised.
### Dashboard Report – Drivers of Internal Control
#### To Achieve Clean Administration

<table>
<thead>
<tr>
<th>No.</th>
<th>Objective</th>
<th>Measurements</th>
<th>Performance</th>
<th>Status</th>
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<tr>
<td>1</td>
<td><strong>GOVERNANCE</strong></td>
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<td><strong>LEADERSHIP</strong></td>
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<td>3</td>
<td><strong>STRATEGY</strong></td>
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<td><strong>RISK MANAGEMENT</strong></td>
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<td><strong>CONTROL ENVIRONMENT</strong></td>
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<tr>
<td>6</td>
<td><strong>PERFORMANCE INFORMATION</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td><strong>SYSTEMS INTEGRITY</strong></td>
<td></td>
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</tr>
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</table>

#### Period Covered:
- PFMA – Jul – Sep’11
- Oct – Dec’11
- Jan – Mar’12

The above assessment of the drivers of internal control does not constitute an audit; it was limited to obtaining an understanding of internal controls in place over

1. The accounting officer/authority is responsible for setting control objectives, ensuring that the required control mechanisms and activities are in place, and for
2. Exercise oversight responsibility regarding financial and enhancing the best interests of the entity
3. Provide effective leadership based

#### Movement from previous assessment:
- 1.b
- 2.b
- 3.a
- 3.b
- 2.d

### Commitments

#### Period Performance
- 1. PFMA
- 2. PFMA
- 3. PFMA
- 4. PFMA

### Assessment

- In progress
- Identified
- Corrected
- N/A
Leadership

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity
- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities
- Develop and monitor the implementation of action plans to address internal control deficiencies
- Establish an IT governance framework that supports and enables the business, delivers value and improves performance.
Financial and performance management

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Implement controls over daily and monthly processing and reconciling of transactions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Review and monitor compliance with applicable laws and regulations
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
- Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.
Auditor’s report

Internal control
I considered internal control relevant to my audit of the financial statements, [name of performance report] and compliance with laws and regulations. [The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for [qualified/adverse/disclaimer of] opinion, the findings on the [name of performance report] and the findings on compliance with laws and regulations included in this report.]

OR
[I did not identify any deficiencies in internal control which we considered sufficiently significant for inclusion in this report.]

Leadership
Financial and performance management
Governance

General Reports as SAI SA’s main reporting vehicle
Three year progress towards clean audit

<table>
<thead>
<tr>
<th>Year</th>
<th>Financially unqualified with no findings</th>
<th>Financially unqualified with findings</th>
<th>Qualified with/without findings</th>
<th>Disclaimed/Adverse with/without findings</th>
<th>Audits outstanding</th>
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<td>45%</td>
<td>18%</td>
<td>13%</td>
<td>2010-11 (343)</td>
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<td>2009-10</td>
<td>5%</td>
<td>45%</td>
<td>18%</td>
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<td>2008-09</td>
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<td>46%</td>
<td>16%</td>
<td>4%</td>
<td>2008-09 (333)</td>
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PFMA 2011-12 – Status of key drivers

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<th>Category</th>
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<th>PFMA 2011-12 Current status</th>
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<td>41% 45% 14%</td>
<td>20% 74% 6%</td>
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<tr>
<td>Financial and performance management</td>
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<tr>
<td>2010-11</td>
<td>33% 39% 28%</td>
<td>21% 74% 5%</td>
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<tr>
<td>Governance</td>
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<tr>
<td>2010-11</td>
<td>53% 30% 17%</td>
<td>15% 77% 8%</td>
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</table>
Audit opinions on AFS – Municipalities

MFMA 2010-11 – Key drivers - Financial management

Leadership

- Effective leadership culture
- Oversight responsibility
- HR Management
- Policies and procedures
- Action plans
- IT governance
- Risk management

Performance and performance management

- Proper record keeping
- Processing and reconciling controls
- Reporting
- Compliance
- IT Systems controls
- Audit committees
- Internal audit
- Risk management

Governance

- Good
- Concerned
- Intervention required
### MFMA 2010-11 – Key drivers: Performance management

<table>
<thead>
<tr>
<th>Leadership</th>
<th>Supervision</th>
<th>HR Management</th>
<th>Policies and procedures</th>
<th>Action plans</th>
<th>IT governance</th>
<th>Proper record keeping</th>
<th>Processing and reconciling controls</th>
<th>Reporting</th>
<th>Compliance</th>
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<td>28%</td>
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<td>28%</td>
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<td>31%</td>
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<td>33%</td>
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<tr>
<td>Concerned</td>
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<td>29%</td>
<td>28%</td>
<td>28%</td>
<td>33%</td>
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<td>36%</td>
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<td>31%</td>
<td>34%</td>
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<tr>
<td>Intervention required</td>
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<td>30%</td>
<td>33%</td>
<td>24%</td>
<td>19%</td>
<td>32%</td>
<td>37%</td>
<td>25%</td>
<td>32%</td>
<td>33%</td>
<td>27%</td>
<td>26%</td>
<td>47%</td>
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### MFMA 2010-11 – Key drivers: Compliance

<table>
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<th>Policies and procedures</th>
<th>Action plans</th>
<th>IT governance</th>
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<th>Risk management</th>
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<tr>
<td>Good</td>
<td>41%</td>
<td>29%</td>
<td>26%</td>
<td>24%</td>
<td>12%</td>
<td>25%</td>
<td>33%</td>
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<td>32%</td>
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<tr>
<td>Concerned</td>
<td>33%</td>
<td>33%</td>
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<td>32%</td>
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<td>32%</td>
<td>23%</td>
<td>45%</td>
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The chart above shows the performance management and compliance key drivers for the MFMA 2010-11 period. The categories include leadership, supervision, HR management, policies and procedures, action plans, IT governance, proper record keeping, processing and reconciling controls, reporting, compliance, IT systems controls, audit committees, internal audit, risk management, financial and performance management, and governance. The colors green, yellow, and red indicate the level of performance: good, concerned, and intervention required, respectively.
THANK YOU FOR YOUR TIME