IMPROVING INTERNAL CONTROL SYSTEMS IN THE PUBLIC SECTOR: THE EASTERN CAPE DEPARTMENT OF SPORT, RECREATION, ARTS AND CULTURE.

By

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TREATISE

Submitted in partial fulfilment of the requirements for the degree of

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Supervisor: Dr F.S. Liebenberg

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ABSTRACT

It is important to note that control weaknesses are of two types. Firstly, design weaknesses are where controls are inadequately designed. Secondly, implementation weaknesses are where controls may be designed very well, but implementation by officials may be inadequate or irregular. Hence this study is about improving internal control systems in the public sector. The objective of this study is to determine how the Department of Sport, Recreation, Arts, and Culture can move from an unqualified audit report to a clean audit report.

The researcher found that internal controls are very important in the operations of the department as a whole, especial in financial governance. The internal controls play an integral part in the organisation because all processes need controls as a tool to mitigate against the risks. In order for the department to prevent the emphasis of matter on audit reports or to achieve clean audit report, it must strengthen its internal controls. Although this study did not cover the issues of pre-determined objectives, implementation of internal controls is necessary for the improvement of reporting on performance information.

The study concluded that the Department of Sport, Recreation, Arts, and Culture complies with international best practice pertaining to internal controls and financial reporting. The department has a great opportunity to obtain a clean audit report. It also has the potential to increase the effectiveness and efficiency of its internal controls by strengthening the functioning of the internal control committee, risk management committee as well as the finance committee (In Year Monitoring). The executive authority and senior management of the department are the people who should enforce the implementation of internal controls through the use of the internal control function of the department, although the audit committee assists in ensuring the effectiveness of these internal controls.

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LIST OF ACRONYMS

AC	Audit Committee
AICPA	American Institute of Certified Public Accountants
AGSA	Auditor General of South Africa
AO	Accounting Officer
ASB	Auditing Standards Board
BAS	Basic Accounting System
CA	Chartered Accountant
CAE	Chief Audit Executive
CDFA	Chartered Development Finance Analyst
CFO	Chief Financial Officer
CIA	Certified Internal Auditor
CIDEF	Chartered Institute of Development Finance
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CPA	Certified Public Accountant
DORA	Division of Revenue Act
DPSA	Department of Public Service and Administration
DSRAC	Department of Sport, Recreation, Arts and Culture
GFRF	Government Financial Reporting Framework
HOD	Head of Department
ICDF	International Cooperation and Development Fund
IIA	Institute of Internal Auditors
IIASA	Institute of Internal Auditors in South Africa
INTOSAI	International Organisation of Supreme Audit Institutions

IoDSA	Institute of Directors in Southern Africa
IRBA	Independent Regulatory Board for Auditors
ISPPIA	International Standards for the Professional Practice of Internal Auditing
ISSAIs	International Standards of Supreme Audit Institutions
MCS	Modified Cash Standard
MEC	Member of Executive Council
MFMA	Municipal Finance Management Act
NT	National Treasury
OAG	Office of the Accountant General
OTP	Office of The Premier
PFMA	Public Finance Management Act
PSACF	Public Sector Audit Committee Forum
PWC	PriceWaterhouseCoopers
SAI	Supreme Audit Institutions
SAICA	South African Institute of Chartered Accountants
SCM	Supply Chain Management
SCOPA	Standing Committee on Public Accounts
RSA	Republic of South Africa
UK	United Kingdom
US	United States
USA	United States of America

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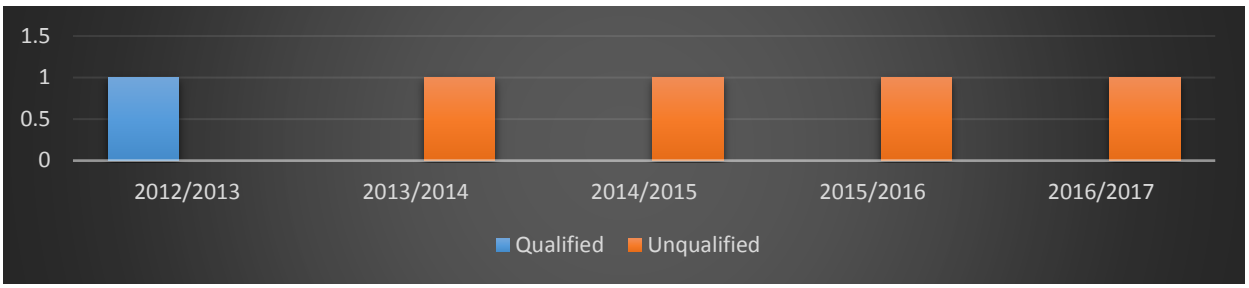
CHAPTER 1

INTRODUCTION

1.1 Introduction

The Department of Sport, Recreation, Arts and Culture (DSRAC) is unable to move from an unqualified audit opinion to a clean audit report. For the past five years, starting from 2012/2013 to 2016/2017, the department has moved from the qualified audit opinion obtained in 2012/2013 to an unqualified audit opinion in 2013/2014, and continued to receive unqualified audit opinion with emphasis of matter. The irregular expenditure was reported by the Auditor General under the emphasis of matter for the past five years. Figure 1.1 below shows the audit opinion track record of DSRAC for the past five years.

Figure 1.1: Audit opinion for the past five years



Source: DSRAC Annual Report from 2012/2013 to 2016/2017

It is necessary to tighten key controls in both the private and public sector with the aim of improving financial governance and maintaining and achieving clean audit reports. The lack of improved internal control systems in the public sector impedes effectiveness and efficiency of financial resources management. Inconsistent implementation of internal controls affects the service delivery of the department. For instance, inconsistent implementation of internal controls result in irregular, unauthorised, fruitless and wasteful expenditure, and the Auditor General has expressed a qualified audit opinion to the department for such expenditures mentioned (DSRAC, 2013:132). According to the DSRAC (2013), the Auditor General reported that the DSRAC did not have an adequate system of internal controls to prevent, identify and disclose all irregular expenditure incurred by the department (DSRAC, 2013:131). It is the departmental management's

responsibility to tighten up internal controls and avoid the inconsistent implementation of these controls.

The American Institute of Certified Public Accountants (AICPA) (2014), points out that management accountability contains administration functions such as keeping financial records, and filing a complete and accurate annual return of the institution. However, since errors and fraud can and do occur, it is significant that the department develops safeguards to ensure that there are no careless mistakes. This can be achieved by applying strict controls over financial governance and reporting (AICPA, 2014:5).

Section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), (PAA) section 40(2) of the Public Finance and Management Act of South Africa (PFMA) Act No1 of 1999), and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) outline the functions of the Auditor General South Africa. The Auditor General's responsibility is to express an opinion on the financial statements and to report on findings relating to the audit on predetermined objectives and compliance with material matters in laws and regulations applicable to the department. The Auditor General's duties include the fact that the office has a constitutional mandate and exists to strengthen the constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence (AGSA & IRBA, 2012:4). This implies that the opinion and recommendations of the Auditor General can improve internal control systems in the public sector only if the agreed action plans by management can be implemented consistently.

According to AGSA (2013/2014) audit outcomes, the Auditor-General said there was steady improvement in the overall audit outcomes and he recognised encouraging trends in the core areas which his office audits on an annual basis, but emphasised that there are still areas of great concern. The three areas that the Office of the Auditor General audits annually are: the fair presentation and the absence of material misstatements in the financial statements; useful and credible performance information for purposes of

reporting on predetermined performance objectives; and compliance with key legislation governing financial matters (AGSA, 2014:1).

The Auditor General announced that some national and provincial departments had recorded good, solid performances, singling out the Gauteng and Western Cape provinces as having led the charge and performing admirably. The Auditor General also indicated that departments with clean audits improved by 25%, with the highest contributors being the two provinces mentioned. Nevertheless, the 4% of regressions in departments with previously clean audits have been noticed at both national and provincial auditees. The Auditor General stated that these regressions were due to slippages in controls (AGSA, 2014:1).

The Auditor General also highlighted that defiance against key legislation remains at high levels, with 72% of public institutions not complying with key legislation relating to financial management. The Auditor General argued that if auditees improve the key controls that prevent material misstatements in submitted financial statements and non-compliance with supply chain management legislation, the outcomes will improve (AGSA, 2014:2).

The Auditor General further points out that irregular expenditure continues to be of particular concern. The Auditor General indicated that this is expenditure that was not made in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud was committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is also an indicator of a significant breakdown in controls at some auditees. The Office of the Auditor General requires decisive steps to be taken as it is within these environments that there is a concentration of irregular, unauthorised, fruitless and wasteful expenditure (AGSA, 2014:2).

The Auditor General indicated that audit opinions of auditees, had observed that the leadership at most auditees have been slow to respond to the recommendations which are aimed at assisting the public institutions to enhance key controls and addressing

identified risk areas. This resulted in audit opinions for 2014/2015 that only progressed slightly from 2013/2014 (AGSA, 2015:1).

According to AGSA (2013/2014) audit outcomes, the Auditor General argued that government leadership should take actions, which include responding through plans and well coordinated initiatives to the recommendations made by the Auditor General South Africa, in order to improve key controls and address the following six risk areas:

- Credibility of submitted financial statements;
- Credibility of submitted performance reports;
- Supply chain management;
- Financial health;
- Information technology controls; and
- Human resource management (AGSA, 2014:2).

According to AGSA (2013/2014) audit outcomes, the Auditor General argued that inadequate controls regarding performance information and contravention of key legislation continue to prevent the public institutions from obtaining clean audits. In addition, such deviations from internal controls and inconsistent implementation of internal controls were largely in respect of non-compliance with key legislation in the area of supply chain management. Furthermore, there are a number of auditees that incurred unauthorised, irregular as well as fruitless and wasteful expenditure due to material deviations from the legislative requirements that govern these transactions (AGSA, 2014:2).

1.2 Research problem

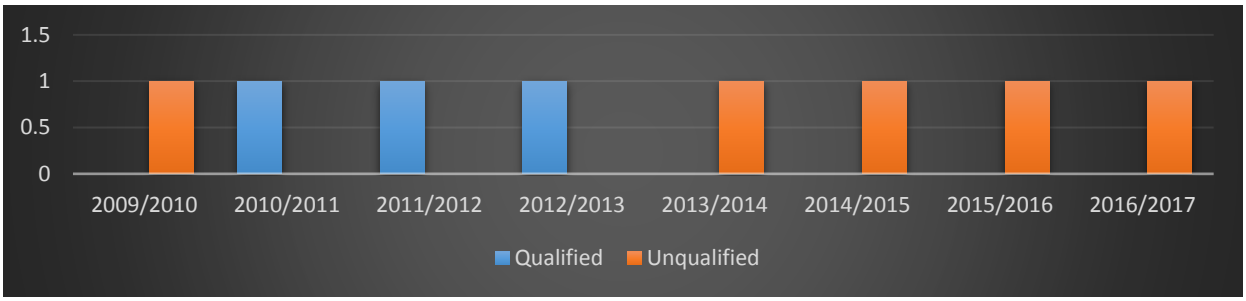
1.2.1 Problem description

A number of Audit Reports produced by the Auditor General over the last five years has indicated the inconsistent implementation of internal controls and it presents a major challenge to government departments. In this regard the Auditor General has pointed to a number of shortcomings.

This research has been triggered by the reports of the Auditor-General for the financial years from 2012/2013 to 2016/2017. In the DSRAC annual report for 2015/2016, the Auditor General pointed out that compliance with legislation, particularly laws and regulations dealing with SCM, remains a challenge and requires focused leadership intervention. Of particular concern is the ever increasing amount of irregular expenditure relating to SCM, which totalled R89.6 million in the financial year 2015/2016 for DSRAC. The R89.6 million had accumulated over a number of years and had not been recovered, written off or condoned (DSRAC, 2016:108).

DSRAC has regressed from an unqualified audit opinion for the financial year 2009/2010 and obtained a qualified audit opinion from AGSA for three consecutive financial years, 2010/2011, 2011/2012, 2012/2013 and graduated to unqualified audit opinions for the financial years, 2013/2014, 2014/2015, 2015/2016 and 2016/2017. Irregular expenditure has always been reported by the AGSA to the department for these financial years outlined due to inconsistent implementation of internal controls. Figure 1.2 below shows the audit opinion track record of DSRAC.

Figure 1.2: Audit opinion track record



Source: DSRAC Annual Report from 2009/2010 to 2016/2017

According to DSRAC (2012/2013) annual report, the department has received qualified audit opinions on irregular expenditure and movable tangible capital assets. The emphasis of matter was put on commitments, material underspending of conditional grants, housing loan guarantees and receivables (DSRAC, 2013:131). The Auditor General was citing the lack of improved internal control within DSRAC as the root cause of qualified audit opinions.

According to DSRAC (2012/2013) annual report, the Auditor General pointed out that the deficiencies identified in the SCM policy were evidenced by the lack of planning, risk management and regular monitoring, review and assessment of supply chain processes. There are no processes in place to assess the credibility of documentation and hold officials accountable for non-compliance. These deficiencies in the policy resulted in an inconsistent method of evaluating the functionality criteria in the awarding of tenders (DSRAC, 2013:137).

The management of the department did not have processes in place to verify the reliability and credibility of information used in the preparation of the financial statements and the annual performance report. The systems or processes for the preparation and reporting of performance against predetermined objectives were not adequate or sufficient, as the department had no formally adopted and tailored system or procedure manual which set out processes to follow, controls in place, as well as responsible officials for the preparation, collation, reporting and monitoring of performance against predetermined objectives (DSRAC, 2013:137).

According to DSRAC (2012/2013) audit report, the Auditor General reported that the department did not have adequate controls in place over the preparation and maintenance of the asset registers (DSRAC, 2013:138). Proper control systems to safeguard and maintain assets were not implemented, as required by section 38(1)(d) of the PFMA and Treasury Regulation (TR) 10.1.1(a) (DSRAC, 2013:135). The department did not have adequate processes in place for the identification and avoidance of irregular expenditure. Also, investigations for irregular expenditure were not adequately and timeously conducted and reported to the Provincial Treasury. A lack of adequate reviews and monitoring resulted in non-compliance with laws and regulations (DSRAC, 2013:138).

According to DSRAC (2013/2014) final management report, the Auditor General highlighted that R49.6 million (100%) of irregular expenditure incurred in the financial year

was as a result of the contravention of SCM legislation. Thirty six percent of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the department, which highlights poor internal control systems. The root cause of the lack of effective prevention and detection is lack of monitoring of the procurement process (DSRAC, 2014:22).

In the financial year 2014/2015, the department received an unqualified audit opinion from the Auditor General South Africa. The office of the Auditor General placed emphasis on irregular expenditure due to inconsistent implementation of internal controls (DSRAC, 2015:118).

According to Treasury Regulation 16A6.3(c), the accounting authority must ensure that bids are advertised in at least the Government Tender Bulletin for a minimum of 21 days before closure, except in urgent cases when a bid may be advertised for a shorter period as determined by the accounting officer or accounting authority (South Africa, 2005:206). According to DSRAC (2014/2015) final management report for the department, the Auditor General reported that irregular expenditure could not be prevented because the bidding process was not followed for an amount of R11.6 million. The Auditor General also reported that management of the department did not duly consider all compliance with all relevant SCM regulations, as well as the department's SCM policy when procuring goods and services. Compliance with applicable laws and regulations was not reviewed and monitored consistently (DSRAC, 2015:11). The finding by the Auditor General was as a result of inconsistent implementation of internal controls.

According to the DSRAC (2014/2015) audit report, the Auditor General reported that the department had no formally adopted and tailored system or procedure manual that set out processes, controls and the officials responsible for preparing, collating, reporting and monitoring performance against predetermined objectives. The monitoring and review of compliance with all applicable legislation was not effective during the year under review, resulting in instances of non-compliance (DSRAC, 2015:121).

Furthermore, according to the DSRAC (2012/2013) annual report, the audit committee of the department considered the system of internal controls to be partially adequate and partially effective to reduce risks to an acceptable level; meet the department's objectives; ensure assets are adequately safeguarded; and ensure that transactions undertaken are recorded in the accounting records (DSRAC, 2013:116).

1.2.2 Problem statement

DSRAC is unable to move from an unqualified audit opinion to a clean audit opinion because it is unable to deal with issues relating to irregular, unauthorised, fruitless and wasteful expenditure by the internal control function. The Auditor General has over the last five years emphasised that the internal controls within DSRAC have not met the required standards and have thus negatively impacted on the ability of the Department to effectively and efficiently account for the resources that it has used in service delivery. The repeated inability of the Department to meet the internal control requirements points to an inherent inability of DSRAC to comply with internal controls and obtain a clean audit report.

