

## Reporting on internal control

### A South African Experience

*Presented by Shelmadene Petzer*

*April 2012*



*Auditing to build public confidence*

AUDITOR-GENERAL  
SOUTH AFRICA

## 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

100 YEARS  
1911-2011

**Simplicity,  
clarity, and  
relevance  
of  
messages**

- Objective: Identify root causes and make recommendations in all reports

**Visibility  
of our  
leadership**

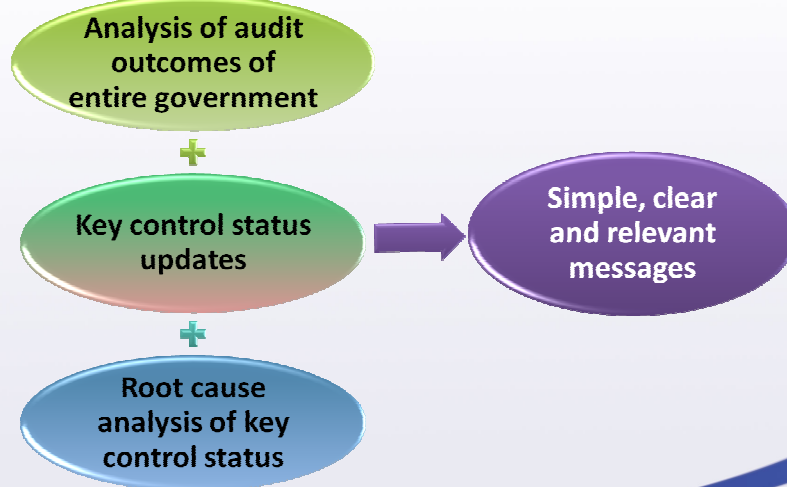
- Objective: Develop stakeholder relationships so as to encourage clean administration

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## Simple, clear and relevant messages based on comprehensive reporting

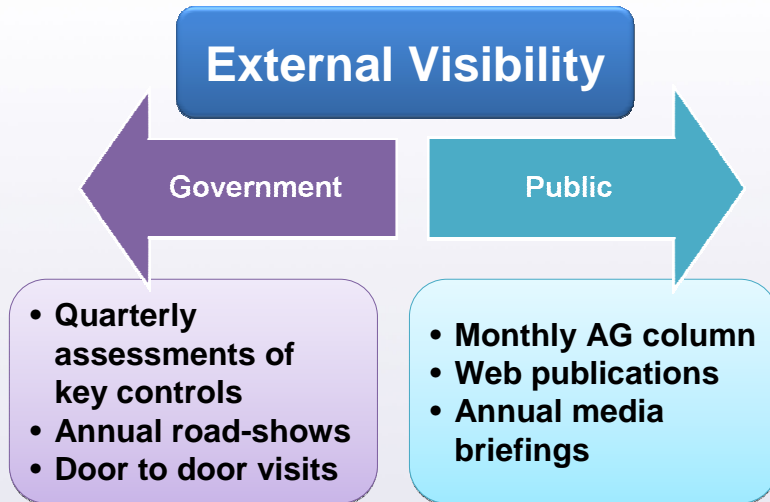
100 YEARS  
1911-2011



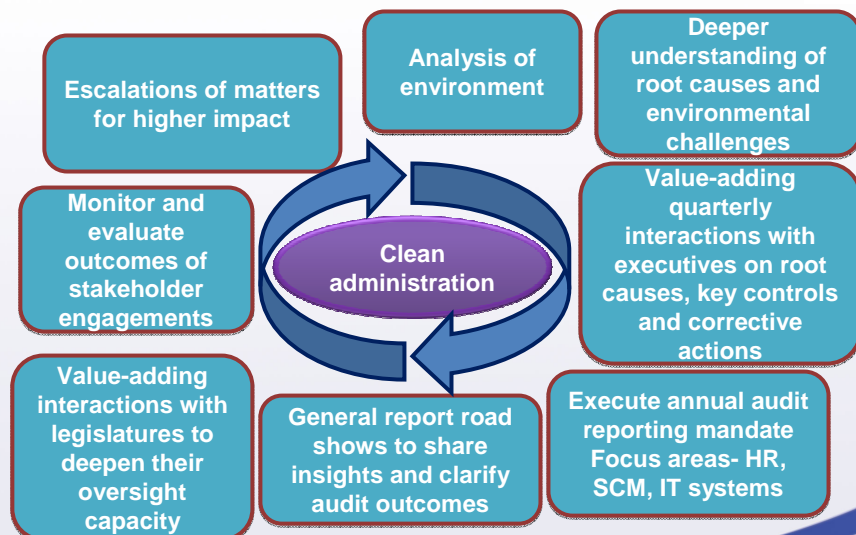
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## External visibility of SA SAI leadership



