Auditing to build public confidence

Complementary role of internal and external audit in clean administration processes?

Presentation to the Audit and Risk Indaba
June 2017

Accountability in public sector – a stepped approach

PLAN

DO

CHECK

ACT

7 — IMPACT BETTER LIFE FOR CITIZENS

6 — OUTCOMES — BETTER AUDIT RESULTS

5 — CONSEQUENCES HANDBOOK ON ACCOUNTABILITY

4 — MONITORING by ALL ASSURANCE PROVIDERS

3 — INTERNAL CONTROLS & SUPERVISION — IMPLEMENT THE BASICS

2 — DEFINE TARGET

1 — ACCOUNTABILITY

Clean audit as a yardstick of accountability and good governance

Opinion / conclusion		Deals with
Financial management	✓	Spending of funding against a specific <u>pre-determined strategic objective</u>, linked to a specifically <u>allocated budget</u>, in line with <u>rules of accounting</u> and within strong <u>internal controls</u>
Performance management	✓	Determining <u>strategic objectives</u> as a basis for <u>budget</u> and entity <u>activities</u>, and <u>measuring</u> of success against these objectives and <u>reporting</u> on these appropriately
Compliance with laws and regulations	✓	<u>Respect for the law</u> in achieving strategic objectives

A clean audit can therefor, amongst others, be described as an <u>indicator</u> of a government entity's <u>strategic positioning</u> and its ability to <u>implement this strategy in an accountable manner</u>, hence creating a solid <u>foundation for service delivery</u> to the <u>benefit of the citizens</u> of South-Africa

The vision...

CLEAN AUDITS

➡️

EVIDENCED BY

Strong internal controls, solid financial management, informed strategic planning, proper performance reporting

Appropriate governance and accountability

➡️

CREATE A PLATFORM FOR

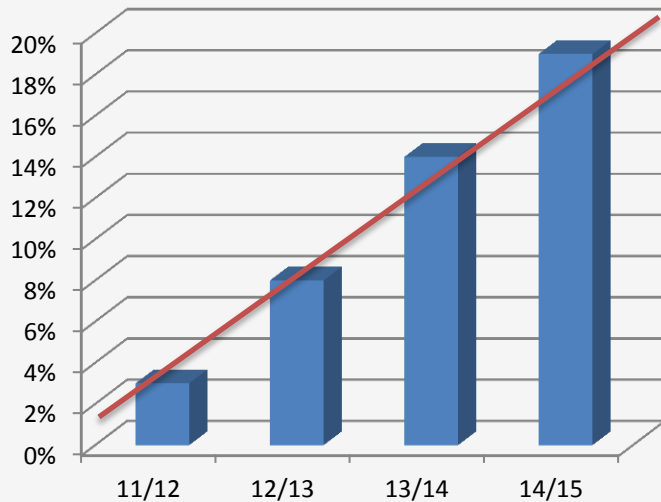Meeting the expectations of citizens

National Development Plan success

Progress towards AU Vision 2063
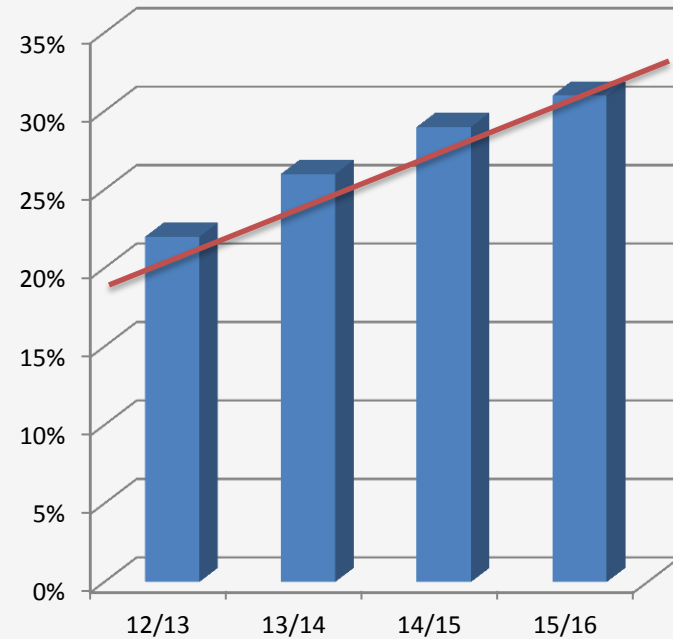
Achievement of UN SDGs