1.2.3 Hypothesis

The above mentioned problem statement has formed the basis for generating a hypothesis that highlights the inability of DSRAC to implement effective and efficient internal controls systems and its inability to comply with international best practice pertaining to internal controls. The inability to attain a clean audit, is because DSRAC is unable to deal with issues relating to irregular, unauthorised, fruitless and wasteful expenditure. A hypothesis is a suggested, preliminary, yet specific answer to a problem, which has to be tested empirically before it can be accepted as a concrete answer and incorporated into a theory (Bless and Higson-Smith in Brynard & Hanekom, 2006:21).

1.3 Research question

The research question is therefore: how can DSRAC move from an unqualified audit opinion to a clean audit opinion?

In order to answer this research question a number of secondary research questions would have to be answered. These include:

- What are internal controls?
- What is irregular, unauthorised, fruitless and wasteful expenditure?
- What is the function of internal controls?
- What is international best practice regarding internal controls?
- To what degree does DSRAC comply with international best practice?
- What can DSRAC do to ensure compliance with international best practice and thus enhance its internal control function?

1.4 Research objectives

Based on the research questions mentioned above the following research objectives have been formulated:

- Define internal controls and their functions.
- Define irregular, unauthorised, fruitless and wasteful expenditure.
- Determine international best practice pertaining to internal controls.
- Determine how the DSRAC can move from an unqualified audit opinion to a clean audit opinion.
- Determine the degree to which DSRAC complies with international best practice.
- Define the actions that DSRAC needs to take to increase the effectiveness and efficiency of its internal controls.

1.5 Scope and scale of research

The time limitation of the scope and scale of the research study is a five year financial period. The period covers the financial years 2012/2013 and 2016/2017. The reason for using the five year period is due to the fact that government is using a Medium Term Expenditure Framework for its budget. The researcher has considered the issues of pre-determined objectives in the Auditor General's report, but will focus on the issues of financial statements in this research study. The research will assess the inconsistent implementation of internal controls and how DSRAC can move from an unqualified to clean audit by analysing the final management report and report of the Auditor General.

1.6 Theoretical framework

According to section 38(a)(i) of the Public Finance Management Act (PFMA) 1 of 1999 (as amended Act 29 of 1999), the Heads of Department (Accounting Officer) of DSRAC must ensure that the department has and maintains effective, efficient and transparent systems of financial management, risk management and internal control (South Africa, 1999:44). This implies that the head of department must ensure that public financial resources are properly managed to prevent irregular, unauthorised, and fruitless and wasteful expenditure.

Internal control in government is an instrument effected by leadership and other participants. They are the systems (manual or electronic), procedures and processes that are designed and implemented to minimise the risks (and any financial consequences) to which the department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other cause (South Africa, 2000:50). It is developed to attain objectives of the government department by conforming to legislation and other applicable laws; and to achieve reliable and credible financial reporting (South Africa, 2000:50).

Internal control is observed as a tool of watching the quality of enhanced financial governance (Visser & Erasmus, 2009:277). The controls encompass the pre-audit function, compliance, internal audit, protection of assets, and accuracy of accounts (Visser, 2006:86). Application of internal control in government is planned to mitigate against risks discovered in financial governance. The head of department should ensure that internal controls are adequate and are effected for planned purpose (Pauw et al., 2009:193). The plan of internal controls should provide a reasonable assertion that set goals and objectives are met with efficient and economic use of financial resources; operational and financial information is reliable and can be used; all the assets are accounted for and protected from losses; and compliance with procedures, laws, policies and regulations is ensured (Pauw et al., 2009:194).

The American Institute of Certified Public Accountants (AICPA) (2014) highlights that internal control is a process effected by management and other personnel, those charged with governance, and designed to provide reasonable assurance regarding the accomplishment of objectives in credible financial reporting (AICPA, 2014:5). Effective application of internal control mitigates risk of asset loss, and ensures that information provided is complete and accurate (AICPA, 2014:5).

The internal control on financial reporting should have characteristics of policies and procedures that provide for: appropriate segregation of duties to reduce the likelihood that deliberate fraud can occur; personnel qualified to perform their assigned responsibilities; sound practices to be followed by personnel in performing their duties and functions; a system that ensures proper authorisation and recording procedures for financial transactions (AICPA, 2014:5).

According to Jackson and Stent (2012), internal control is the responsibility of everyone in the business, those charged with governance of the company (e.g. the board of directors), management at all levels as well as ordinary employees. Internal control can be defined as the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to:

- The reliability of the entity's financial reporting;
- The effectiveness and efficiency of its operations; and
- Its compliance with applicable laws and regulations (Jackson & Stent, 2012:5/5).

It is very important to address the issue of the post matching exercise in the public sector to improve the internal control systems. This problem of employees not well placed in the public sector contributes to the lack of improved internal control systems (Jackson & Stent, 2012:5/3).

Provincial departments fail to detect and prevent irregular expenditure, resulting in this expenditure being identified by the auditors during the audit process, and this is

compounded by lack of action to regularise the expenditure even after it has been identified. It is important to describe the irregular, unauthorised, fruitless and wasteful expenditures as they occur as a result of inconsistent implementation of internal controls in the public sector; therefore they are described to the paragraphs below.

Section 1 of the PFMA defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised (National Treasury, 2014:2).

The word “in vain” as contained in the definition of fruitless and wasteful refers to a transaction, event or condition which was undertaken without value or substance and which did not yield any desired results or outcome. Reasonable care means applying due diligence (careful application, attentiveness, caution) to ensure that the probability of a transaction, event or condition not being achieved as planned is being managed to an acceptable level (National Treasury, 2014:2).

Irregular expenditure is defined in section 1 of the Public Finance Management Act (PFMA), 1999 as expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation (National Treasury, 2015:4), including –

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 19682), or any regulations made in terms of that Act; or
(c) Any provincial legislation providing for procurement procedures in that provincial government (National Treasury, 2015:4).

Unauthorised expenditure means overspending of a vote or a main division within a vote; or expenditure that is made not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division (National Treasury, 2014:2).

1.7 Methodology and research design

1.7.1 Research design

This study scrutinises internal control systems as a solution to solve the inability of DSRAC to prevent irregular, unauthorised, fruitless and wasteful expenditure so that the department can attain a clean audit report. The study is contextualised within the legislative framework on public finances. This study also reviews the importance of internal controls as applied to monitor public funds and prevent financial irregularities. The results of the study could be useful in the Public Sector at large within South Africa.

The triangulated methodology approach was used in this research study. This approach includes qualitative and quantitative perspectives. Qualitative research is more descriptive, whilst quantitative research more often draws inferences based on statistical procedures and often makes use of graphs and figures in its analysis (Ghauri and Gronhaug, 2005:132). This study made use of both methods. Moreover, a quantitative approach was needed because there are figures or statistical aspects of the observed internal control relationships that were in this study.

1.7.2 Ethical consideration and sampling techniques

The research endeavoured to act within the required policies of the department in which the research was undertaken. A permission letter was requested from the Head of Department prior to the research study. As part of the research, it was a requirement that an ethics clearance form was obtained by the researcher from the department involved, which in this case was DSRAC. Before any participant was engaged, this form was therefore presented as consent to conduct the study. The research study was limited to Head Office employees of the Eastern Cape Department of Sport, Recreation, Arts and culture and also representatives of Provincial Treasury and as well as the Auditor General.

1.8 Outline of chapters

Below is the proposed outline and sequence of the chapters in the final research study once finalised:

Chapter one presents the rationale and background of the study, research problem, problem statement, and hypothesis to the study, research objectives, scale and scope of the research, research questions, and layout.

Chapter two contains the theoretical framework and relevant legislation for the study. The emphasis is being placed on internal controls and their functions, international best practice pertaining to internal controls, COSO Internal Control Integrated Framework, implementation, effectiveness and efficiency of internal controls, and the concept of the combined assurance model.

Chapter three outlines methodology and research design. This chapter also present data analysis techniques used. This chapter has been grouped into the following: research design; target population; sources of data collected; sampling procedure; and analysis methods.

Chapter four presents findings and interpretation of data. The results consist of demographics of respondents and issues of internal controls.

Chapter five contains conclusions and recommendations based on the results gathered.

1.9 Conclusion

The background and rationale of the study has been explained. The main objective of this study is to determine how DSRAC can move from an unqualified audit opinion to a clean audit opinion. The importance of determining the degree to which DSRAC complies with international best practice was explained. Thus it is important to determine international best practice pertaining to internal controls. This will assist to define the actions that DSRAC needs to take to increase the effectiveness and efficiency of its internal controls. The next chapter will review literature about internal controls.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Chapter one discussed the background and rationale for improving internal control systems. In the next sections of Chapter two, the literature relevant to the research study is discussed and presented in order to achieve the research objectives. Some of the researcher's objectives in the study are to define internal controls and their functions; define irregular, unauthorised, fruitless and wasteful expenditure; determine international best practice pertaining to internal controls; determine how DSRAC can move from an unqualified audit opinion to a clean audit opinion; determine the degree to which DSRAC complies with international best practice; and define the actions that DSRAC needs to take to increase the effectiveness and efficiency of its internal controls.

The key legislation on internal controls are also discussed. Sections of the King IV Report on corporate governance that relate to internal controls of the department are briefly discussed. The COSO 2013 Internal Control Integrated Framework overview, components and principles are discussed in this chapter for effective internal controls for DSRAC.

2.2 Definition of internal control

Internal control in government is an instrument adopted by leadership and other participants. it consists of systems (manual or electronic), procedures and processes that are designed and implemented to minimise the risks (and any financial consequences) to which the department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other cause (South Africa, 2000:50). It is developed to attain objectives of the government department by conforming to legislation and other applicable laws; and to achieve reliable and credible financial reporting (South Africa, 2000:50). The state defines internal control as a process put in place by leadership and other participants in decision making, which is developed to provide reasonable assurances that the

department's objectives are accomplished effectively and efficiently, in conformity with legislation on financial governance of public funds.

Internal control is observed as a tool to watch the quality of enhanced financial governance (Visser & Erasmus, 2009:277). The controls encompass the pre-audit function, compliance, internal audit, protection of assets, and accuracy of accounts (Visser, 2006:86). Application of internal control in government is planned to mitigate risks discovered in financial governance. The head of department should ensure that internal controls are adequate and are effected for their planned purpose (Pauw et al., 2009:193). The plan of internal controls should provide a sound assertion that set goals and objectives are met with efficient and economic use of financial resources; operational and financial information is reliable and can be used; all the assets are accounted for and protected from losses; and compliance with procedures, laws, policies and regulations is ensured (Pauw et al., 2009:194).

2.3 Definition of irregular, unauthorised, fruitless and wasteful expenditure

These types of expenditures are explained below and such expenditures have an effect on the application of internal control, which may result in the department being unable to achieve a clean audit opinion. It is important to describe these irregular, unauthorised, fruitless and wasteful expenditures, as they occur as a result of inconsistent implementation of internal controls in the public sector, and lack of accountability as well as consequence management. They are described in the paragraphs below.

2.3.1 Irregular expenditure

Irregular expenditure is defined in section 1 of the Public Finance Management Act (1999) as expenditure other than unauthorised expenditure, incurred in contravention of, or not in accordance with, a requirement of any applicable legislation (National Treasury, 2015:4), including:

(a) this Act; or

(b) the State Tender Board Act, 1968 (Act No. 86 of 19682), or any regulations made in terms of that Act; or

(c) Any provincial legislation providing for procurement procedures in that provincial government (National Treasury, 2015:4).

DSRAC has failed to prevent and detect irregular expenditure resulting in this expenditure being identified by the auditors during the audit process and this is compounded by the lack of action to regularise the expenditure even after it has been identified. According to DSRAC's (2014/2015) final management report, the Auditor General argued that the key internal control deficiencies giving rise to irregular expenditure findings include: inadequate oversight responsibility regarding the prevention, reporting and compliance with SCM regulations; lack of action taken against perpetrators; lack of effective internal monitoring systems to ensure authorised SCM processes are followed; ineffective coordination between SCM and directorates within departments; and lack of efficient and effective financial management systems (DSRAC, 2015:11). These deviations from SCM regulations resulted in irregular expenditure of the department for the past five years due to lack of accountability and consequence management.

2.3.2 Unauthorised expenditure

This means overspending of a vote or a main division within a vote; or expenditure that is made not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division (National Treasury, 2014:2).

According to DSRAC's (2014/2015) final management report, the Auditor General reported the overspending on the adjusted budget for expenditure and identified that it was not disclosed as unauthorised expenditure in notes to the financial statements. This expenditure was thus not disclosed as unauthorised by management. The understanding was that the total vote had not been overspent and therefore was considered not to be unauthorised expenditure. As a result of the above, unauthorised expenditure in the notes to the financials was understated (DSRAC, 2015:100). This was caused by the lack of controls by management to ensure that the misstatements identified during the audit were corrected. The misstatements in the financial statements, if not corrected, may become material when accumulated and influence the audit opinion of the

department. The internal controls should be implemented and the effectiveness thereof be monitored to ensure that errors are prevented and detected prior to the start of the audit in order to achieve a clean audit opinion.

2.3.3 Fruitless and wasteful expenditure

Section 1 of the PFMA (1999), defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised (National Treasury, 2014:2).

The guideline on fruitless and wasteful expenditure provides clarity on the interpretation of two words mentioned in fruitless and wasteful expenditure, as defined in section 1 of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999). The word “in vain” as contained in the definition of fruitless and wasteful expenditure refers to a transaction, event or condition which was undertaken without value or substance and which did not yield any desired results or outcomes. The words “reasonable care” mean applying due diligence (careful application, attentiveness, caution) to ensure that the probability of a transaction, event or condition not being achieved as planned is being managed to an acceptable level (National Treasury, 2014:2).

According to DSRAC’s (2016/2017) final management report, the Auditor General reported that certain payments to suppliers were made after 30 days (DSRAC, 2017:19). In terms of Treasury Regulations 8.2.3 (TR8.2.3), unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice. The root cause is that the department does not have adequate controls in place to ensure that suppliers are paid within the stipulated timeframe. The impact is non-compliance with Treasury Regulation 8.2.3, so there could be fruitless and wasteful expenditure incurred by the department in the form of interest charged. If this non-compliance can be material it will cause the department to be unable to achieve a clean audit report. Over the past five years selected by the researcher, DSRAC always got this non-compliance finding from the Auditor General.

2.4 Application of financial systems to internal controls

The department is using three financial systems in procurement and payment of goods and services as well as employee costs. These three financial systems that are currently used by DSRAC are LOGIS, BAS, and PERSAL. This indicates that internal control systems are in place in the department; however there is a need for an improvement to the existing controls in order to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure for the department to achieve the clean audit outcomes.

The Public Finance Management Act (1999) requires that those in charge of financial governance in the public sector should be held accountable on management of public funds with the application of legislative framework (Madue, 2007:308).

2.5 Effectiveness of internal controls

The American Institute of Certified Public Accountants (AICPA) (2014) highlights that internal control is a process effected by management and other personnel, those charged with governance, and designed to provide reasonable assurances regarding the accomplishment of objectives in credible financial reporting (AICPA, 2014:5). Effective application of internal control mitigate the risk of asset loss, and ensure that information provided is complete and accurate (AICPA, 2014:5).

The internal control on financial reporting should have characteristics of policies and procedures that provide for appropriate segregation of duties to reduce the likelihood that deliberate fraud can occur; personnel are qualified to perform their assigned responsibilities; sound practices to be followed by personnel in performing their duties and functions; a system that ensures proper authorisation and recording procedures for financial transactions (AICPA, 2014:5).

According to Jackson and Stent (2012), internal control is the responsibility of everyone in the business, those charged with governance of the company (e.g. the board of directors), management at all levels as well as ordinary employees. Internal control can be defined as the process designed, implemented and maintained by those charged with

governance, management and other personnel to provide a reasonable assurance about the achievement of an entity's objectives with regard to:

- the reliability of the entity's financial reporting;
- the effectiveness and efficiency of its operations; and
- Its compliance with applicable laws and regulations (Jackson & Stent, 2012:5/5).

It is so important to address the issue of the post matching exercise in the public sector to improve the internal control systems. This problem of employees not well placed in the public sector contributes to the lack of improved internal control systems (Jackson & Stent, 2012:5/3).

2.6 International best practice of internal controls

According to the definition by Taiwan's Securities and Futures Commission (2003), internal controls are designed by a public company's management and are administrated and managed by the executive authority, management and all employees of the department. Internal controls aim to guarantee efficient operational results; reliability of financial reports; and adherence to related rules and regulations. According to this definition, it emphasises that the public sector also needs to abide by established operational standards to achieve expected results on service delivery. The utilisation of funds should be based only on established budgetary screening processes and according to rules and regulations (ICDF Special Report, 2003:104).