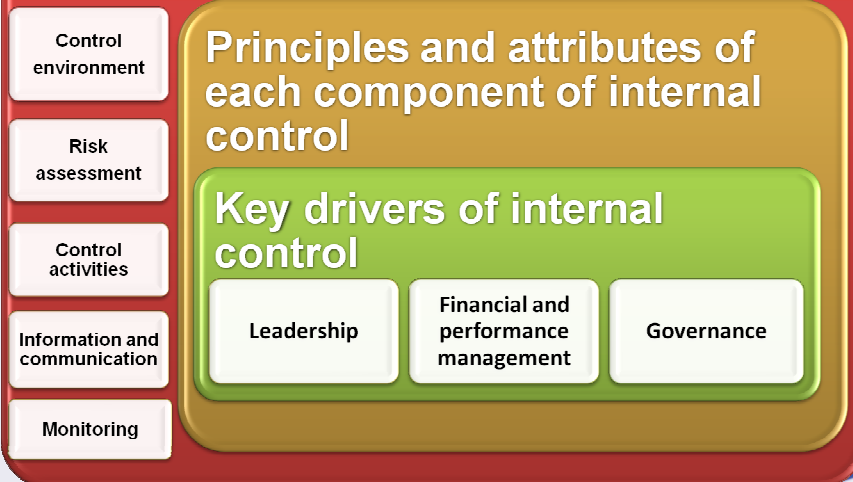
## Key elements of the initiatives to influence audit outcomes



## Root cause analysis

100 YEARS  
1911-2011

### Components of Internal control



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## Analysis of root causes

100 YEARS  
1911-2011

- 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.

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DASHBOARD REPORT – DRIVERS OF INTERNAL CONTROL  
TO ACHIEVE CLEAN ADMINISTRATION



AUDITEE NAME:	PFMA	Apr – Jun'11	Jul – Sep'11	Oct – Dec'11	Jan – Mar'12	Apr – Jun'12	Jul'11 – Jun'12
ASSESSMENT PERIOD COVERED: (Tick as appropriate)	MFMA	Jul – Sep'11	Oct – Dec'11	Jan – Mar'12	Apr – Jun'12	Jul'11 – Jun'12	
No. DRIVERS	Improved						
	Unchanged						
	Regressed						
<p><b>ASSESSMENT</b></p> <p>Good <span style="color: green;">●</span> In progress <span style="color: yellow;">●</span> Intervention required <span style="color: red;">●</span></p> <p>Financial Performance Compliance</p>							
<b>LEADERSHIP</b>							
<p><b>1.a Movement from previous assessment:</b></p> <p>1.a Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity</p> <p>1.b Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls</p> <p>1.c Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored</p> <p>1.d Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities</p> <p>1.e Develop and monitor the implementation of action plans to address internal control deficiencies</p> <p>1.f Establish an IT governance framework that supports and enables the business, delivers value and improves performance</p>							
<b>FINANCIAL AND PERFORMANCE MANAGEMENT</b>							
<p><b>2.a Movement from previous assessment:</b></p> <p>2.a 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</p> <p>2.b Implement controls over daily and monthly processing and reconciling of transactions</p> <p>2.c Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information</p> <p>2.d Review and monitor compliance with applicable laws and regulations</p> <p>2.e Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information</p>							
<b>GOVERNANCE</b>							
<p><b>3.a Movement from previous assessment:</b></p> <p>3.a 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</p> <p>3.b Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</p> <p>3.c 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</p>							

**Note:**  
The accounting officer / authority is responsible for setting control objectives, ensuring that the required control mechanisms and activities are in place, and for monitoring and evaluating the effectiveness of internal control systems and evaluating internal control to ensure that the control activities in place are effective, efficient and transparent and updated when necessary.  
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 financial and performance reporting and compliance with laws and regulations as at the assessment date. We did not test or evaluate the operating effectiveness of internal control.  
Because of its inherent limitations, internal control over financial and performance reporting and compliance with laws and regulations may not prevent or detect misstatements or non-compliance. Also, the current assessment of internal controls in place at the assessment date is subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of adherence to internal control may deteriorate.