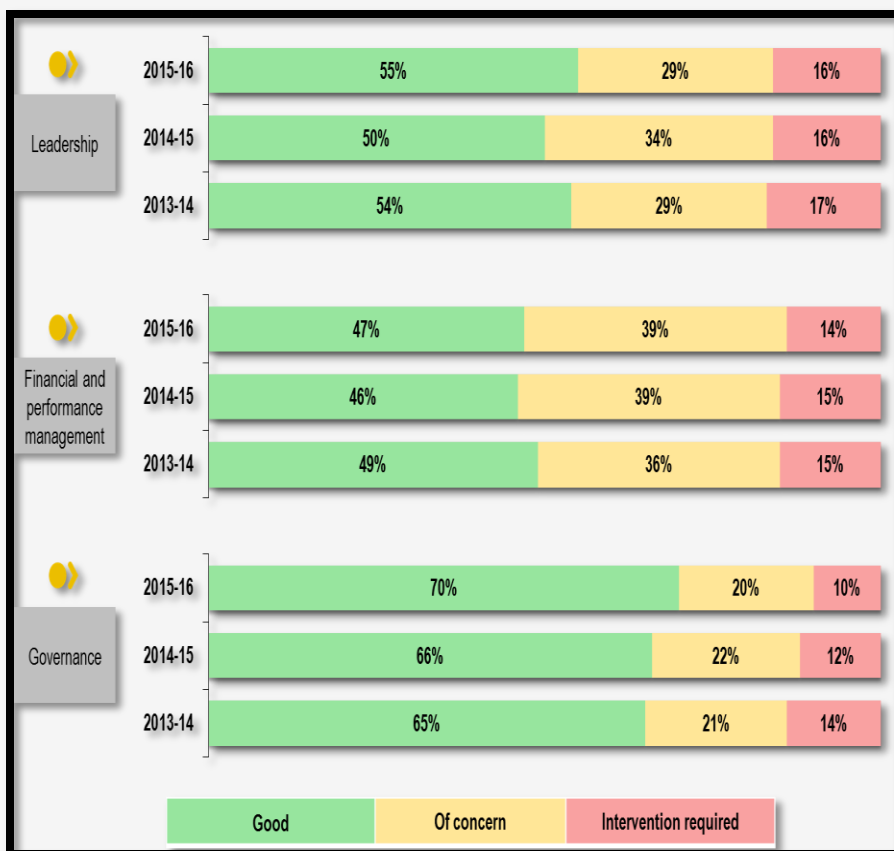# Current status

2014-15 MFMA
CLEAN AUDITS

2015-16 PFMA
CLEAN AUDITS

Behind the outcomes (2015/16 PFMA)

Internal control

	Good	Of concern	Intervention required

Leadership

2015-16	55%	29%	16%
2014-15	50%	34%	16%
2013-14	54%	29%	17%

Financial and performance management

2015-16	47%	39%	14%
2014-15	46%	39%	15%
2013-14	49%	36%	15%

Governance

2015-16	70%	20%	10%
2014-15	66%	22%	12%
2013-14	65%	21%	14%

Good | Of concern | Intervention required

Root causes

Slow response to improve key controls and address risk areas

238	
242	
225	

Instability or vacancies in key positions or key officials lacking competencies

166	
184	
211	

Inadequate consequences for poor performance and transgressions

121	
125	
135	

2015-16 | 2014-15 | 2013-14

The international perspective - INTOSAI and IIA cooperation

- INTOSAI to encourage internal audit as a value creator

- Leveraging internal audit reports and the single audit concept

- More involvement of IIA in INTOSAI standard-setting

- Comparison of the codes of ethics of IIA, IFAC and INTOSAI

- Consistency in terminology

- Implementation guidance

INTOSAI Professional Standards Committee
June 2017, Brazil

Memorandum of Understanding
(2014 version being revisited)

Correlating mandates

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

The Institute of internal auditors (IIA) emphasises the collective purpose " to **promote good governance** through contributions to transparency in, and **accountability for**, the **use of public resources**, as well as to **promote efficient , effective and economic public administration**."

Correlating objectives

Internal audit	External audit
Internal audit is defined by the Institute of Internal Auditors (IIA) as "an independent, objective assurance and consulting activity designed to add value and improve an institution's operations. It helps an institution accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."	In general, external auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations.