KPMG (2013) argue that internal control is defined in the COSO 2013 Framework as a process, effected by a department's executive authority, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance (KPMG, 2013:2).

PWC (2013) explains that this definition reflects certain fundamental concepts. Internal control is:

- Geared to the achievement of objectives in one or more categories: operations, reporting, and compliance.

- A process consisting of ongoing tasks and activities: a means to an end, not an end in itself.
- Effected by people: not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of a department to affect internal controls.
- Able to provide reasonable assurance: but not absolute assurance, to a department's senior management and executive authority.
- Adaptable to the department structure: flexible in application for the entire department or for a particular division, operating unit, or business process (PWC, 2013).

This definition of internal control is intentionally broad. The reason is that it captures important concepts that are fundamental to how organisations design, implement, and conduct internal controls, providing a basis for application across organisations that operate in different entity structures, industries, and geographic regions or areas (PWC, 2013:3).

Internal control is defined as a process designed to provide 'reasonable assurance' regarding the 'achievement of objectives' in the following categories: reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Changchit, Holsapple & Madden, 2001:438).

This definition highlights that internal controls within a department function as a 'process', a measure and an organisational tool in providing a 'reasonable' control in making sure that a government department accomplishes its obligations, objectives and mandate, particularly reporting on authentic and reliable financial information, potential inefficiency and effectiveness of departmental operations and compliance with relevant laws and regulations.

In the internal control system, reasonable control suggests that internal control could not provide absolute control over an organisation. Mostly, it could depend on the culture of

a department and human element. In the issue of a departmental culture, the effectiveness of internal controls could depend on top management commitment and eagerness to take strategic decisions in order to maintain an effective internal control system within the department. With regard to the process flow and procedure manuals, internal control is a means to an end not an end itself. It is in this context that internal controls should be monitored and evaluated. Such an evaluation and monitoring should be periodically applied so that internal control's weaknesses and strong points are assessed on interval bases. Hence there is a need for an effective internal audit and audit committee in the government department.

Effective internal control ensures that a department delivers service efficiently and effectively based on its strategic objectives. Effective internal controls also support accountability by assisting in providing reliable financial information through effective accounting standards (National Treasury, 2002:28). Emphasis is important to any weakening aspect regarding internal controls and should be attended to, because it might expose a department to risky situations like fraud, corruption and department reputational risks.

The International Organisation of Supreme Audit Institutions (INTOSAI) (2004) argues that internal control, or management control, helps to provide a reasonable assurance that the department:

(a) adheres to laws, regulations, and management directives;
(b) promotes orderly, economical, efficient and effective operations and achieves planned outcomes;
(c) safeguards resources against fraud, waste, abuse, and mismanagement;
(d) provides quality products and services consistent with the organisation's mission; and
(e) Develops and maintains reliable financial and management information and fairly discloses that data through timely reporting (International Organisation of Supreme Audit Institutions, 2004:6).

This research study also shows that an internal control system incorporates the policies, processes, tasks, behaviours and other department aspects in order to:

(a) facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the institution's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed;

(b) help to ensure the quality of internal control and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the institution; and

(c) Help to ensure compliance with applicable laws and regulations, and also with internal policies (Pickett, 2003:184).

The government also defines internal controls as systems, procedures and processes that are implemented to minimise the risk (any financial consequences) to which the department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other cause (National Treasury, 2002:28). It is so clear that government believes internal control systems should minimise risks in government due to other factors like fraud and incapacity.

2.7 Objectives of internal controls

According to KPMG (2013), the COSO Framework is designed to be used by organisations or departments to assess the effectiveness of the system of internal controls to achieve objectives as determined by management. The COSO (2013) Framework points to three categories of objectives, similar to the 1992 Framework:

- **Operations objectives** are related to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss. In the 1992 Framework, the operations objective was limited to "effective and efficient use of the entity's resources."
- **Reporting objectives** are related to internal and external financial and non-financial reporting to stakeholders, which would encompass reliability, timeliness,

transparency, or other terms as established by regulators, standard setters, or the entity's policies. In the 1992 Framework, the reporting objective was called the financial reporting objective and it was described as "relating to the preparation of reliable financial statements."

- **Compliance objectives** are related to adhering to laws and regulations that the organisation must follow. In the 1992 Framework, the compliance objective was described as "relating to the organisation's compliance with applicable laws and regulations." The 2013 Framework considers the increased demands and complexities in laws, regulations, and accounting standards that have occurred since 1992 (KPMG, 2013:2).

Applegate and Wills (1999) argue that according to the committee of sponsoring organisations of the Treadway Commission (COSO), the three primary objectives of an internal control system are to ensure efficient and effective operations; accurate financial reporting; and compliance with laws and regulations. The mentioned internal control objectives are critical because they strengthen governance in the public sector. If internal control systems become effective, they assist a department in running its own day to day operations effectively and a department is also able to clear accounting operations, comply with applicable legislation and also address the issues of financial irregularities (Applegate & Wills, 1999:1).

2.8 Characteristics of internal controls

Visser & Erasmus (2002), list the characteristics of internal controls below:

(a) **Timeliness**: Internal control system should detect potential or actual deviations early enough enabling management to take corrective action timeously and limit unnecessary cost.

(b) **Economy**: Although an internal control system should provide reasonable assurances that the objectives of department are accomplished, this should also ensure minimum cost and the fewest undesirable side effects as possible.

(c) **Accountability**: Internal control should ensure that officials are held accountable for their assigned responsibilities. This is attained by implementing prescribed policies and procedures.

(d) **Flexibility**: Changing work environments are inevitable, particularly as politics dominates the approach to service delivery in government. Internal controls are preferably designed to accommodate changes without themselves requiring change.

(e) **Appropriateness**: Internal controls should be designed to meet the desires of management in accomplishing objectives. Internal controls should fit into the personnel and organisational structure of the department (Visser & Erasmus, 2002:294).

Management should make sure that internal control systems are in place to safeguard the department's assets and assist a department in accomplishing its objectives and achieve clean audit outcomes.

2.9 COSO 2013 internal control integrated framework overview

Lord (2013), argues that in 1992, the Committee of Sponsoring Organisation of the Treadway Commission (COSO) published their Internal Control Integrated Framework (the 1992 Framework), which has become commonly known as the COSO Framework. In May 2013, COSO issued an updated Internal Control Integrated Framework (the 2013 Framework) to reflect changes in the business world over the twenty years since the release of the original Framework. While continuing to embrace a principles based approach, the updated Framework incorporates more guidance illustrating and explaining the concepts in the Framework and is intended to help organisations in their efforts to adapt to today's increasing complexity and pace of change.

The 2013 Framework retains the five components of internal control (i.e. control environment, risk assessment, information and communication, control activities, and monitoring activities). However it adds 17 principles associated with these five components that are necessary for effective internal control (Lord, 2013:01).

2.9.1 Components of internal controls

The internal control system consists of five components that are interrelated to each other. To make the components effective, they should be integrated to DSRAC's objectives, vision and mission. To be of extreme significance is the fact that they should be integrated with basic managerial processes and principles, such as planning, organising, leading, monitoring and evaluating. The COSO offers these components by explaining their contribution in mitigating risks at DSRAC. The COSO report contains five components (COSO, 2013; Agbejule & Jokipii., 2009). Agbejule and Jokipii (2009) argued that components of internal controls are part of DSRAC's internal environment and therefore play a very significant role in internal controls and may be expected to be relevant for the department intending to improve its effectiveness. The IIA (2008) and COSO (2013) describe the five components of the COSO framework as follows:

- Control environment: It is the "tone at the top" and is an indication of how passionate top management is about stringent internal control practices which should filter down to lower level employees.
- Risk assessment: This is the process of how risk is managed; that is, do controls mitigate identified risks that could impede strategic objectives?
- Control activities: This is all the policies and procedures set by the organisation that should be followed by all employees to meet objectives as best as possible.
- Information and communication: This is the process of capturing important information and communicating this information to the right people in the organisation in such a manner that it will facilitate decision making.
- Monitoring activities: This is the process of checking that all other control systems are operating as originally intended. This includes, for example, supervisory review of certain activities (IIA, 2008:16).

KPMG (2013) and PWC (2013) discussed the COSO components in detail, as summarised below:

2.9.1.1 Control environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the DSRAC. The executive authority and

senior management establish the tone at the top regarding the importance of internal controls including expected standards of conduct. Management reinforces expectations at the various levels of the DSRAC. The control environment comprises the integrity and ethical values of the department; the parameters enabling the executive authority, audit committee and senior management to carry out the governance oversight responsibilities; the organisational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigour around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal controls (PWC, 2013:4).

2.9.1.2 Risk assessment

Every government department faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the department are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

A precondition to risk assessment is the establishment of objectives, linked at different levels of the department. Management specifies objectives within categories relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyse risks to those objectives. Management also considers the suitability of the objectives for the department. Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal controls ineffective (PWC, 2013:4).

2.9.1.3 Control activities

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the department, at various

stages within business processes, and over the technology environment. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorisations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities (PWC, 2013:4).

2.9.1.4 Information and communication

Information is necessary for the department to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal controls. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout DSRAC, flowing up, down, and across the department. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations of the department (PWC, 2013:5).

2.9.1.5 Monitoring activities

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal controls, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the department, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. The findings are evaluated against criteria established by regulators, recognised standard-setting bodies or management and the MEC, and deficiencies are communicated to management and the executive authority of the department as appropriate (PWC, 2013:05).

COSO acknowledges the fact that the above components of internal controls link to each other to form an integrated system that is able to react to dynamic conditions. Therefore, all the above components must be present and functional in order to make sure that internal controls over operations are effective. To have a risk management strategy, effective internal controls within a government department must be instituted and supported by a positive organisational culture and a strong team of visionary managerial leadership that is prepared to inculcate a culture of risk management.

Fundamental to the above components is the fact that internal controls should be established in an environment that is conducive for them to function effectively. It is in this context that a control environment must be established. It takes basic management skills and leadership in developing internal controls. The most important aspect is the fact that internal controls must be monitored. The internal audit is there to test the effectiveness of the internal controls within the department.

2.9.2 Components and principles

PWC (2013) argued that the COSO 2013 framework sets out seventeen principles representing the fundamental concepts associated with each component. Because these principles are drawn directly from the components, a government department can achieve effective internal control by applying all principles. All principles apply to operations, reporting, and compliance objectives. The principles supporting the components of internal control are listed below (PWC, 2013:06-07).

Control environment

1. The DSRAC demonstrates a commitment to integrity and ethical values.
2. The executive authority and audit committee demonstrates independence from management and exercises oversight of the development and performance of internal controls.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

4. The department demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The department holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk assessment

6. The DSRAC specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The department identifies risks to the achievement of its objectives across the department and analyses risks as a basis for determining how the risks should be managed.
8. The department considers the potential for fraud in assessing risks to the achievement of objectives.
9. The department identifies and assesses changes that could significantly impact the system of internal controls.

Control activities

10. The DSRAC selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The department selects and develops general control activities over technology to support the achievement of objectives.
12. The department deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information and communication

13. The DSRAC obtains or generates and uses relevant, quality information to support the functioning of internal controls.
14. The department internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal controls.

15. The department communicates with external parties regarding matters affecting the functioning of internal controls.

Monitoring activities

16. The DSRAC selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal controls are present and functioning.
17. The department evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the executive authority, as appropriate.

Changchit, Holsapple and Madden (2001), point out that the evaluation and design of internal control systems should receive full attention from the leadership of the department. The management of internal controls should be at a reasonably acceptable standard by making sure that the integrity of an institution is not undermined in order for internal controls also to have standards (Changchit, Holsapple & Madden, 2001:437).

2.10 Application of internal controls

The departmental leadership should define the level of risk it is willing to accept in the area to be assessed before controls can be evaluated. The internal controls in place should be evaluated to measure how successful they are projected to be in mitigating to a required level (South Africa, 2009:47).

2.10.1 Types of controls

It is relevant for the objective of this research to elaborate on the types of controls as follows:

- **Directive controls -** A directive control is intended to cause or encourage a desirable event to occur, for example orientation of all new employees on departmental policies, and implementation of a delegation within DSRAC.
- **Preventive controls -** A preventive control is designed to prevent undesirable events from occurring. The preventive controls include employment of trustworthy

and competent people, segregation of duties, and physical control over assets to prevent improper conversion or use in the department.

- **Detective controls -** The detective controls are designed to detect undesirable events that have occurred. The detective controls include reviews and comparisons, such as records of performance and independent checks on performance. They also include control devices such as bank reconciliations, confirmation of bank balances, cash counts, physical counts of inventories and analysis of variances, and computerised techniques such as transaction limits and passwords.
- **Corrective controls –** The corrective controls rectify an error or irregularity which has been detected. An example is causing an employee to pay back funds that were fraudulently acquired from the department (South Africa, 2009:48).

2.10.2 Evaluation of internal controls

Based on the results of the risk assessment, the DSRAC Internal Audit must evaluate the adequacy and effectiveness of internal controls encompassing the department's governance, operations, and information systems. These controls contain reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws and regulations.

The DSRAC Internal Audit should perform an adequate audit assignment and gather information to form an opinion on the adequacy and effectiveness of the internal control process. The Chief Audit Executive should communicate the overall opinion timeously. To ensure that controls are effective, correct and supported by acceptable evidence, the auditors are required to analyse and evaluate the findings in order to determine whether the internal controls are effective or not. The present internal controls are effective when they give reasonable assurance that the process will accomplish its performance objectives. On the other hand, the present internal controls are ineffective when they do not give reasonable assurance that the process will accomplish its performance objectives (South Africa, 2009:50).

2.11 Internal controls assessment

For adequacy of internal controls assessment by auditors, the inability of controls could be detected as result of the following issues:

- Absence of segregation of authority;
- Lack of communication and discussion about consequences on fraud or irregularities;
- Absence of audit trail;
- Lack of effective supervision;
- No authorisation of transaction;
- Lack of financial records keeping; and
- Inappropriate protection of assets against theft (Hillison, Pacini & Sinason 1999:354).

The above mentioned failures could result in the department receiving a disclaimer or adverse audit opinion from the Auditor General. Thus a clean audit opinion objective might not be fulfilled.

2.12 Limitation of internal controls

This research demonstrates that internal controls can only provide a reasonable, not absolute, assurance in attaining departmental objectives and maintaining standards of DSRAC. Hence, the International Organisation of Supreme Audit Institutions (INTOSAI) provides an outline of certain limitations:

(a) An effective internal control system reduces the probability of not achieving the objectives. Therefore, there will always be the risk of internal controls being poorly designed or failing to operate as intended;

(b) Human factor - internal controls depend on the human factor. Therefore, it is subject to flaws in design, errors of judgement or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse and override;

(c) Resource constraints - a design of the system of internal control faces resource constraints. Personnel must consequently consider benefits of controls in relation to jobs. Maintaining an internal control system that eliminates the risk of loss is

not realistic and would probably cost more than is warranted by the benefit derived; and

(d) Departmental changes and management attitude - can have a profound impact on the effectiveness of internal controls and the personnel operating the system. It is therefore important that management is continuously reviewing and updating controls, communicating changes to personnel, and setting an example of adhering to those controls (International Organisation of Supreme Audit Institutions, 2004:12).

The human factor has been a major problem regarding the limitations of internal control. It is because people within a department sometimes prefer a short cut at operational level and thereby undermining internal control systems or procedures. It is important to monitor internal control systems because the human factor is able to affect internal controls negatively and this could create negative outcomes for the department.

The International Organisation of Supreme Audit Institutions (2004), argues that internal control should not be looked upon as separate, specialised systems within a government department, but rather as an integral part of a system that management uses to guide its operations (INTOSAI, 2004:6).

The managers are responsible for establishing an effective control environment in the department and this is part of their stewardship responsibility over the use of government resources (International Organisation of Supreme Audit Institutions, 2004:17). However, within the South African Public Service, it is evident that internal controls are not becoming a culture of management for daily operations and this creates very poor monitoring of internal controls in general.

2.13 Management's responsibility for internal controls

The managers design, implement and maintain internal controls in all processes in order to ensure that employees respond to changes in the working environment, ensure that policies and procedures are adhered to and to ensure that goals are achieved as well

(Collier & Agyei-Ampomah, 2007). Collier et al. (2007) confirm that management internal controls are exercised at middle management level and deal with implementing strategy and procedures, and monitoring performance in order to achieve the planned objectives. These procedures and policies are the internal controls used by managers to ensure achievement of the objectives to a reasonable extent, effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Collier et al., 2007).