DASHBOARD REPORT – DRIVERS OF INTERNAL CONTROL  
TO ACHIEVE CLEAN ADMINISTRATION



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No. DRIVERS							
<b>LEADERSHIP</b>							
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Confirmation of commitments to address deficiencies in internal controls:

## DASHBOARD REPORT – USER GUIDE

ARS  
2011

**Objective**  
The objective of the dashboard report is to facilitate discussion regarding the auditor's analysis of the root causes resulting in significant instances of non-compliance of internal controls.  
Completion of the dashboard report form will enable:  
• identifying an audit, internal audit or risk audit  
• identifying an existing or potential internal control  
• existing an action on internal control  
The auditor should encourage management to prepare to own assessment and to confirm this assessment with internal audit.

**Completion process**  
Completion of the dashboard report is based on the auditor's subjective professional judgement – significant instances of non-compliance of internal controls identified from:  
• Auditor's knowledge of the business  
• prior and field inquiries  
• information from other such functions such as performance audits, investigations, special audits and regular activities  
• results of management reporting significant changes in the control environment  
• observation and interviews responses to assurance  
• emerging risks and how the system is likely to evolve and report findings  
• a walkthrough of the controls, if deemed necessary  
• results of internal audit reports and the Financial Management Capability Maturity Model (FMCMM) questionnaire as completed by internal auditors, where applicable  
There is no requirement to conduct specific audit procedures for completing the dashboard report. Completion of the dashboard report should normally take one day, with completion of the dashboard in the morning and discussion with management in the afternoon.

**Frequency and timing**  
The dashboard report should be completed on five occasions each year as follows:  

Year	Assessment period	Assessment to be completed by	Assessment to be completed by
1	Apr - Jun 11	Jul - Sep 11	Oct - Dec 11
2	Jul - Sep 11	Oct - Dec 11	Jan - Mar 12
3	Oct - Dec 11	Jan - Mar 12	Apr - Jun 12
4	Jan - Mar 12	Apr - Jun 12	Jul - Sep 12
5	Apr - Jun 12	Jul - Sep 12	Oct - Dec 12

  
The year-end assessment period is subject to change on the previous four assessments for the year end audit.

**Relevant assessment**  
The auditor must align the assessment in the table of the drivers from the previous in the current assessment period for each of the three audit dimensions of financial performance, compliance and internal control with the three headings of Leadership, Financial and Performance Management and Governance in the dashboard report.  
The assessment is assessed as follows:  

Improved	Unchanged	Deteriorated
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**Submitters**  
• **Internal Audit** will complete the dashboard report. Depending on the type of audit being carried out, this may be the Internal Audit Manager or the Internal Audit Officer. The report should be submitted to the Accounting Officer, the Finance Committee, the Public Accounts Committee, the Finance Committee, the Public Accounts Committee, Parliament, etc.

### DASHBOARD REPORT – DRIVERS OF INTERNAL CONTROL TO ACHIEVE CLEAN ADMINISTRATION

DRIVER	2010-11		2011-12		ASSESSMENT
	Actual	Target	Actual	Target	
1. Leadership	Improved	Improved	Improved	Improved	Improved
2. Financial Management	Unchanged	Unchanged	Unchanged	Unchanged	Unchanged
3. Performance Management	Deteriorated	Deteriorated	Deteriorated	Deteriorated	Deteriorated
4. Governance	Improved	Improved	Improved	Improved	Improved

**Table assessment**  
The auditor must assess the status of the drivers of internal control as follows:  

Green	Good
Yellow	In progress
Red	Not required

**Required controls that are able to prevent, or detect and correct**  
Required controls that are able to prevent, or detect and correct, instances of non-compliance of internal controls are a timely manner and capacity to detect, clear, correct or prevent the situation for changes in conditions that would not be the case where non-compliance / non-compliance of internal controls is a result of the dashboard report.  
Required controls that are able to prevent, or detect and correct, instances of non-compliance of internal controls are a timely manner and capacity to detect, clear, correct or prevent the situation for changes in conditions that would not be the case where non-compliance / non-compliance of internal controls is a result of the dashboard report.

**Emphasis for discussions with executive / legislative oversight authorities and coordinating authorities**  
The auditor may wish to discuss the following completion of the dashboard report of the responsibilities of the responsibilities of those who are responsible for the dashboard report, including the following:  
• the nature of the dashboard report  
• the nature of the dashboard report  
• the nature of the dashboard report  
• the nature of the dashboard report

EXECUTIVE / LEGISLATIVE OVERSIGHT	COORDINATING AUTHORITIES
1. Leadership	Internal Audit
2. Financial Management	Internal Audit
3. Performance Management	Internal Audit
4. Governance	Internal Audit

## Leadership

100 YEARS  
1911-2011

- 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.