King IV Principle 15 - Assurance
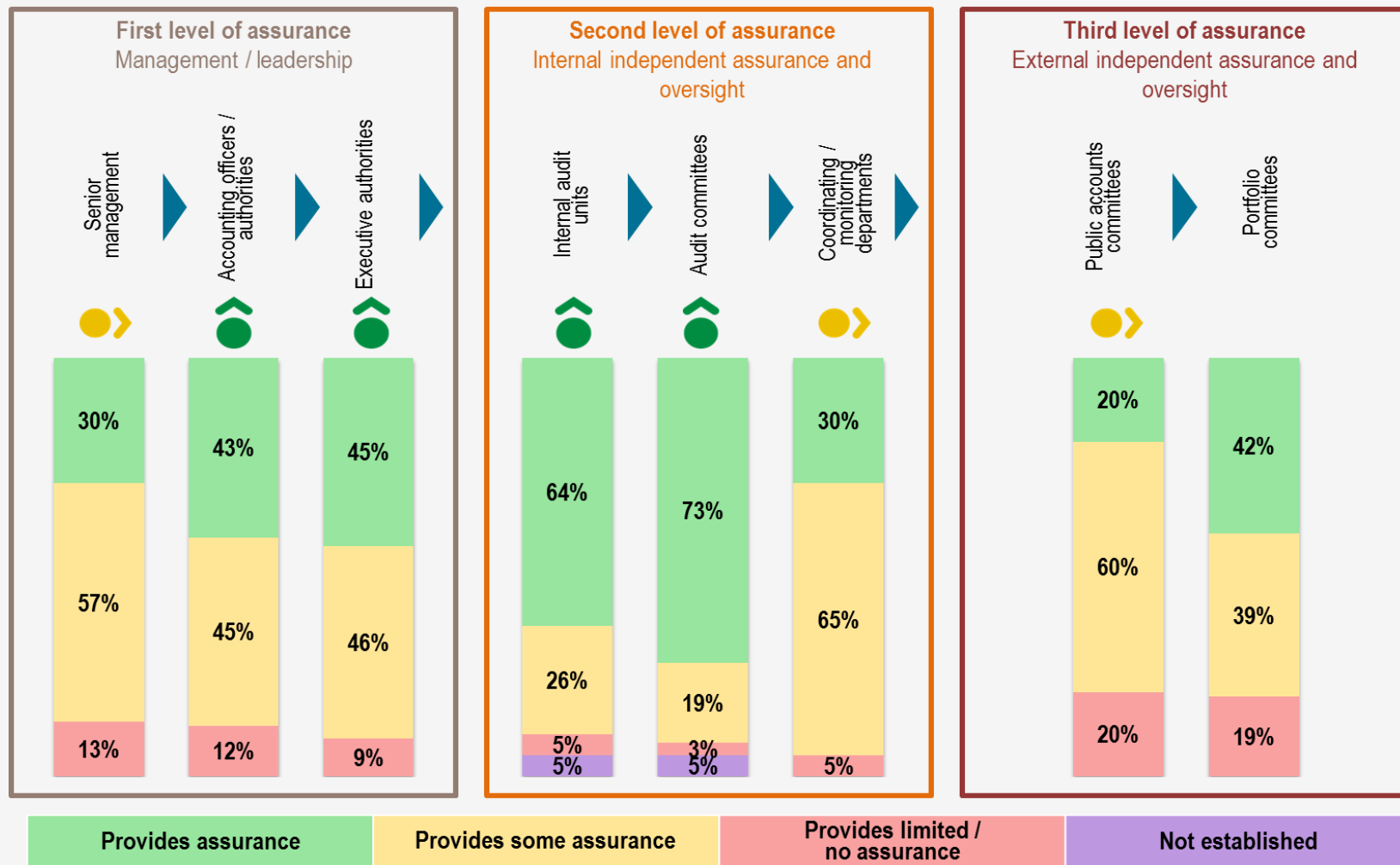
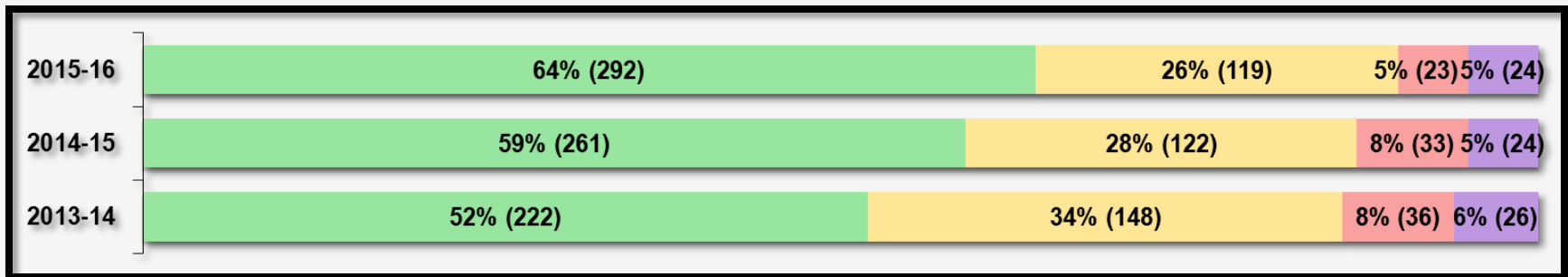"The governing body should satisfy itself that a **combined assurance model** is applied that **covers** the **significant risks** and material matters **through** a combination of the organisation's line functions, risk and compliance functions, **internal auditors**, fraud examiners, safety assessors, actuaries, **external auditors**, other assurance providers and regulatory Inspectors."