Pickett (2005) highlight where responsibility for internal controls lies in a department. He believes that, while the executive authority sets the overall direction, it is management that is tasked with implementing, maintaining, revising and updating effective internal controls. Management's key responsibilities towards internal controls are:

- Management should determine the need for internal controls. It should identify areas where internal controls are needed and respond appropriately.
- Management should devise appropriate internal controls. Once the need for internal controls has been defined, management should set up suitable methods for establishing the internal controls.
- Management should put the internal controls into practice. The managers are obliged to ensure that the internal control processes are carefully implemented.
- Management should monitor whether the internal controls are functional. Management, not the internal audit function, is in charge of ensuring that internal control processes are not by-passed but are fully functional as intended.
- Management should maintain and revise internal controls. Securing control is a permanent task that has to be a primary management concern (Pickett, 2005).

2.14 Legislation on internal controls

Legislation is very important for effective internal control systems. It guides the operations of the department and improves the internal control system in order for the department to achieve clean audit outcomes. The constant application of the legislation ensures the department will achieve its objectives. The legislation that guides the internal control systems is discussed below:

2.14.1 Constitution of the Republic of South Africa

The Constitution of the Republic of South Africa (1996) outlines that departments must consistently apply the legislation in order to improve their internal control system and achieve clean audit outcomes. Section 216(1) states that generally recognised accounting practices (GRAP), uniform expenditure classifications such as the standard chart of accounts (SCOA), and uniform treasury norms and standards must be introduced for effective internal controls within the public sector. Section 216(2) states that the national treasury must enforce compliance with the measures established in terms of sub-section (1), and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures (South Africa, 1996:124-125). It is very clear that non-compliance must not be tolerated and consequence management must be applied according to this section in order to achieve clean administration.

2.14.2 Public Finance Management Act

The Public Finance Management Act (PFMA) 1 of 1999 (as amended Act 29 of 1999) is aimed at regulating financial management in the national government and provincial governments, to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively, to provide for the responsibilities of persons entrusted with financial management in those governments, and to provide for matters connected therewith (South Africa, 1999:5).

Section 38(a)(i) of the Public Finance Management Act (PFMA) 1 of 1999 (as amended Act 29 of 1999), states that the Accounting Officer for a department must ensure that the department has and maintains effective, efficient and transparent systems of financial, risk management and internal control. Section 38(a)(ii) points out that the accounting officer must ensure that the department 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 section 76 and 77 (South Africa, 1999:39). Inconsistent application of PFMA and internal controls at

DSRAC may lead to the department not moving from an unqualified audit opinion to clean audit.

2.14.3 Auditor General's Act of 1995 (Act 12 of 1995)

The Auditor General is the person who in terms of section 244(1)(a) of the Constitution continues in the office of the Auditor-General or is appointed as such in terms of section 191 of the Constitution (South Africa, 1995:1). DSRAC is audited by the Auditor General, who expresses an audit opinion on the financial administration of the department as per this Act. Sections (4)(a) to (4)(d) of the Act state that Auditor General must satisfy himself or herself on auditing the use of public funds in the state institutions and express an opinion on financial records and reporting (South Africa, 1995:4).

2.14.4 Treasury Regulations of 2005

Sections 76(4)(d) to (e) and 77 of the PFMA stipulate regulations on internal controls through audit committees and internal audits (South Africa, 2005:165). Treasury Regulation 3.1.10 states that the audit committee must review the effectiveness of the internal audit function; the risk areas of the institution's operations to be covered in the scope of internal and external audits; the adequacy, reliability and accuracy of the financial information provided to management and other users of such information; any accounting and auditing concerns identified as a result of internal and external audits; and the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations (South Africa, 2005:165).

Similarly, section 38(i) states that the accounting officer for a department must ensure that the department has, and maintains, effective, efficient and transparent systems of financial and risk management and internal controls. Section 38(ii) specifies that the accounting officer for a department must ensure that the department 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 section 76 and 77 (South Africa, 1999:44).

The Accounting Officer of the department has a right to be assisted by the Chief Financial Officer (CFO) in discharging his duties (South Africa, 2005:236). However, the Accounting Officer remains accountable for the delegated responsibilities such as financial management, because accountability cannot be delegated.

2.14.5 Public Audit Act of 2004 (Act 25 of 2004)

The purpose of this Act is to give effect to the provisions of the Constitution establishing and assigning functions to an Auditor General; to provide for the auditing of institutions in the public sector; to provide for accountability arrangements of the Auditor General; to repeal obsolete legislation; and to provide for matters connected therewith (South Africa, 2004:02).

The objectives of this Act are:

- to give effect to the provisions of the Constitution establishing, and assigning supreme auditing functions to an Auditor-General;
- to provide for the auditing of institutions and accounting entities in the public sector; and
- To provide for an oversight mechanism established in terms of section 10(3) in the following:
  - (i) to assist and protect the Auditor General in order to ensure the independence, impartiality, dignity and effectiveness of the Auditor General; and
  - (ii) To advise the National Assembly (South Africa, 2004:05).

2.15 Public sector governance

IIA (2012), highlights that governance is defined as the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the organisation's activities toward the achievement of its objectives. In the public sector, governance relates to the means by which goals are established and accomplished. It also includes activities that ensure a public sector entity's credibility, establish equitable provision of services, and assures appropriate behaviour of government officials (IIA, 2012:5). This is simply a means reducing the risk of public corruption.

2.16 Corporate governance

The King IV Report (2016) defines corporate governance as the exercise of ethical and effective leadership by the governing body (i.e. executive authority) towards the achievement of the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy (IoDSA, 2016:20).

The King IV Report (2016) argues that ethical and effective leadership should complement and reinforce each other in any organisation (IoDSA, 2016:20). Furthermore, ethical leadership is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. It involves the anticipation and prevention, or otherwise amelioration, of the negative consequences of the organisation's activities and outputs on the economy, society and the environment and the capitals that it uses and affects. Furthermore, effective leadership is results-driven. It is about achieving strategic objectives and positive outcomes. Effective leadership includes, but goes beyond, an internal focus on effective and efficient execution.

Corporate governance should provide reasonable incentives for directors and management to strive towards objectives that are in the best interests of the organisation and shareholders, while producing an effective monitoring platform (Kirkbride & Dujuan, 2009:140). Ethical behaviour should be followed at all times in staying on the path to recession recovery and should be encouraged by management as this improves performance outcomes (Kirkbride & Dujuan, 2009:141; Trong Tuan, 2012:547).

2.17 Audit Committee's role in the public sector

The audit committee can greatly strengthen the independence, integrity, and effectiveness of public sector audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the department. The audit committees also

ensure that audit results are aired and any recommended improvements or corrective actions are addressed or resolved for achieving clean administration. The need for, and composition of the audit committee depends on individual circumstances, the nature of the audit activity, and the decision of the legislative or governing body (IIA, 2012:23). In DSRAC, the relevant audit committee comprises a minimum of three and maximum of five members who has been appointed in accordance with section 77 of the PFMA by the accounting officer in consultation with the executive authority (DSRAC, 2017:10).

The audit committee is established as an oversight body, providing independent oversight over governance, risk management and control processes of the department (DSRAC, 2017:3).

The King IV Report (2016) argues that the establishment of an audit committee is a statutory requirement for some organisations. The governing body of any organisation that issues audited financial statements should consider establishing an audit committee, the role of which should be to provide independent oversight of among others:

- The effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function; and
- The integrity of the annual financial statements and, to the extent delegated by the governing body, other external reports issued by the organisation (IoDSA, 2016:55).

2.17.1 Audit committee responsibilities relating to internal controls

The audit committee has the following responsibilities relating to internal controls:

- Review the adequacy and effectiveness of the internal control systems;
- Consider disclosing implications of material internal control deficiencies identified in external audit reports, internal audit reports or during the execution of the committee's oversight functions, and the manner in which management is dealing with it;

- Review of the department's processes for compliance with the laws and regulations of applicable statutes (DSRAC, 2017:09).

2.18 Combined assurance model

The King IV Report (2016) argues that, basically, combined assurance is a concept whereby different units within the organisation and outside the organisation give assurance on the organisation in an integrated manner to executives and management, on effectiveness and efficiency of internal controls, compliance to laws and regulations, management of risks, the internal audit and external audit. It is also done to ensure that duplication of effort is eliminated, cost is cut and time is saved. Combined assurance is done by internal stakeholders and also by external stakeholders. Internal assurance is provided by stakeholders or management within the organisation and the internal audit provides an independent assurance which is free from management influence. External assurance is provided by external auditors or other external stakeholders (IoDSA, 2016:31).

2.19 Conclusion

In the above literature review, the researcher defined the internal controls, as well as irregular, unauthorised, fruitless and wasteful expenditure, in order to achieve the objectives of the research. The components and principles of internal controls have been discussed and critically analysed for their roles in achieving the department's objectives. Internal control as a component of governance could assist departments to achieve a clean audit opinion. The researcher has outlined the relevant legislation for internal controls of DSRAC. In the Eastern Cape Province each department has an internal control component in order to improve the internal control systems in the province. Hence internal control systems play a very important role in the Public Sector to improve overall financial governance.

Chapter three provides input on methodology and research design aimed at improving the internal control system in the public sector.

CHAPTER 3

METHODOLOGY AND RESEARCH DESIGN

3.1 Introduction

Chapter two discussed the theoretical framework on improving internal controls of DSRAC as a department within the public sector. Chapter three focuses on how this research has been conducted. According to Jonker and Pennink (2010), methodology is the way in which a research study is conducted by a researcher. Jonker and Pennink (2010) define methodology as the way in which a researcher conducts research. The methodology is the way in which a researcher chooses to deal with a particular question, which may consequently result in a problem definition (Jonker and Pennink, 2010:17). The research question for this study is therefore how DSRAC can move from an unqualified audit opinion to a clean audit opinion? The methodology that has been used was based on the research question. Based on all the research questions the following research objectives have been formulated:

- Define internal controls and their functions.
- Define irregular, unauthorised, fruitless and wasteful expenditure.
- Determine international best practice pertaining to internal controls.
- Determine how DSRAC can move from unqualified audit opinion to a clean audit opinion.
- Determine the degree to which DSRAC complies with international best practice.
- Define the actions that DSRAC needs to take to increase the effectiveness and efficiency of its internal controls.

This chapter discusses the research methods used to achieve primary and secondary objectives of the research study. This chapter covers the research objectives, the research design, target population, sample size, sampling techniques, data collection method, data analysis, the role of validity and reliability and ethical considerations.

Secondary research was undertaken in chapter 2 on the relevant literature on internal control systems in the public sector, which includes audit reports, final management reports expressed by Auditor General, books, legislation, official publications, newspapers, research surveys, thesis, and dissertations, and other material from the internet. This chapter also provides a clear view of the research methods employed by the researcher in conducting the study to achieve the objectives of the research.

Quinlan (2011) defines research as a process of gaining information which is used to solve a particular problem. The research methodology describes how the research was conducted, including all the specific and related details as well as the research method selected (Quinlan, 2011:9). The research methodology signals to the reader how the research was conducted, and what philosophical assumptions underpin the research (Quinlan, 2011:41). However, Sekaran and Bougie (2011) argue that research is an organised, systematic, critical, scientific inquiry or investigation into a specific problem, undertaken with the objective of finding answers or solutions thereto (Sekaran and Bougie, 2011:3). This study has included the process of enquiry, investigation and examination of the problem as it is outlined in the research question through a questionnaire. The research process has been carried out systematically, diligently, critically, objectively, and logically in order to achieve the objectives of the research. The following section explains the research design of the study.

3.2 Research design

The research design is a case study approach. It is because the research study focused on the Eastern Cape Department of Sport, Recreation, Arts and Culture. According to University of Southern California Libraries (2016), a case study is an in-depth study of a particular research problem rather than a sweeping statistical survey or comprehensive comparative inquiry (University of Southern California Libraries, 2016:1). It is often used to narrow down a very broad field of research into one or a few easily researchable examples. The case study research design is useful for testing whether a specific theory and model actually applies to phenomena in the real world. It is a useful design when not

much is known about an issue or phenomenon (University of Southern California Libraries, 2016:1).

This study scrutinises internal control systems as a solution to DSRAC's inability to prevent irregular, unauthorised, fruitless and wasteful expenditure so that the department can attain a clean audit report. The study has been contextualised within the legislative framework on public finances. This study has also reviewed the importance of internal controls for monitoring public funds and preventing financial irregularities. The results of the study could be useful in the Public Sector at large within South Africa.

The triangulated methodology approach has been used in this research study. This approach includes qualitative and quantitative elements. A qualitative research approach is more descriptive, whilst quantitative research more often draws inferences based on statistical procedures and often makes use of graphs and figures in its analysis (Ghauri and Gronhaug, 2005:132). A researcher makes use of both methods. On the other hand, a quantitative approach is important because there are figures or statistical aspects of the observed internal control relationships that have been included in this study.

3.3 Qualitative and quantitative research

The researcher explains these two methods in the following sections.

3.3.1 Qualitative research method

Struwig and Stead (2013) argue that qualitative research concerns itself partly with the approaches such as phenomenology, ecological phycology, ethnography, symbolic interactionism, and post-modernism, and employs research methods such as participation observation, archival source analysis, interviews, focus groups, and content analysis (Struwig and Stead, 2013:10). However, Cresswell (1994), defines the qualitative methodology as an approach that provides descriptive data, the respondent's own spoken words regarding the experience she or he has perceived (Cresswell, 1994:42). This method has been used as it makes it easier and possible to establish the views of respondents, regarding how they evaluate their opinions and how scenarios

impact their thoughts. Numbers are not assigned to the opinions expressed by respondents. The opinions of respondents, however, have been presented quantitatively through graphs. However, Leedy and Ormrod (2013) argue that the qualitative research approach has two things in common; namely: it focuses on phenomena that occur in natural settings thus in the real world; and it involves capturing and studying the complexity of those phenomena (Leedy and Ormrod, 2013:139). The researcher in this study has tried to make the observations very simplified based on the reports of the Auditor General as well as final management reports of the Auditor General for the financial years from 2012/2013 to 2016/2017.

3.3.2 Quantitative research method

Struwig and Stead (2013) point that quantitative research is a form of conclusive research involving large representative samples and fairly structured data collection procedures (Struwing and Stead, 2013:3). However, Maree (2012), defines quantitative research as a process that is systematic and objective in its ways of using numerical data from only a selected subgroup of a universe, or population, to generalise the findings to the universe that is being studied (Maree, 2012:145).

The qualitative and quantitative methodologies are suitable means to test the hypothesis in this research case study. This study depends on the information revealed in the reports of the Auditor General and final management reports of the Auditor General for the financial years from 2012/2013 to 2016/2017, which have been scrutinised. The reports of the Auditor General revealed how the employees of the department, who are the role players of internal controls, have been performing. The following research tools have been employed to gather the primary data and questionnaires.

3.4 Questionnaire design

Acharya (2010) explains that a questionnaire is a paper comprising questions intended to solicit information suitable to the investigation's analysis (Babbie, 1990:377). It is similarly used in analysis studies, tests and other sources of opinions (Acharya, 2010:2). However, Acharya (2010) states that there are two kinds of questionnaires; namely:

structured and unstructured. Moreover, because a combination of them together is called a quasi-structured questionnaire which is used commonly in social science study, therefore it is not relevant to this study (Acharya, 2010:3).

The greatest quantitative data collection processes makes use of organised questionnaires. The benefits of organised or structured questionnaires are fewer inconsistencies, easy to manage, consistency in responses and easy for data administration. Unorganised or unstructured questionnaires contain open ended and vague observation kinds of questions. It may happen that questions are not in the setup of interrogative sentences; then the interviewer needs to elaborate the logic of the question. Focus group discussions make use of such questionnaires (Acharya, 2010:3). This study most suited the use of an organised or structured questionnaire to evaluate the compliance of the department with legislative financial governance laws, including PFMA, Treasury Regulations and accepted international best practice pertaining to internal control and reporting requirements.

For the determinations of the study's objectives, the researcher has made use of a combination of open and close ended questions. The open ended questions permit participants to provide answers in their unique way. The closed questions give a sum of alternative responses from which participants are asked to select. The participants have been provided answers and simply need to tick the suitable response.

The first seven questions were concerned with the demographics and personal information of the respondents. The remaining questions were associated and benchmarked to the research question, objectives, and theoretical review of the study. The researcher in his questionnaire has attached a scale to the closed questions in which the participants have been asked how strongly they agreed or disagreed or were neutral with a statement. A rating scale of 1-5 was given to the respondents. Instructions to be followed in answering the questionnaire were also provided to the respondents.

3.5 Target population

Lewis, Saunders and Thornhill (2009) argue that the population is a very important factor for survey research and they define the population as a complete set of cases or group members that have at least one common characteristic (Lewis et al., 2009:212). Other authors argue that the population is a larger group to which one might attempt to apply the outcomes (Frankel and Wallen, 2007:103).