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## 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.

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## 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.]

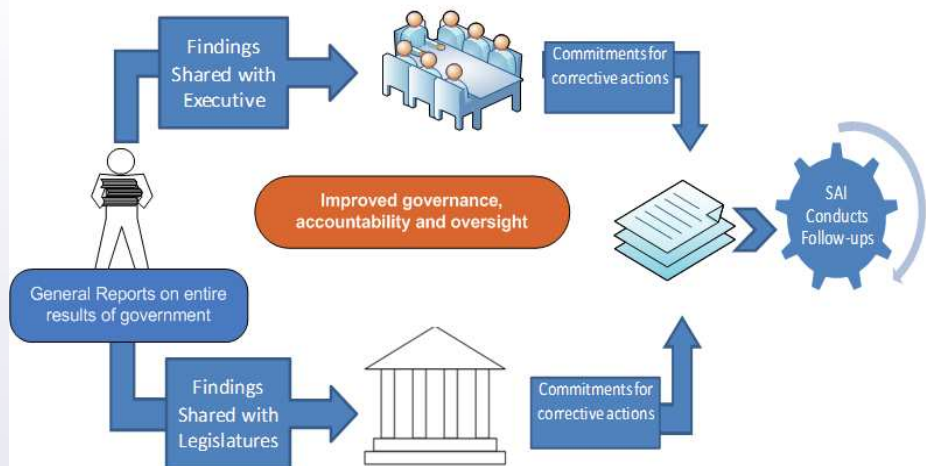
### Leadership

Financial and performance management

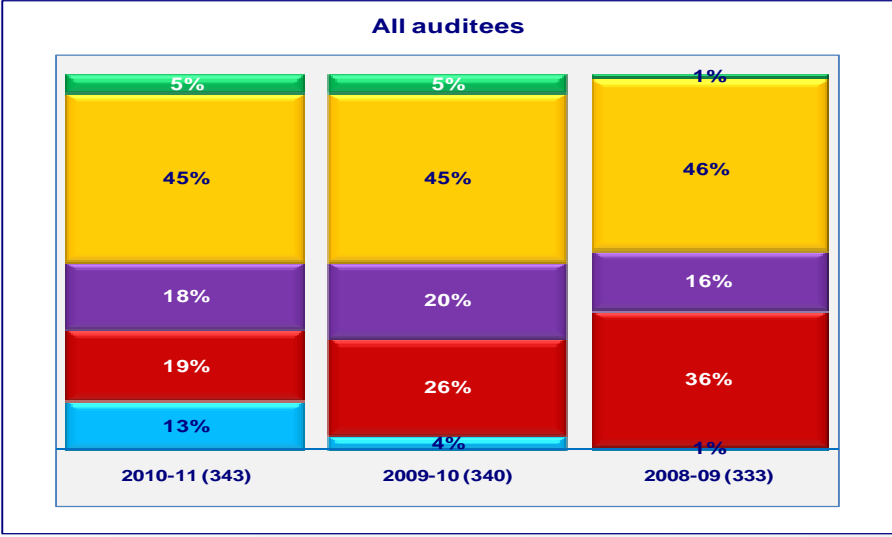
Governance



