



SHUMBA INC.
AUDIT • ADVISORY • TAX

Government Finance

Sound strategies for effective internal controls that improve audit outcomes.

PRESENTATION OUTLINE

❖ Introduction

❖ Key basic Controls that auditees should focus on

- Providing effective leadership
- Adequate controls over financial reporting
- Audit action plans to address internal control deficiencies
- Proper record keeping and document control
- Implementing controls over daily and monthly processing and reconciling of transactions.
- Review and monitor compliance with legislation
- Effective governance structures

❖ Information Technology

❖ Recommendations

INTRODUCTION

The effectiveness of the design and implementation of internal controls in ensuring reliable financial and performance reporting and compliance with legislation were assessed in the MFMA 2017/18 general report of the Office of the Auditor General SA.

- ❖ Internal controls are actions put in place by management, council/board and other parties, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting.
- ❖ When internal controls are adequate and effective, there is reasonable assurance that the organization is achieving its financial reporting as well as operational objectives.
- ❖ The objectives of internal controls are to provide management with reasonable assurance that:
 - ✓ Financial and operational information are reliable
 - ✓ Assets are safeguarded
 - ✓ Laws, regulations and contracts are complied with

INTRODUCTION CONT.,.,.,

- ❖ Stringent Internal controls do help organizations reduce errors, resulting in them saving money or reducing revenue leakages and protecting their reputation
- ❖ Internal controls help organizations prevent or reduce prevalence of fraud and theft within entities
- ❖ Internal controls promote segregation of duties employees have, enhancing the system of checks and balances.
- ❖ Internal control involves everything that seeks to minimise risks to an organization.

PROVIDING EFFECTIVE LEADERSHIP

In order to improve and sustain outcomes, auditees require **effective leadership** setting the **tone at the top** that is based on a culture of honesty, ethical business practices, good governance protecting and enhancing the interests of the auditee.

The following actions must be taken to improve in terms of leadership:

- ❖ Show commitment to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery.
- ❖ Review and monitor the action plans to address all significant internal control deficiencies on a continuous basis.
- ❖ Fill all critical vacancies in finance, internal audit and other significant components within a reasonable time (3 Months).
- ❖ Implement action plans to address user IT access control deficiencies.

ADEQUATE CONTROLS OVER FINANCIAL REPORTING

Management teams need to ensure that:

- ✓ Accurate financial statements and performance information are produced monthly or quarterly and supported by relevant and reliable documentation.
- ✓ Fixed asset register's reflect the assets owned by the institution and agree to the financial records and financial statements.
- ✓ All reconciliations and suspense accounts are cleared and monitored on a monthly basis.
- ✓ Budget, expenditure and cash flow trends are analysed on a monthly basis.
- ✓ Performance information has a verifiable portfolio of evidence



AUDIT ACTION PLANS TO ADDRESS INTERNAL CONTROL DEFICIENCIES

Developing, monitoring, and implementing of **action plans** to address identified internal control deficiencies are key elements of internal controls which are the responsibility of:

- ❖ Accounting Officers
- ❖ Chief financial officers
- ❖ Senior management teams



PROPER RECORD KEEPING AND DOCUMENT CONTROL

Auditees should put mechanisms in place to ensure that:

- ❖ There is proper and timely record keeping with complete, relevant and accurate information that is accessible and available to support financial and performance reporting.
- ❖ There is sound record keeping that will also enable senior management to hold staff accountable for their actions.
- ❖ There is no lack of documentation which can affect all areas of the audit outcome.



IMPLEMENTING CONTROLS OVER PROCESSING AND RECONCILING OF TRANSACTIONS.

Controls should be in place to ensure that transactions are processed in an:

- ❖ Accurate,
- ❖ Complete, and
- ❖ Timely manner,

These controls over processing and reconciliations of transactions will in turn have a positive impact to reduce errors and omissions in financial and performance reports.

Auditees need to have mechanisms that can assist them to:

- ❖ Identify applicable legislation,
- ❖ Identify changes to the legislation,
- ❖ Assess the requirements of legislation, and
- ❖ Implement processes to ensure and monitor compliance with legislation.

EFFECTIVE GOVERNANCE STRUCTURES

The institutions/auditees need to ensure that effective governance structures are in place to:

- ❖ Improve the effectiveness of internal audit, risk management and audit committees through continuous monitoring.
- ❖ Maintain effective risk management strategies, including fraud prevention plans.
- ❖ Monitor and evaluate risk relating to IT systems, including implementation of action plans to address IT audit outcomes.
- ❖ Monitor the IT governance framework.



INFORMATION TECHNOLOGY (IT)



WHAT IS INFORMATION TECHNOLOGY

- ❖ IT refers to the computer systems used for recording, processing and reporting financial and non-financial transactions.
- ❖ IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote national security.
- ❖ Good IT governance, effective IT management and a secure IT infrastructure are therefore essential.



IT CONTROLS FOCUS ON

- ❖ IT Governance
- ❖ Security Management
- ❖ User access management
- ❖ IT service continuity



IT GOVERNANCE

- ❖ It refers to the leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives.
- ❖ It is essential for the overall well-being of an auditee's IT function and ensures that the auditee's IT control environment functions well and enables service delivery.