The target population for this research study included the Head of Department (HOD) as the Accounting Officer, Chief Financial Officer (CFO), Chief Audit Executive (CAE), Chairperson of the Audit Committee, an Audit Manager from the Auditor General's office (Eastern Cape Province), a Director and Deputy Director from the Eastern Cape Provincial Treasury and employees of the department at head office. The corporate service managers were selected as the target population as well. The selected population for the research study represents the relevant stakeholders for the issue of improving internal control systems of DSRAC and moving the department from an unqualified to clean audit opinion and is deemed sufficient to give responses that directly address issues of irregular expenditures that cause the department not to achieve a clean audit report.

3.6 Sampling techniques

Maree (2012), defines a sample as a subset of the population consisting of a predetermined number, a sample size of randomly selected sampling units from the population (Maree, 2012:147). However, Lewis et al. (2009) assert that a sample is a subcategory or portion of the bigger population (Lewis et al., 2009:600). Furthermore, Lewis et al. (2009) argue that there are two forms of sampling techniques, namely: probability and non-probability sampling. The probability sampling technique is a sample method associated with surveys, therefore it was used in this study since it is a relevant sample technique. Moreover, probability sampling occurs when the chance of each case being selected from the population is identified and regularly equivalent for all scenarios (Lewis et al., 2009:213). When a researcher wants to use probability sampling, he must remember that a sampling frame is required.

Guzman (2009) states that a sampling frame is a list of sampling components that provides admission to the population of interest (Guzman, 2009:2). A random sampling procedure has been considered and used in this study. The unrestricted nature of the simple random sampling procedure was envisioned to provide an equivalent chance to each portion in the selected population to be chosen as a respondent and also to diminish the researcher's prejudice.

Moreover, Guzman (2009) highlights that random sampling is frequently used because of its image and independence from injustice. The freedom from human unfairness and classification error remains one of the main benefits simple random sampling offers, as it gives each member of a population a fair chance of being chosen. If it is done right, a simple random sampling results in a sample highly representative of the population of interest. The sample is highly representative because the researcher had access to all the needed data about the population (Guzman, 2009:4).

Furthermore, the popularity of random sampling stems from its ease of analysis. Other sampling methods necessitate considerable thorough research and advanced information of a population prior to the chosen subjects. A sampling frame only is required in a simple random sampling. In a simple random sample, being highly representative of a population, also simplifies data clarification and the analysis of results. The trends within the sample can act as outstanding indicators of trends in the overall population. Many consider generalisations derived from a well collected simple random sample to have sufficient external validity (Guzman, 2009:5).

A sampling frame of interest in this research was all employees of DSRAC (Head Office) and Corporate Services Managers, a Director and Deputy Director from the Eastern Cape Provincial Treasury, an Audit Manager from the Eastern Cape Auditor General's office and Chairperson of the Audit Committee of DSRAC. The population of DSRAC is about 1220 employees. The actual sample that has been used in this research was 43.

The respondents are directly affected by the processes of inconsistent implementation of internal control systems at DSRAC and the impact on service delivery, which results in the inability of the department to obtain a clean audit. The researcher also took into consideration that certain people may refuse to co-operate with a survey and some may be unable to comment due to the fact that they are new in the department. The sample period dates back from financial years 2012/2013 to 2016/2017. The targeted population that had been utilised in the sample is shown in the table below:

Table 3.1: Profile of targeted respondents

Respondent Profile	Sample
Head of Department (HOD) – This means that the Accounting Officer is responsible for the running of the department in terms of section 38 of the PFMA.	1
Chief Financial Officer – The CFO is accountable for the financial administration, including internal control systems and compliance matters of DSRAC.	1
Chief Audit Executive – The CAE is responsible to test the effectiveness of the internal control systems of DSRAC and perform internal audits, improve internal controls with his recommendations. He should functionally report to the Audit Committee and administratively report to the Accounting Officer.	1
Chairperson of the Audit Committee – The chair is responsible for the effectiveness of the auditor committee of	1

DSRC through the use of an internal audit of the department.	
Audit Manager from Eastern Cape Auditor General's office – is responsible for expressing an audit opinion on annual financial statements of DSRAC including assessment of the audit committee.	1
Director and Deputy Director from Eastern Cape Provincial Treasury – who are responsible for oversight and financial analysis of DSRAC with regard to the reports of Auditor General.	2
Other employees of the department at Head Office and Corporate Services Managers – these officials are directly involved in the internal processes of the department.	36

The sample is believed to be representative of the population as it covers all the targeted population.

3.7 Data collection

Data collection is a process of gathering and measuring information from a variety of sources to get a complete and accurate picture of an area of interest of the research study. Data collection consists of surveys, interviews, focus groups, observation (Harrell and Bradley, 2009:6).

Harrell and Bradley (2009), identify and describe the following forms of data collection when a researcher is conducting a research study:

- **Surveys** are fixed sets of questions that can be administered by paper and pencil, as a Web form, or by an interviewer who follows a strict script.
- **Interviews** are discussions, usually one-on-one between an interviewer and an individual, meant to gather information on a specific set of topics. Interviews can be conducted in person or over the phone. Interviews differ from surveys by the level of structure placed on the interaction.
- **Focus groups** are dynamic group discussions used to collect information.
- **Observation** is data collection in which the researcher does not participate in the interactions.
- **Extraction** is the collection of data from documents, records, or other archival sources. This generally includes using an abstraction process to cull the information desired from the source (Harrell and Bradley, 2009:6).

The primary data collection for this study was achieved through a questionnaire completed in a one on one interview. The other information was collected through observations by attending audit committee meetings, finance committee (In Year Monitoring) and internal control committee meetings. In some instances questionnaires were emailed to the targeted population. The measurement instrument was a questionnaire that consisted of both close-ended and open-ended questions.

The following documents and information were obtained and analysed from DSRAC:

- Minutes of Audit Committee meetings;
- Minutes of Auditor General steering committee meetings;
- Minutes of the Internal Control Committee meetings;
- Audit Committee Charter;
- Internal Audit Charter;
- Annual Report 2012/2013 to 2016/2017;
- Auditor General Reports 2012/13 to 2016/2017.

The researcher adhered to the following procedures when conducting the research study:

- Mailed responses were collected from the researcher‘s email account;

- Personally delivered questionnaires were personally collected.

3.8 The measurement instrument

Leedy and Ormrod (2013), argue that measurement is limiting the data of any phenomenon, substantial or insubstantial, so that those data may be interpreted and, ultimately, compared to a particular qualitative or quantitative standard (Leedy and Ormrod, 2013:81). However, Mouton (2011), refers a measurement instrument to such instruments as questionnaires, observations schedules, interviewing schedules and psychological tests (Mouton, 2011:100). The researcher, during the formulation of the questionnaires, ensured that the objective of each question was analysed and categorised accordingly per relevant respondent targeted on the basis of their responsibility and relevance. The following guidelines were considered in formulating the questionnaire:

- Why are these questions being asked?
- Be clear and concise.
- Response choices should not overlap.
- Use natural and familiar language.
- Do not use words or phrases that show bias.
- Avoid double-barrelled, or ambiguous questions.
- Provide explicit alternatives.
- Questions should be reliable, relevant and valid.

The researcher estimated that it was going to take 25 minutes to complete a questionnaire.

3.9 Data analysis

Peersman (2014) argues that data analysis is the process of evaluating data using analytical and logical reasoning to examine each component of the data supplied. The analysis of data is one of the many steps that was be applied when conducting this research study. The data from various sources was gathered, reviewed, and then analysed to form some sort of findings, recommendations and conclusion (Peersman,

2014:8). According to Peersman (2014), aspects of data quality when a researcher is conducting research study must be in the following forms:

- **Validity:** Data measure what they are intended to measure.
- **Reliability:** Data are measured and collected consistently according to standard definitions and methodologies; the results are the same when measurements are repeated.
- **Completeness:** All data elements are included (as per the definitions and methodologies specified).
- **Precision:** Data have sufficient detail.
- **Integrity:** Data are protected from deliberate bias or manipulation for political or personal reasons.
- **Timeliness:** Data are up to date (current) and information is available on time (Peersman, 2014:6).

During data collection, questionnaires were categorised and grouped per respondent and per objective of the question. The documents were obtained from DSRAC and were categorised in terms of relevance to the meaning and contribution to the study. The obtained data was also categorised regardless of which respondent it was obtained from; however, if it had been categorised per respondent, this would assist in drawing up conclusions and to a certain extent contribute to whether the results could be generalised.

The researcher is therefore positive that all the people who responded are relevant and could give valid responses because they are working within the department and make oversight on DSRAC's performance with regard to the effectiveness of internal controls. For instance, the Eastern Cape Provincial Treasury for its oversight responsibility was able to give valid and relevant responses about DSRAC. The Provincial Treasury is working towards assisting DSRAC to move from an unqualified to a clean audit. The level of provincial treasury monitoring and assistance they provide to DSRAC, was observed by the researcher.

3.9.1 Validity

According to Maree (2012), a measure or instrument is said to be valid if it measures what it is supposed to measure (Maree, 2012:147).

3.9.2 Reliability

Again, according to Maree (2012), reliability has to do with the consistency or repeatability of a measure or an instrument, for example, a questionnaire. High reliability is obtained when the measure or instrument will give the same results if the research is repeated on the same sample (Maree, 2012:147).

3.10 Reporting results

Upon completion of the data analysis and having drawn conclusions, a research report was compiled for submission to the Faculty of Business and Economic Sciences in partial fulfilment of the Master of Philosophy in Development Finance degree.

3.11 Ethical consideration

This researcher endeavoured to act within the required policies of the Department of Sport, Recreation, Arts and Culture in which the research was undertaken. According to Resnik (2015), when a researcher is conducting a study it is very important to adhere to ethical norms and standards in the research (Resnik, 2015:2). A permission letter was requested from the Head of Department prior to the research study being conducted. As part of the research, it is a requirement that an ethics clearance form is obtained by a researcher from the institution involved. Before any participant gets engaged, this form had therefore to be presented as consent to conduct the study. Resnik (2015), defines ethics as a method, procedure, or perspective for deciding how to act and for analysing complex problems and issues (Resnik, 2015:2).

This researcher has striven for ethical principles in conducting this research. It is in the researcher's aim for this study to produce honest feedback. The researcher adhered to the principle of objectivity and integrity for avoiding bias on data analysis and interpretation (Resnik, 2015:4). The researcher also paid more attention to confidentiality

of information given by the participants during data analysis and collection. The information was kept confidential by the researcher. Therefore the researcher adhered to ethical considerations and standards as outlined above.

3.12 Conclusion

This chapter gave insight into the methodology of the study to be followed in collecting data. This chapter also highlighted the research design, qualitative and quantitative research methods being used by the researcher, target population, sampling techniques, measurement instruments, data analysis, validity, reliability and ethical consideration of the study. The researcher indicated the target of about fourty three participants in this study. The approval from the head of department to conduct a study and ethics clearance was obtained. The next chapter will discuss the findings and interpretation of data.

CHAPTER 4

FINDINGS AND INTERPRETATION OF DATA

4.1 Introduction

Chapter three presented the methodology of the study. This chapter outlines and presents the responses from the participants to the questionnaire of the study. The responses from respondents consist of demographics and personal details and data analysis of the study pertaining to internal controls. The data from participants is presented in graphic format.

4.2 Demographics and personal details of respondents

Figure 4.1 below presents the age of respondents in a graphic format. A total of 16% of respondents fall between 26 and 35 years, followed by 37% of the respondents being between 36 and 45 years; this indicates that the majority of the employees of the department are in this category. More than a quarter, 28% of respondents are between 46 and 55 years, and 19% of respondents are between 56 and 65 years. It is remarkable that there are no respondents falling between 18 to 25 years in the department. The majority of employees of the department are still young and they are far from retirement, therefore it provides stability to the organisation to fulfil its objectives and achieve service delivery.

Figure 4.1: Age group of respondents

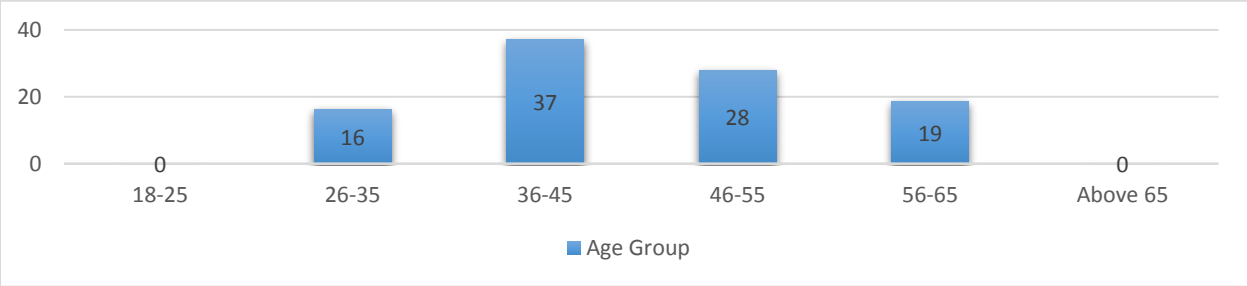


Figure 4.2 below presents the gender of respondents, where 53% of respondents are males while 47% are females. This shows that males are the majority in the key internal controls of the department. The department should balance the gender equality to achieve its strategic objectives.

Figure 4.2: Gender of respondents

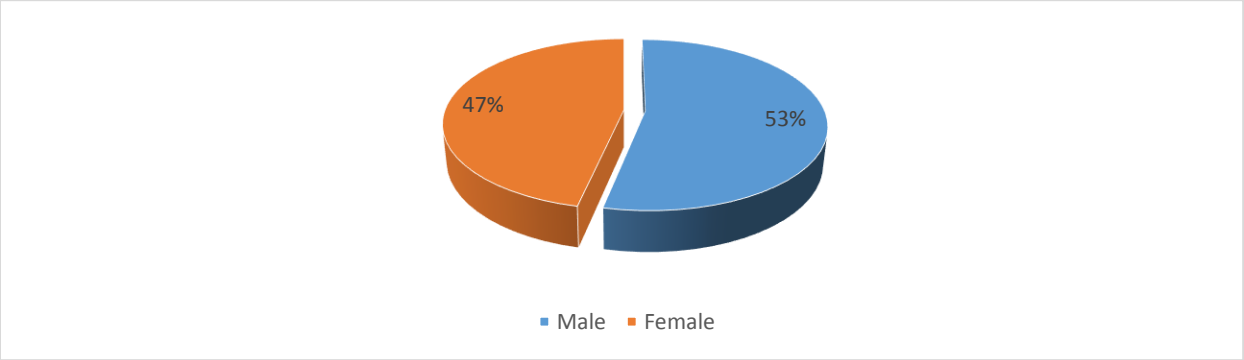


Figure 4.3 below presents the racial breakdown. A minority, 9% of respondents are White, 84% are Black, 2% are Indian and 5% are Coloured. This data reflects that the department has a mixed group of employees to tighten its internal controls. The department should consider the racial mix and increase the ones that are less represented to meet their strategic objectives.

Figure 4.3: Race of the respondents

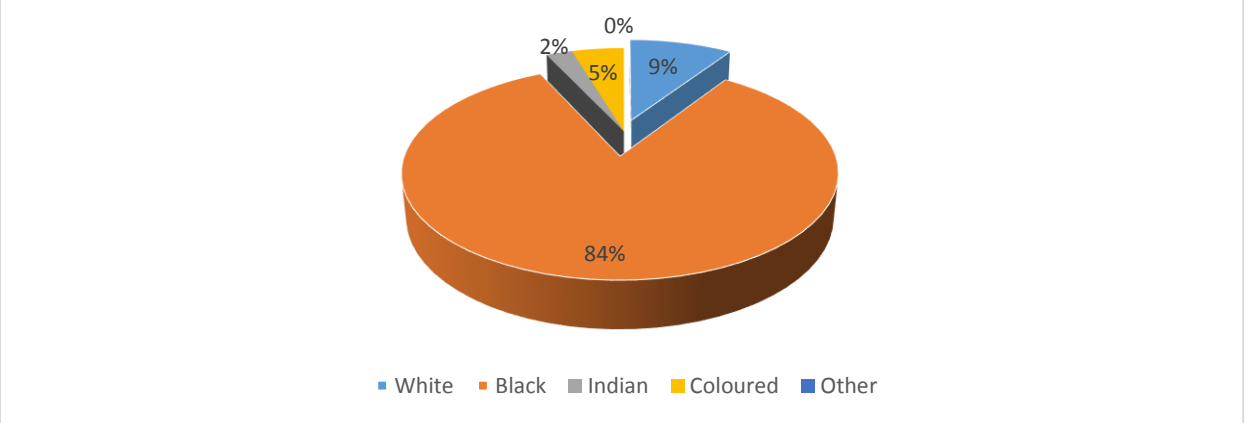


Figure 4.4 below presents the highest educational qualification of respondents. Out of a total sample of 43 selected respondents, only 2% of respondents had a Matric. This implies that only one employee of the department has Matric as her highest educational qualification. Then, 4% of respondents have a Diploma, 35% of respondents have a Bachelor's degree and 5% of the respondents have an Advanced Diploma. A third, 33% of the respondents have an Honour's degree and 5% of the respondents have an MBA degree, while 7% of the respondents have other Master's degrees. None of the respondents hold a PhD, DBA or DBL in the selected sample of employees. The majority of the respondents have a Bachelor's degree and Honour's degree as illustrated in figure 4.4 below. This implies that the department has a qualified personnel to perform duties and improve the internal controls of the department.