## General Reports as SAI SA's main reporting vehicle



## Three year progress towards clean audit

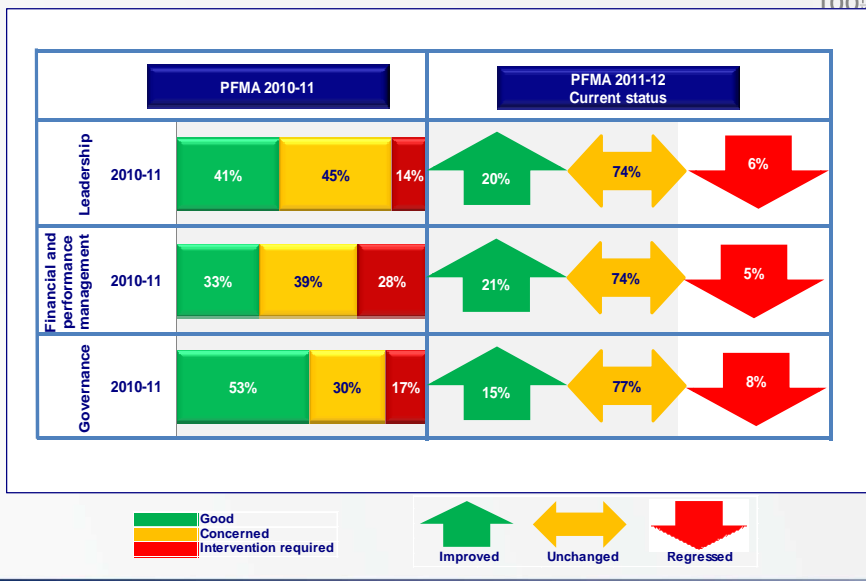


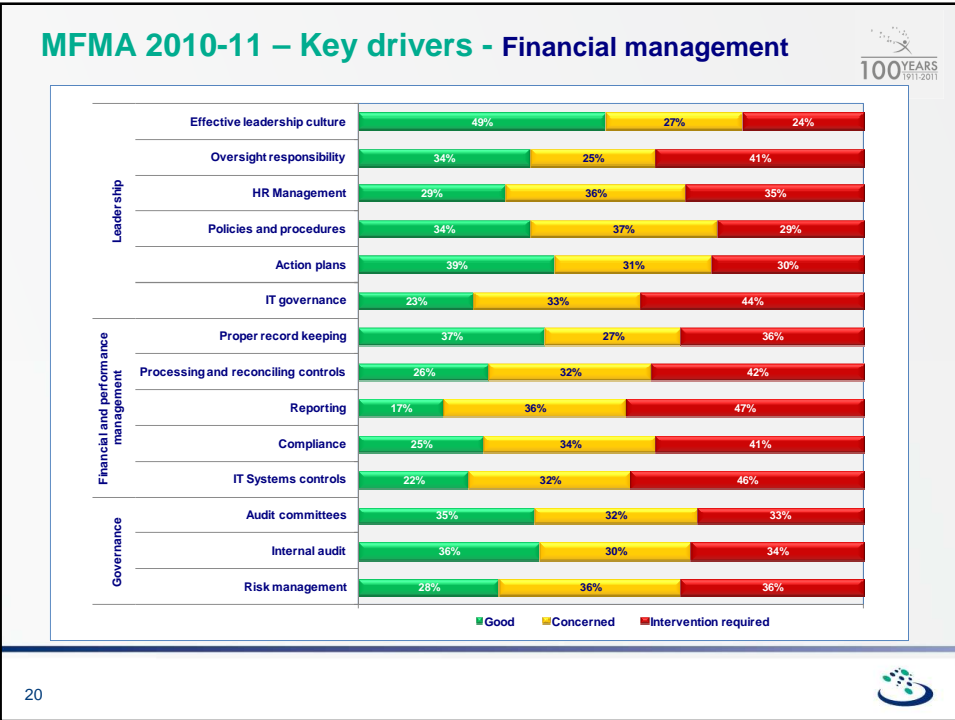
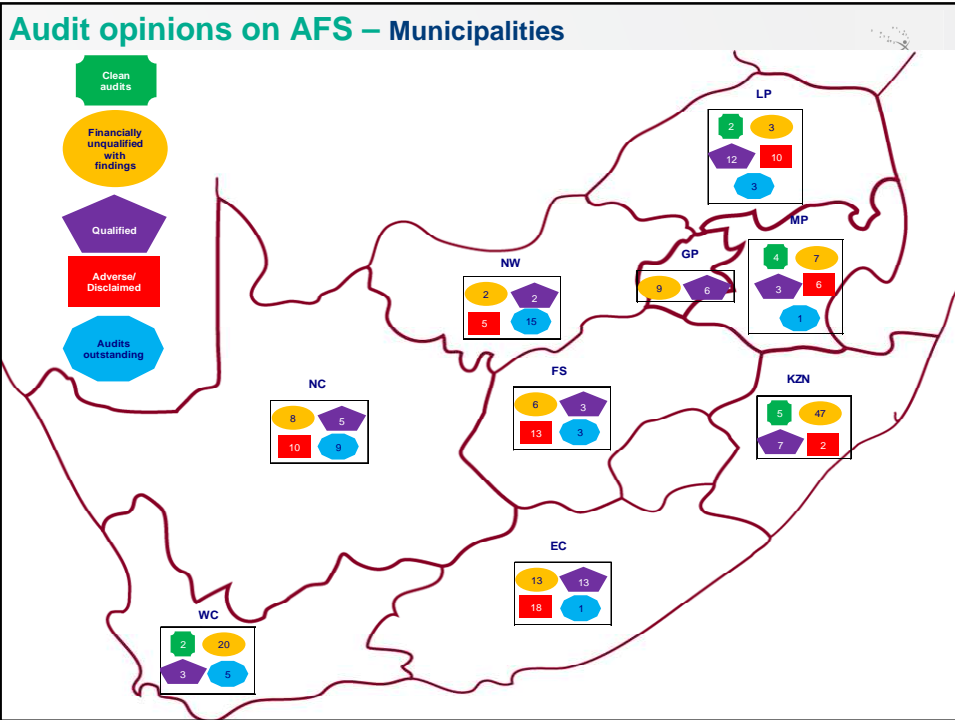
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■ Financially unqualified with no findings    
 ■ Financially unqualified with findings  
■ Qualified with/ without findings    
 ■ Disclaimed/ Adverse with/ without findings    
 ■ Audits outstanding