SECURITY MANAGEMENT

Security management refers to the controls preventing unauthorised access to the:

- ✓ Computer networks,
- ✓ Computer operating systems, and
- ✓ Application systems that generate and prepare financial information.



USER ACCESS MANAGEMENT

These are measures designed by business management to:

- ✓ prevent and detect the risk of unauthorised access to, and
- ✓ the creation or amendment of financial and performance information stored in the application systems.



IT SERVICE CONTINUITY

It enables the auditees to recover within a reasonable time

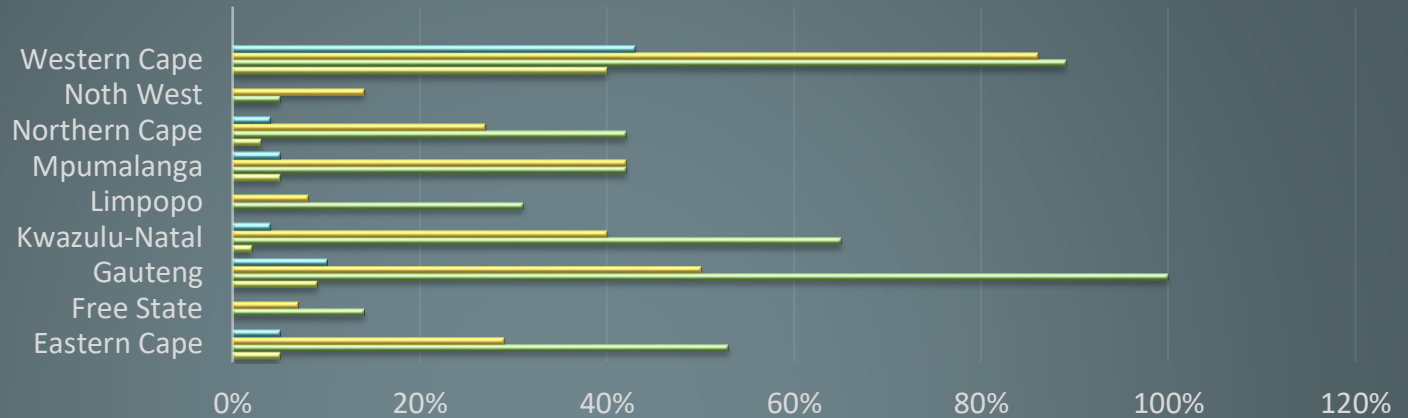
- ✓ the critical business operations, and
- ✓ application systems,

That would be affected by disasters or major system disruption.



MUNICIPAL AUDIT OUTCOMES FOR 2017/18

2017/18



	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Limpopo	Mpumalanga	Northern Cape	Noth West	Western Cape	
■ No findings on compliance with legislation	5%	0%	10%	4%	0%	5%	4%	0%	43%	
■ No findings on performance report	29%	7%	50%	40%	8%	42%	27%	14%	86%	
■ Financially unqualified financial statements	53%	14%	100%	65%	31%	42%	42%	5%	89%	
■ Clean Audits	5%	0%	9%	2%	0%	5%	3%	0%	40%	

■ No findings on compliance with legislation ■ No findings on performance report
 ■ Financially unqualified financial statements ■ Clean Audits

MOVEMENT IN THE MUNICIPAL AUDIT OUTCOMES IN SA

Irregular expenditure

Province	2016-17	2017-18
Eastern Cape	R 13,5 billion	R 7,2 billion
Free State	R 677 million	R 913 million
Gauteng	R 3,5 billion	R 3,2 billion
Kwazulu-Natal	R 2,3 billion	R2,9 billion
Limpopo	R 1,8 billion	R 1 billion
Mpumalanga	R 1,9 billion	R 1,3 billion
Northern Cape	R 283 million	R 586 million
North West	R 3,3 billion	R 3,2 billion
WesternCape	R165 million	R 667 million

RECOMMENDATIONS



RECOMMENDATIONS ON HOW TO IMPROVE OUTCOMES

The following focus categories/areas will be addressed:

- ☐ Leadership
- ☐ Financial and performance management
- ☐ Governance

LEADERSHIP

- ❖ Implement the required formal codes and regularly communicate their existence and continued applicability to officials.
- ❖ Establish clear lines of accountability.
- ❖ Take corrective disciplinary action against key officials for misconduct.
- ✓ 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.
- ✓ 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.



FINANCIAL AND PERFORMANCE MANAGEMENT

- ❖ 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.
- ❖ 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.
- ❖ 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.



GOVERNANCE

- ✓ 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.
- ✓ 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.
- ✓ Review financial statements and performance reports before submission for auditing to identify material misstatements.



REFERENCE

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Our vision is to be the leading and innovative assurance & advisory partner of choice.

- *The firm has 46 professional staff members .*
- *We have worked on than more than 20 municipalities in various provinces:*
 - Limpopo
 - North West
 - Mpumalanga
 - Northern Cape and other provinces

- Shumba INC is a firm that is SAICA, IRBA registered. We are “Committed to Quality”.
- Shumba INC was set up in 2014, and the services provided are audit, advisory and tax. Our target market is mainly the public sector, both at provincial and local government levels. Currently the company has offices operating in Limpopo Province, Gauteng Province, Mpumalanga and Northern Cape is working on expanding its growth to other provinces nationwide.

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END OF PRESENTATION



Questions and Answers