Figure 4.4: Highest educational qualification of respondents

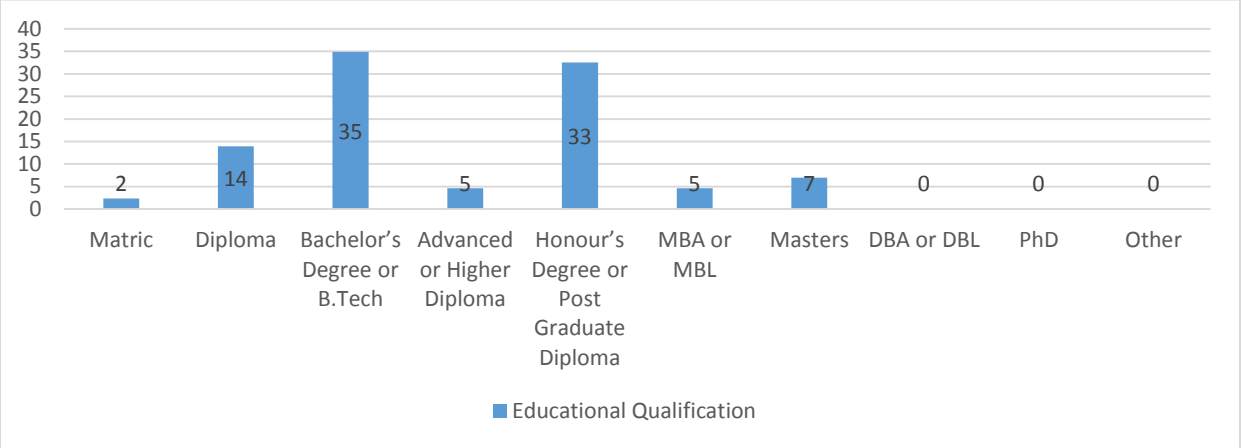


Figure 4.5 below presents the professional qualifications of respondents. Out of a total sample of 43 selected respondents, only two of the respondents are Chartered Accountants. Two of respondents are Certified Internal Auditors. Two of respondents are Registered Government Auditors. One of respondents is a Chartered Certified Accountant. Two of respondents hold Certification in Control Self-Assessment. Of the other three respondents, one of them is an Advocate, the other one is an Internal Audit Technician, and the other one is a Human Movement Scientist. It has been noted in the feedback from respondents that some respondents hold dual professional qualifications. Therefore a total of 12 responses is made by respondents who chose more than one

professional qualification. This illustrates that DSRAC has professional qualified personnel to achieve its objectives, enhance internal controls and obtain a clean audit.

Figure 4.5: Professional qualification of respondents

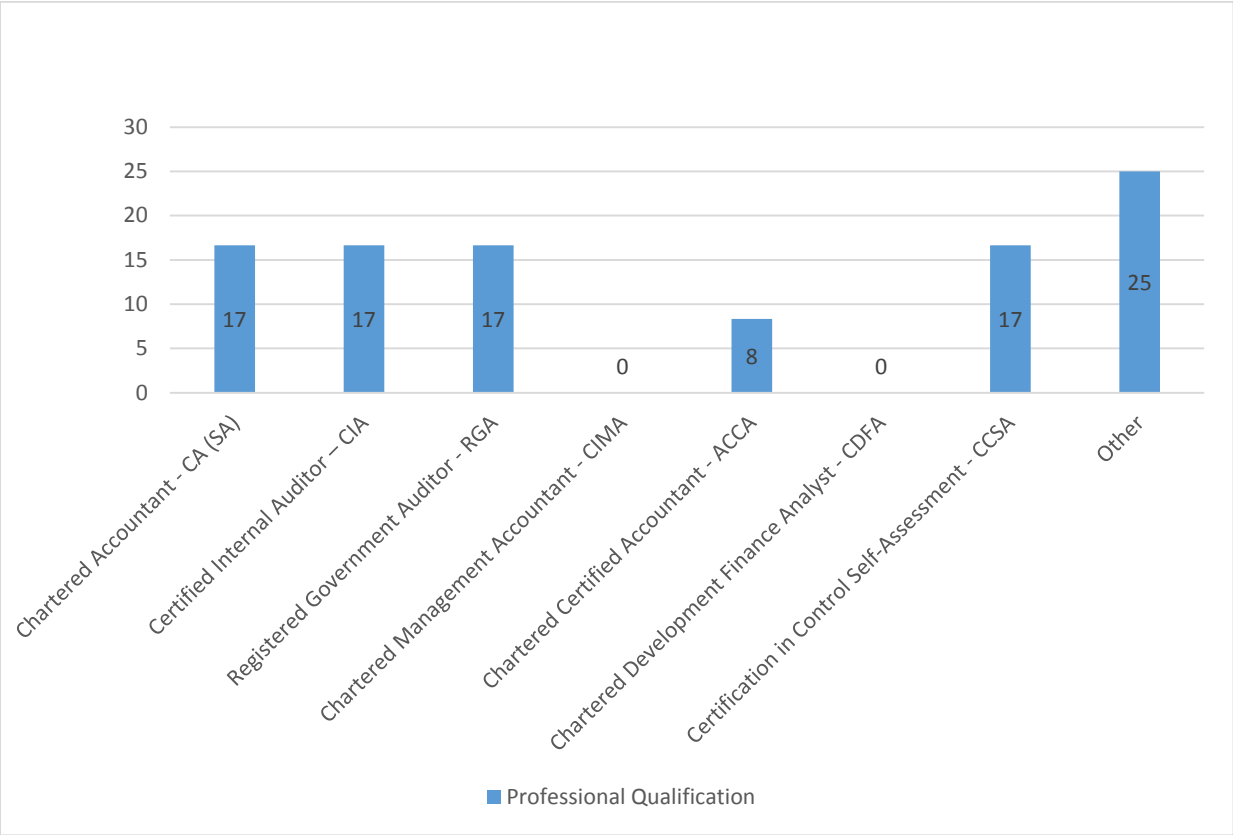


Figure 4.6 below presents specialisation in educational qualifications of respondents. Out of a total sample of 43 selected respondents, 21% of respondents specialised in Accounting, 14% of respondents specialised in Auditing and 4% of respondents specialised in Taxation. Furthermore, 17% of respondents specialised in Financial Management, 4% of respondents specialised in Public/Local Government Finance, 10% of respondents specialised in Business Management and 13% of respondents specialised in Public Administration. Then, 3% of respondents specialised in Development Finance, 3% of respondents specialised in Economics, 3% of respondents specialised in Information Technology and 7% of respondents specialised in other fields such as Law, Human Resources Management, Chemistry and Zoology. The total of 70 responses is made by respondents who have chosen more than one field of specialisation. This

indicates that the majority of respondents have relevant specialised qualifications to improve internal controls in the department.

Figure 4.6: Specialisation in educational qualification

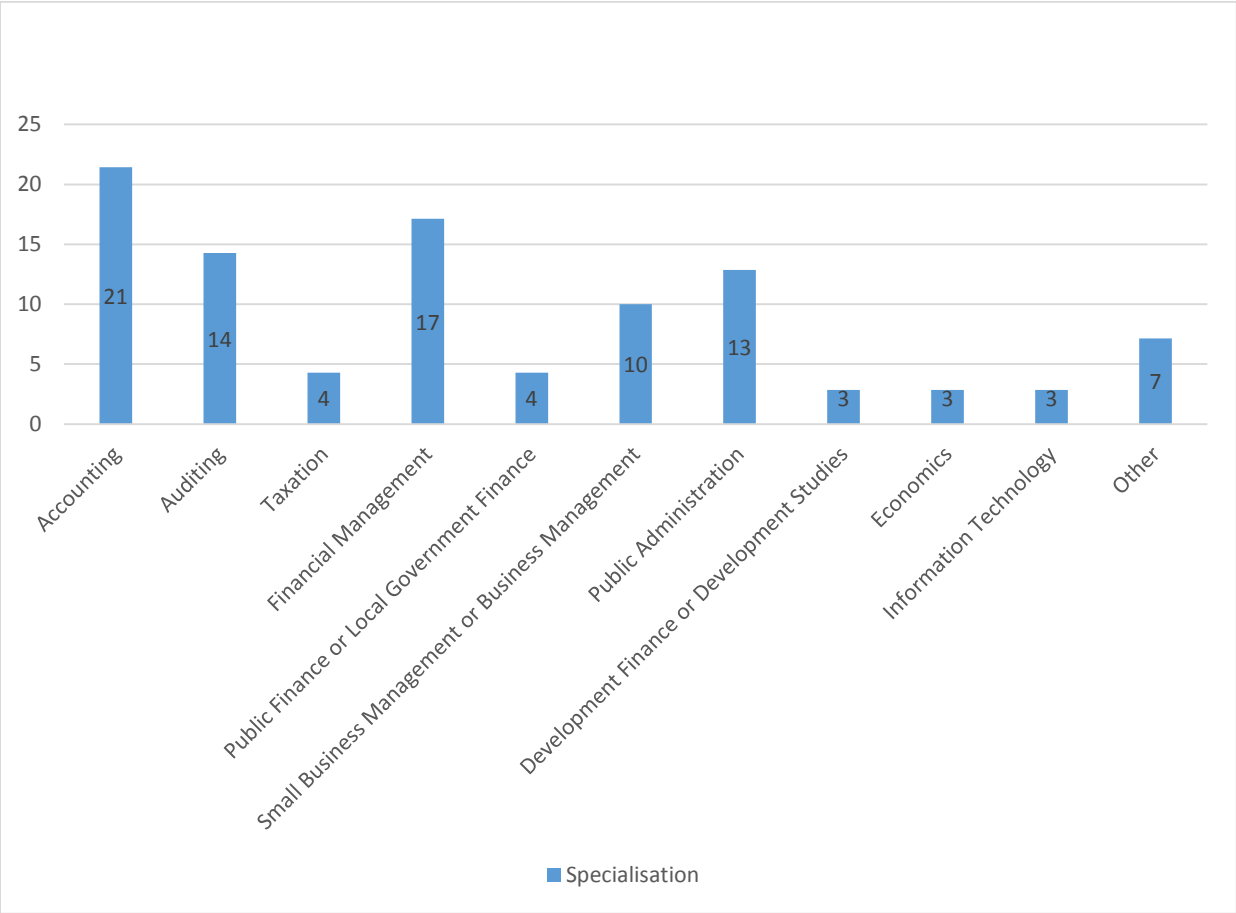
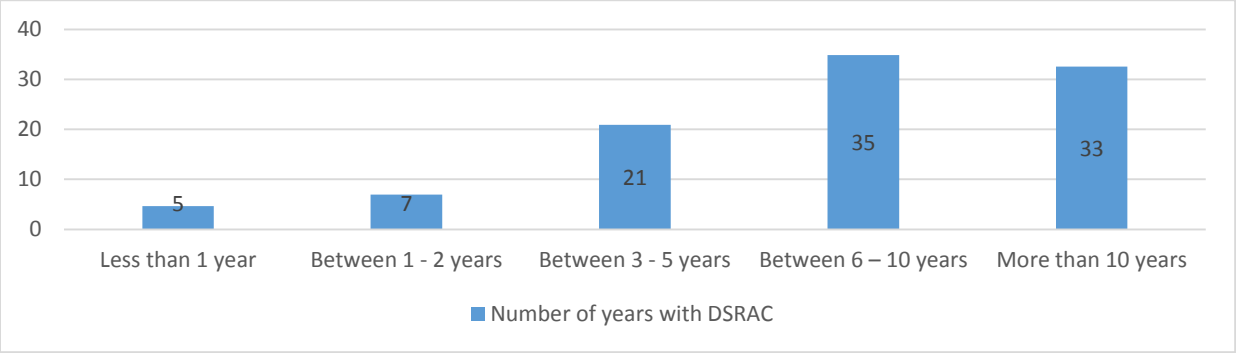


Figure 4.7 below presents the number of years the respondents have worked for or with DSRAC. Out of a total sample of 43 selected respondents, 5% of respondents have less than 1 year, 7% of respondents have between 1 - 2 years, 21% of respondents have between 3 - 5 years, 35% of respondents have between 6 - 10 years and 33% of respondents have more than 10 years. This illustrates that the majority of employees have vast experience of working for or with DSRAC and this also shows that the department has the potential of moving from an unqualified audit opinion to a clean audit with utilising the current personnel.

Figure 4.7: Number of years working for/with DSRAC



4.3 Data analysis pertaining to internal controls

Figure 4.8 below presents the responses on adequate job descriptions for all finance positions. The results show that 2% of respondents strongly disagree on adequate job descriptions for all finance positions, 5% disagree, 28% neither agree nor disagree, 60%, the overwhelming majority of respondents agree and 5% strongly agree. This implies that the department is up to the required standard in revising job description of employees in order to achieve its objectives. However, in terms of Public Service Regulations chapter 4 paragraphs 39(2), at least once every 60 calendar months, an executive authority should review job descriptions and titles and, where necessary, redefine them to ensure that they remain appropriate and accurate.

Figure 4.8: Job descriptions for all finance positions

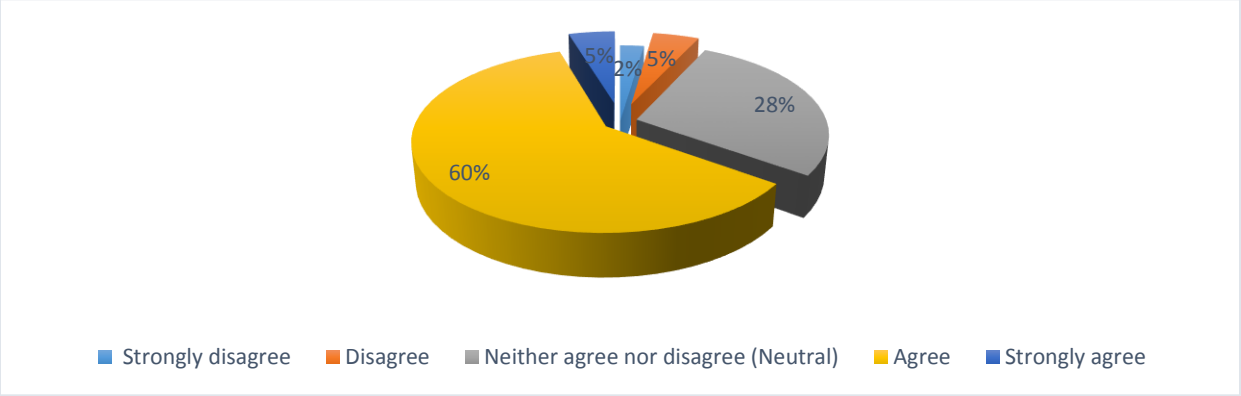


Figure 4.9 below presents the responses on the level of competence for finance personnel, where 2% of respondents strongly disagree on the level of competence that is carefully defined for each job in the finance department. Further, 7% disagree, 35% neither agree nor disagree, 49% agree and 7% of respondents strongly agree. The researcher also noted the significant percentage of respondents (35%) who are neutral about this statement. This implies that the level of competence of finance personnel is not considered during the recruitment processes. An employee with less experience and qualification could be employed and get promoted and this could easily affect the productivity of the officials.