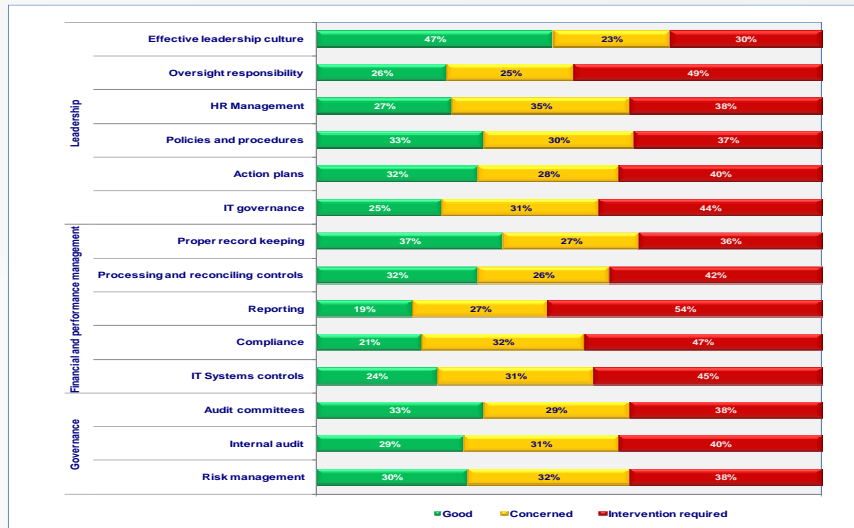
## PFMA 2011-12 – Status of key drivers





## MFMA 2010-11 – Key drivers- Performance management

100 YEARS  
1911-2011

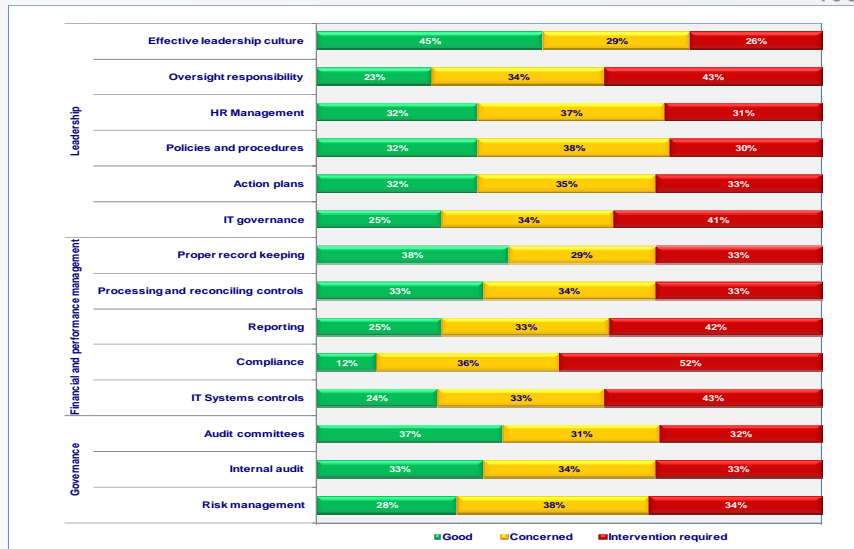


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## MFMA 2010-11 – Key drivers - Compliance

100 YEARS  
1911-2011



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**THANK YOU FOR YOUR TIME**