Combined assurance (2015/16 PFMA)

First level of assurance
Management / leadership

- Senior management
- Accounting officers / authorities
- Executive authorities

	Senior management	Accounting officers / authorities	Executive authorities
Provides assurance	30%	43%	45%
Provides some assurance	57%	45%	46%
Provides limited / no assurance	13%	12%	9%

Second level of assurance
Internal independent assurance and oversight

- Internal audit units
- Audit committees
- Coordinating / monitoring departments

	Internal audit units	Audit committees	Coordinating / monitoring departments
Provides assurance	64%	73%	30%
Provides some assurance	26%	19%	65%
Provides limited / no assurance	5%	3%	5%
Not established	5%	5%	

Third level of assurance
External independent assurance and oversight

- Public accounts committees
- Portfolio committees

	Public accounts committees	Portfolio committees
Provides assurance	20%	42%
Provides some assurance	60%	39%
Provides limited / no assurance	20%	19%

Legend:
- Provides assurance
- Provides some assurance
- Provides limited / no assurance
- Not established

Auditing to build public confidence

Internal audit (2015/16 PFMA)

2015-16	64% (292)	26% (119)	5% (23)	5% (24)
2014-15	59% (261)	28% (122)	8% (33)	5% (24)
2013-14	52% (222)	34% (148)	8% (36)	6% (26)

"Internal audits units were in place at all but 24 auditees by 2015-16. A total of 64% of internal audit units provided full assurance, although the proportion of those that provided no assurance improved slightly since 2013-14.

At most auditees, well-resourced and effective internal audit units have helped to improve internal controls and have had a positive impact on audit outcomes. We assessed that 71% of the internal audit units (2014-15: 65%) had a positive impact on audit outcomes. "

Barriers to Combined assurance

For internal auditing to be effective, those charged with governance and management must be open to discussing tough issues and seizing opportunities to make necessary changes for improvement. As external auditors SAIs have the responsibility of evaluating the effectiveness of internal audit functions. If IA is judged to be effective , cooperation will be beneficial to both parties.

To date, cooperation has still been quite limited. The reasons can be that the pre-conditions for using the work of IA in the International Standards of Auditing are not met such as:
* The independence, objectivity and technical competence may be inadequate
* Lack of resources
* There is a gap between the current practices of IA as opposed to the fulfilment of the IIA standards
* Views on risk assessment and risk response (assurance) may differ

Other reasons could be:
* Threats to IA independence arising from conflicts of interest and responsibilities
* Refusal to cooperate when their efforts are not given due recognition

Common vision and coordinated activities

There are **commonalities** that should be explored **to identify further synergies** and enhance the linkage between internal and external audit. To enhance coordination **there needs to be a common understanding** of the value of this coordination, this will **require a common vision of "clean audit".**

The **IIA standard on coordination requires the head of internal audit** to share information and **coordinate activities with** other internal and **external providers of assurance** and consulting services to ensure proper coverage and minimise duplication of effort.

This notion of cooperation targeted at internal audit is **echoed in PFMA TR 3.2.10 and 27.2.9**

Enhanced cooperation

This cooperation can be enhanced through:

Pro-active cooperation on risk assessment and risk response

Establishment of a data base for findings and recommendations to consolidate the outcome of internal and external audits,

Sharing information on the monitoring of audit recommendations

Joint fora to consider corruption, promote ethics and reforms

Collaboration on developing manuals, tools and audit programmes

Leverage on manuals and work programmes in areas of common interest to reduce competency gaps in internal audit

Regular and open communication, and a common understanding of the timing and nature of such communication

Willingness to communicate less formally when issues of mutual interest arise

Common training programmes to create an understanding of the nature of the work of the different players

Conclusion

Effective cooperation is based on a shared commitment to the benefits of clean administration, open communication, professionalism, discretion and confidentiality, as well as agreement on work-methods, risk profiles and assurance requirements.

Improving coordination between internal and external audit while managing the associated risks will have a positive effect on internal control systems so that organisations can move up the accountability maturity ladder, evidenced by clean audits, thereby creating a foundation for service delivery.

When internal control systems function effectively (over and above the impact to better enable service delivery for the entity involved) it allows the external auditor to optimise audit processes, potentially reducing audit costs and / or redirecting audit processes into more value-adding activities, such as performance audit.