Figure 4.9: Competence of finance personnel

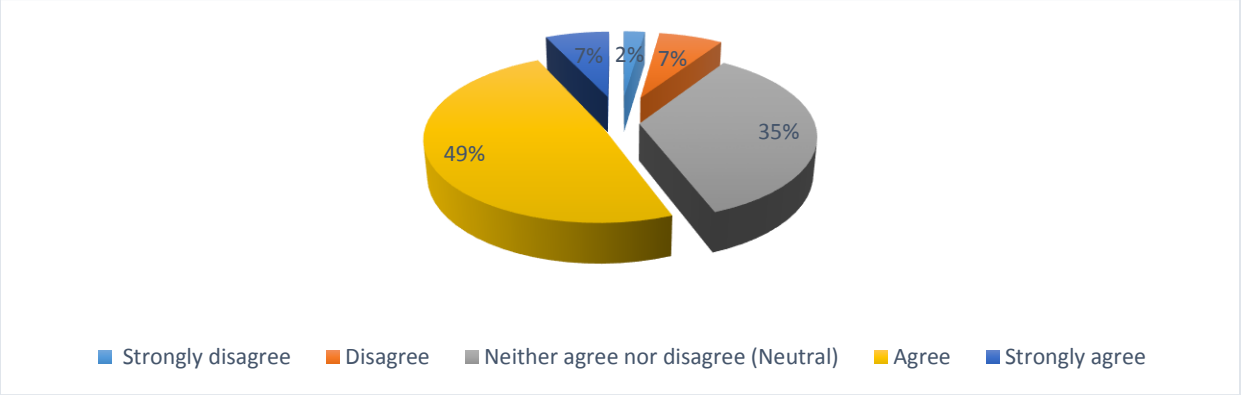


Figure 4.10 below presents the responses on written financial policies within the department, where 2% of respondents strongly disagree that DSRAC does have written financial policies, 5% disagree, 14% are neutral, 58%, the overwhelming majority of respondents, agree and 21% strongly agree. This implies that written financial policies are easily accessible by employees although they are not revised timeously.

Figure 4.10: Financial policies

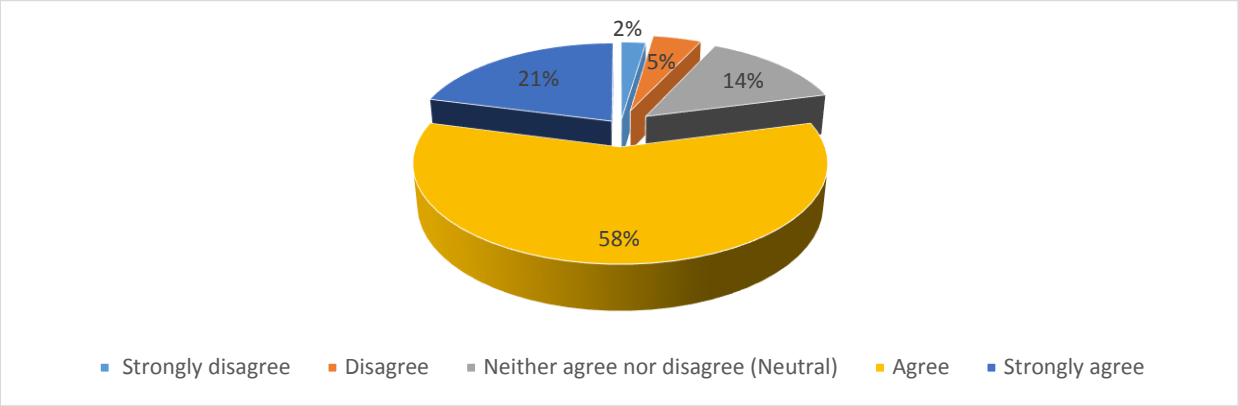


Figure 4.11 below presents the responses on the financial procedures manual, where 2% of respondents strongly disagree that DSRAC does have a written financial procedures manual, 7% disagree, 26% are neutral, 53% agree and 12% strongly agree. This implies that the department is working with a procedures manual within the financial management directorate. The lack of a written financial procedures manual could make it difficult for employees to implement and enhance internal controls in the department. The manuals should be uploaded onto the departmental website for easy access to all officials.

As mentioned, the lack of these manuals might cause serious problem on reviewing of the financial procedures manual in the department. The lack of review of the financial procedures manual could affect the department negatively in achieving clean audit outcomes and implementing new changes in financial policies and treasury practice notes or instruction notes. Each employee of DSRAC should have a copy of the procedures manual. The department needs to upload a copy of the procedures manual on the departmental website so that all employee can have access to it. The internal control unit of the department needs to tighten its internal control processes to ensure that compliance exists within DSRAC.

Figure 4.11: Financial procedures manual

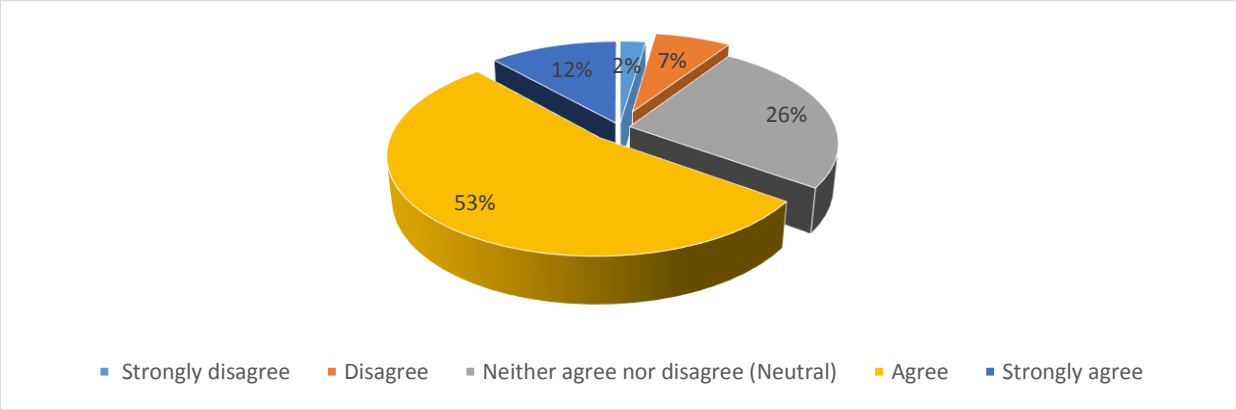


Figure 4.12 below presents the responses on compliance with international best practice pertaining to internal controls, and 5% of respondents strongly disagree that DSRAC complies with international best practice pertaining to internal controls, 12% disagree, 51% are neutral, 30% agree and 2% strongly agree. The researcher is concerned about the fact that the majority are neutral about this statement, which suggests that training should be provided to departmental employees. Although there are those who agree with compliance on international standards, they are in the minority (32%), thus there is a need for improvement in key controls of the department. This implies that the employees of the department working in finance do not believe the department complies with international best practice. The department thus needs to re-evaluate their stance on this issue.

Figure 4.12: Compliance with international best practice pertaining to internal controls

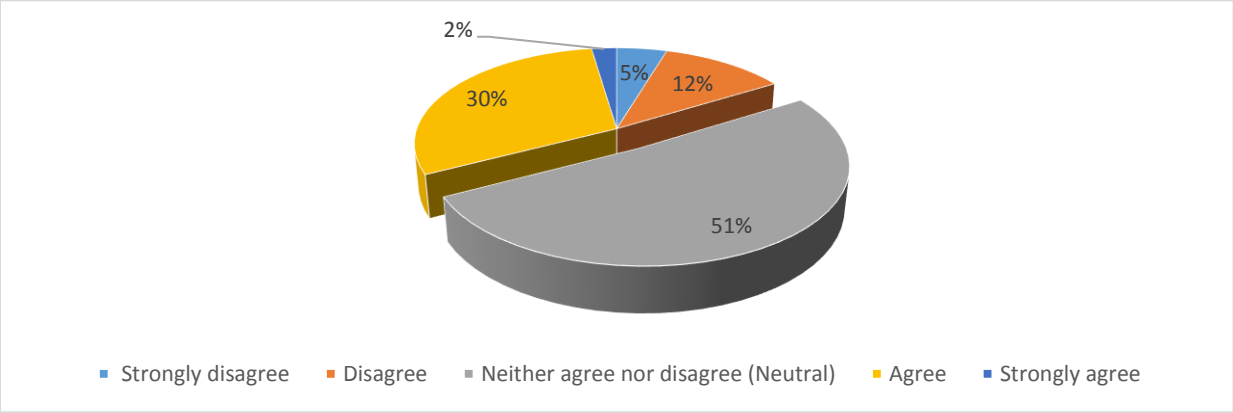


Figure 4.13 below presents the responses to the training of finance staff in the use of the accounting system, where 5% of respondents disagree that the finance staff has been appropriately trained in the use of the accounting system, 32% are neutral, 51% agree and 12% strongly agree. Therefore the majority of respondents agree with this statement. DSRAC should have a responsible system controller for each accounting system. However, the findings reveal that each accounting system is represented by an official to perform the duties of the system controller. The study further reveals that the Provincial Treasury provides support to the department on the issues of accounting systems on request, furthermore treasury also offered trainings to departmental officials.

Figure 4.13: Training in the use of the accounting system

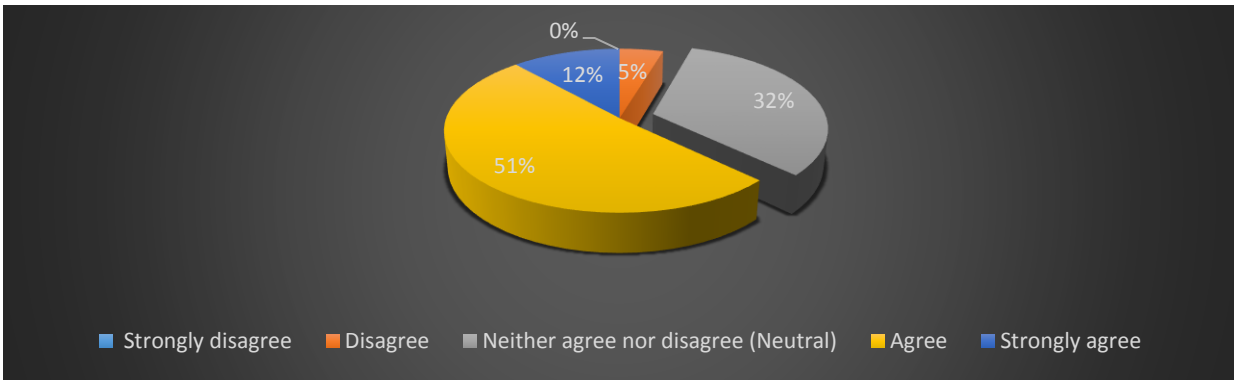


Figure 4.14 below presents the responses on the training in the use of a standard chart of accounts, where 5% of respondents disagree that the finance staff has been appropriately trained in the use of a standard chart of accounts, 30% are neutral, 58% agree and 7% strongly agree. Therefore the majority of respondents agree with this statement. The department could improve on the training of finance staff in the use of standard chart of accounts, for the 35% of respondents who disagreed or were neutral. However, the researcher is quite satisfied with the training of finance staff based on the data obtained. This training is provided by treasury to improve financial reporting and bookkeeping to avoid misallocation of transactions.

Figure 4.14: Training in the use of standard chart of accounts

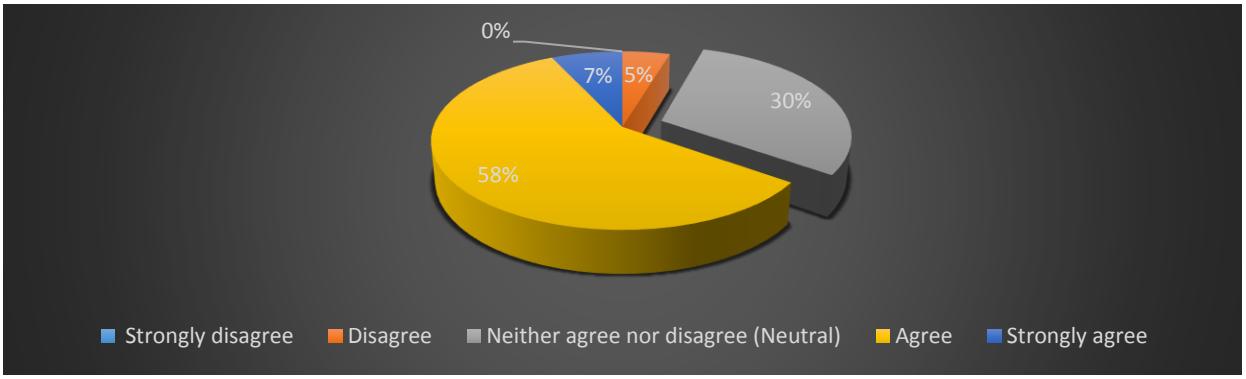


Figure 4.15 below presents the responses on assigning of financial duties to present employees while others are on leave, where 14% of respondents disagree that when employees assigned to financial duties are on leave, another employee does assume their responsibilities, 23% are neutral, 49% agree and 14% strongly agree. The majority of respondents confirmed that when employees assigned to financial duties are on leave, another employee does assume their responsibilities. This indicates that service delivery is not affected when one employee is not at work, because the other employee, who is present, performs those duties. Therefore there is proper planning within the department pertaining to leave management of officials.

Figure 4.15: Assigning of financial duties to present employees while others are on leave

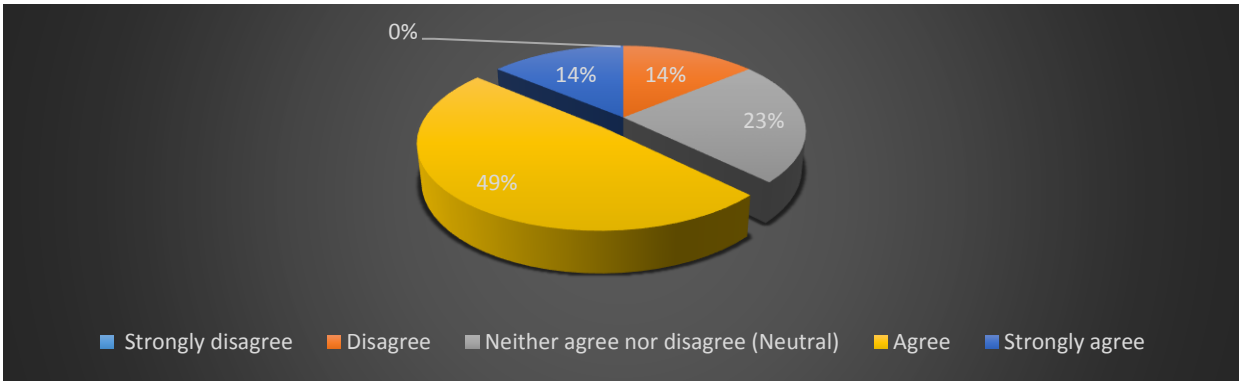


Figure 4.16 below presents the responses on written policy whereby employees are required to report suspicious activity, where 14% of respondents strongly disagree that

there is a written policy whereby employees are required to report suspicious activities to the appropriate level of management, 9% disagree, 28% are neutral, 42% agree and 7% strongly agree. This illustrates that suspicious activities might not be reported because the majority of respondents confirmed, or were neutral, that there is no written policy whereby employees are required to report suspicious activities to the appropriate level of management. The level of disagreement with the statement by the respondents indicates that there is a problem with this policy within the department or the employees are not workshopped on these policies.

Figure 4.16: Policy whereby employees are required to report suspicious activities

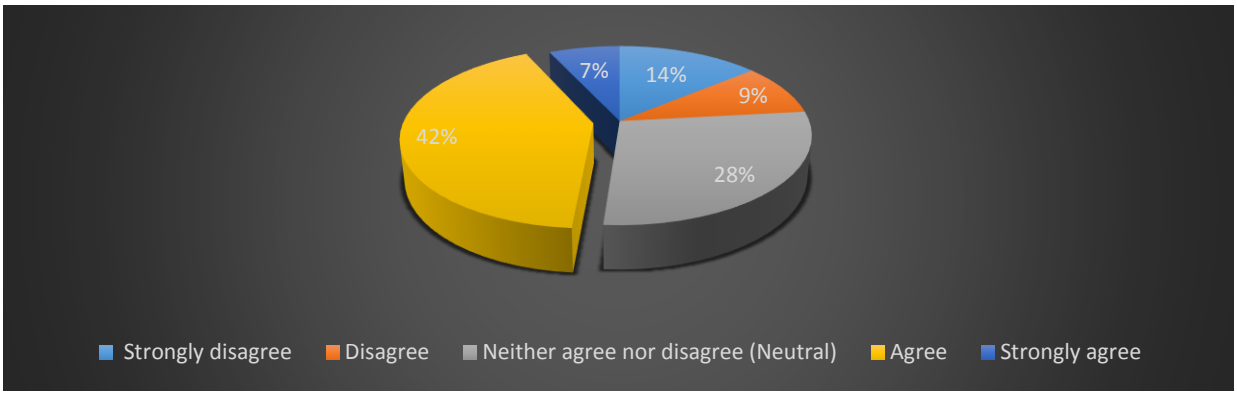


Figure 4.17 below presents the responses on whistleblower protection policy prohibiting retaliation against whistleblowers, where 14% of respondents strongly disagree that DSRAC does have a whistleblower protection policy prohibiting retaliation against whistleblowers, 18% disagree, 49% are neutral, and 19% agree. The majority of respondents are neutral or disagree, and this confirms that there is a lack of information for DSRAC officials on having a whistleblower protection policy prohibiting retaliation against whistleblowers. The overwhelming majority of respondents confirmed that there is no whistleblower protection policy prohibiting retaliation against whistleblowers. This indicates that the irregularities or any wrong doing might not be reported by the officials, therefore internal controls might be affected by this occurrence.

Figure 4.17: Whistleblower protection policy prohibiting retaliation against whistleblowers

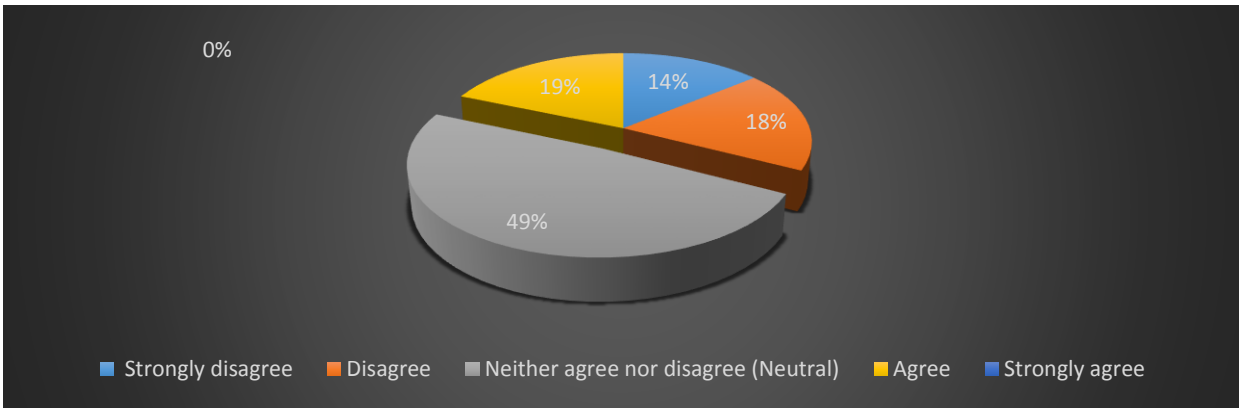


Figure 4.18 below presents the responses on delegation of authority to personnel, where 2% of respondents disagree that the delegation of authority to personnel is approved by the Accounting Officer, 7% are neutral, 37% agree and 54% strongly agree. There is an overwhelming majority of respondents who agree with the statement. This indicates that expenditure incurred is approved by an official who is delegated to approve payments of goods and services, thus delegation powers as prescribed by the PFMA. This illustrate that the internal controls are in place in this matter. Therefore the public funds are appropriately spent. In order to enhance the internal controls in the expenditures of the department, officials who have delegations should accept the delegation of powers in the form of signing the delegation document or letter. This also reveals the evidence of acceptance, and the auditors will verify those delegations. The contravention of the Public Finance Management Act results in irregularities which affect the audit outcomes of the department. The adherence to the act by officials enhances the internal controls of the department.

Figure 4.18: Delegations of authority to personnel

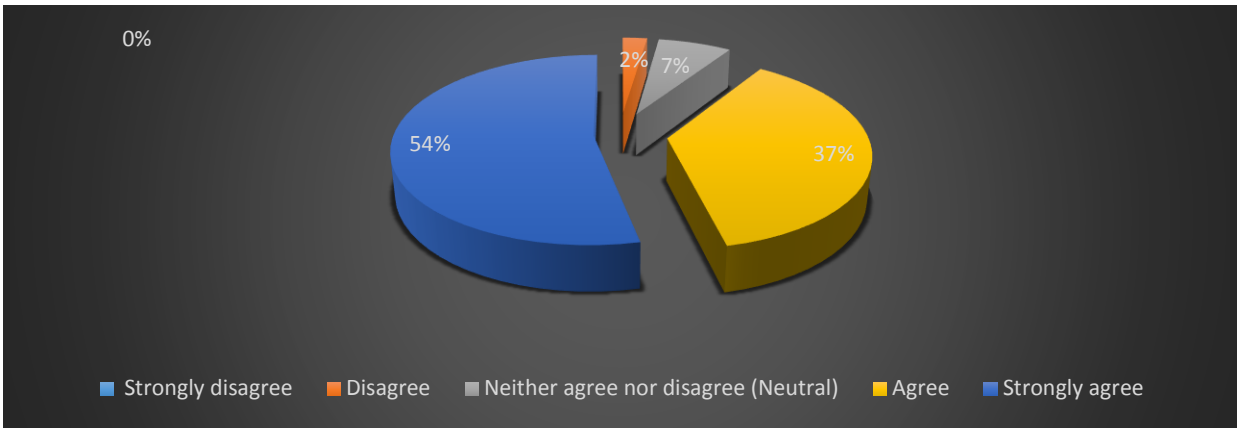


Figure 4.19 below presents the responses on a specimen signature for personnel with authority to approve. In this case, 3% of respondents strongly disagree that DSRAC does keep a specimen signature for personnel with authority to approve, 2% disagree, 14% are neutral, 51% agree and 30% strongly agree. Thus an overwhelming majority of respondents agree with the statement. The specimen signatures help to identify fraudulent activities by those who are checking or in charge of internal control functions, or pre-audit of documents. The keeping of those specimen signatures will assist the checkers to match or compare those signatures against the ones that are in the signed expenditure approval documents before a payment is effected and processed.

Figure 4.19: Specimen signature for personnel with authority to approve

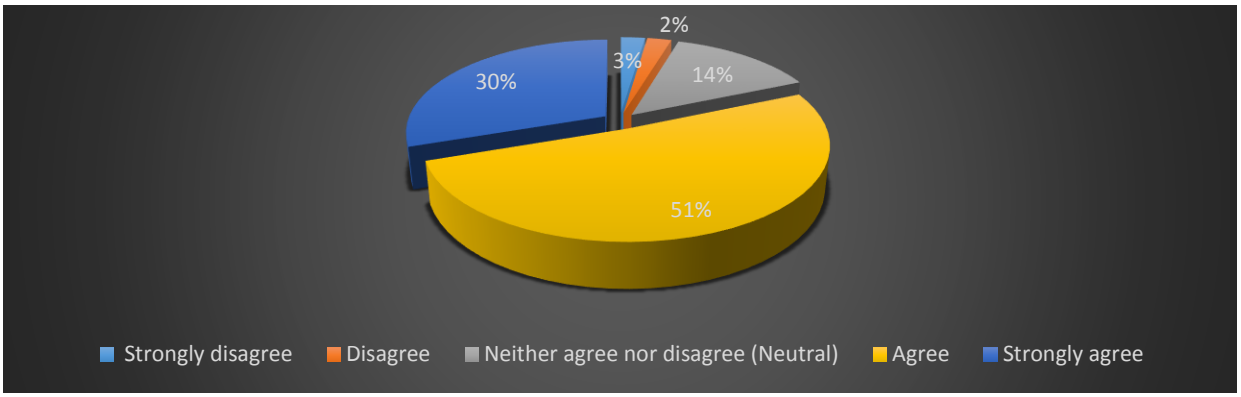


Figure 4.20 below presents the responses on ongoing reviews of the internal controls, where 2% of respondents strongly disagree that ongoing reviews of the internal controls

for key processes are being performed, 12% disagree, 35% are neutral, 42% agree and 9% strongly agree. The majority of respondents confirm that ongoing reviews of the internal controls for key processes are being performed. This illustrates that the reviews of internal controls are appropriately performed by the internal audit, although the internal audit covers some of their audit plan projects but there is a need for improvement on timeous presentation of these reviews, as 49% disagreed, or were neutral, on this issue. These reviews refer to enhancing the effectiveness of internal controls within the department.

Figure 4.20: Ongoing reviews of the internal controls

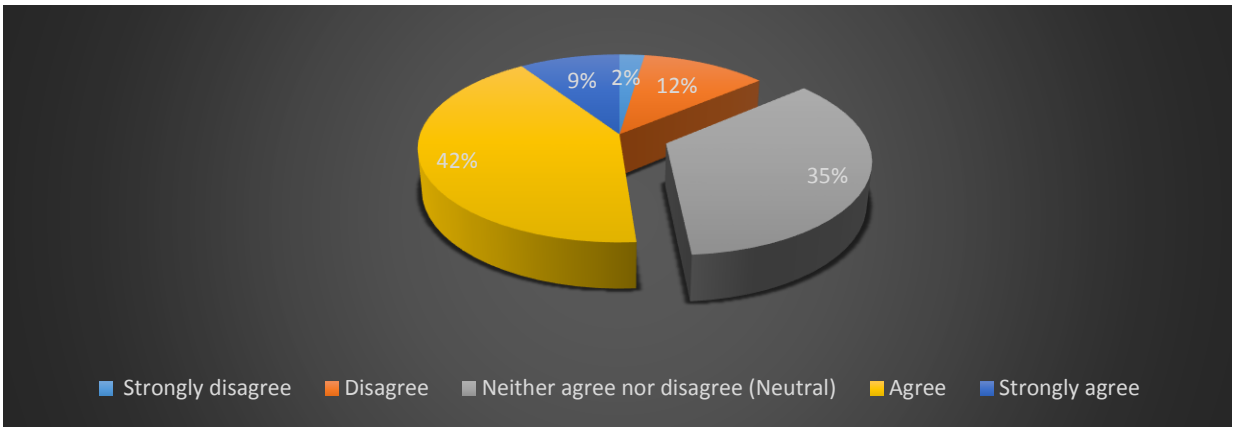


Figure 4.21 below present the responses on suggestions for improvements in internal controls. Here, 23% of respondents disagree that the suggestions for improvement to internal controls are acted on promptly, 35% are neutral, 37% agree and 5% strongly agree. The findings reveal that respondents disagree that all recommendations made by auditors to address identified weaknesses in internal control systems have been implemented, although 42% believe these are acted on. This indicates that the department is very slow in correcting the weaknesses identified by the auditors, and this situation might affect DSRAC negatively on audit outcomes. This indicates that the recommendations made by auditors are not implemented by the department and there is a lack of co-operation among the senior management of the department to address the audit findings. This could results to the department being unable to achieve clean audit outcomes.

Figure 4.21: Suggestions for improvement to internal controls

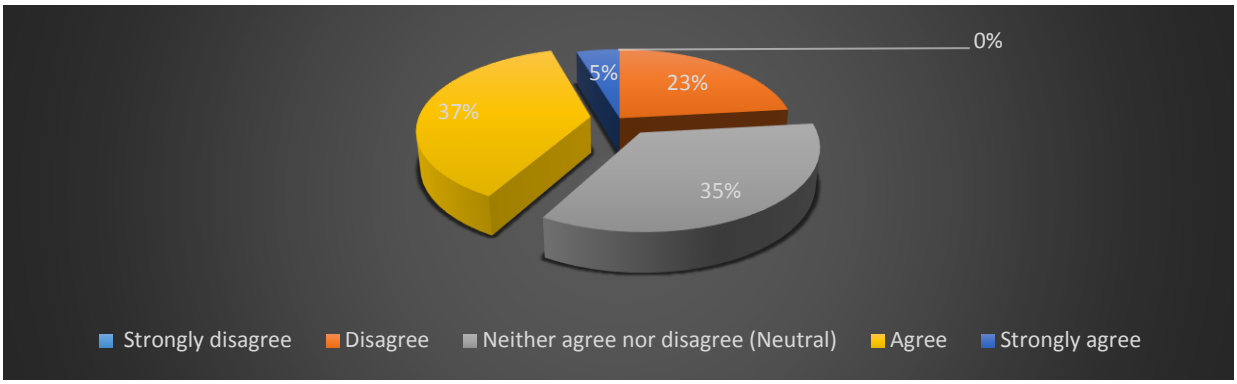


Figure 4.22 below presents the responses on protection of assets from inappropriate use. Here, 21% of respondents disagree that DSRAC's internal controls adequately protect assets from inappropriate use, 21% are neutral, 53% agree and 5% strongly agree. A majority (58%) of respondents confirm that DSRAC's internal controls do adequately protect assets from inappropriate use. The percentage of respondents who disagree, or are neutral (42%), illustrates that the controls of the department are very weak in protecting its assets. The department should tighten up its controls, maybe by inviting a service provider to assist in order to remove any grey areas on protection of assets. The study reveals that the majority of respondents confirm that electronic data is adequately protected from improper use. This indicates that electronic data of DSRAC is adequately protected from getting lost or misused.

Figure 4.22: Protection of assets from inappropriate use

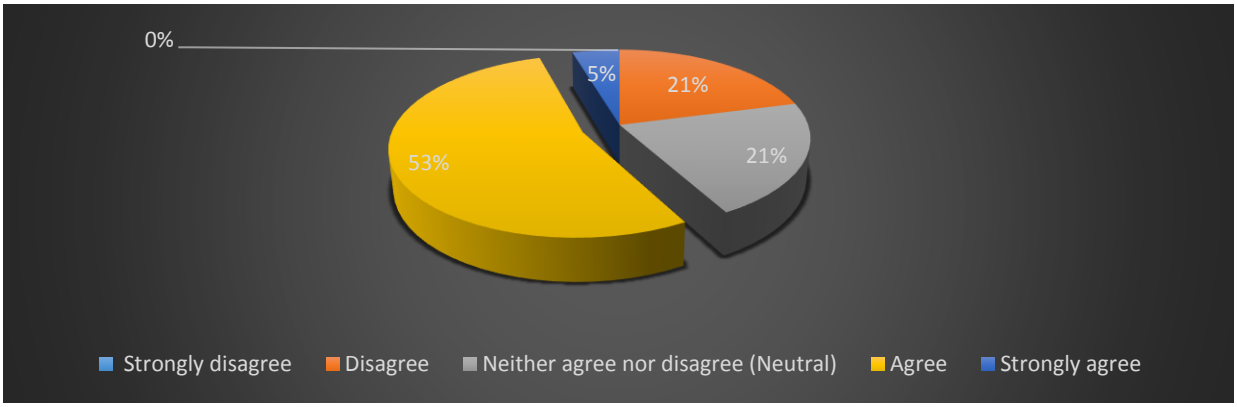


Figure 4.23 below presents the responses on authorisation of transactions. Here, 16% of respondents neither agree nor disagree that DSRAC's financial controls incorporate authorisation of transactions, 65% agree and 19% strongly agree. The overwhelming majority of respondents confirm that DSRAC's financial controls incorporate authorisation of transactions. This illustrates that transactions are authorised by a responsible official before a payment is being processed. This reveals that controls are in place.

Figure 4.23: Authorisation of transactions

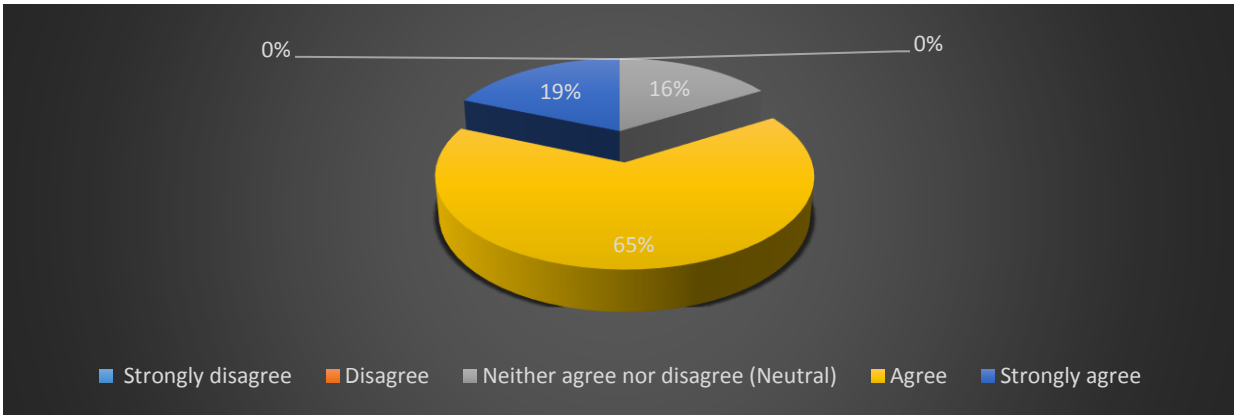


Figure 4.24 below presents the responses on timely reconciliation of balances, where 5% of respondents disagree that timely reconciliation of balances are performed, 30% are neutral, 56% agree and 9% strongly agree. The overwhelming majority of respondents confirm that timely reconciliation of balances are performed. This implies that the department clears all suspense accounts timeously, and reconciles the uncleared balances in the accounts.

Figure 4.24: Timely reconciliation of balances

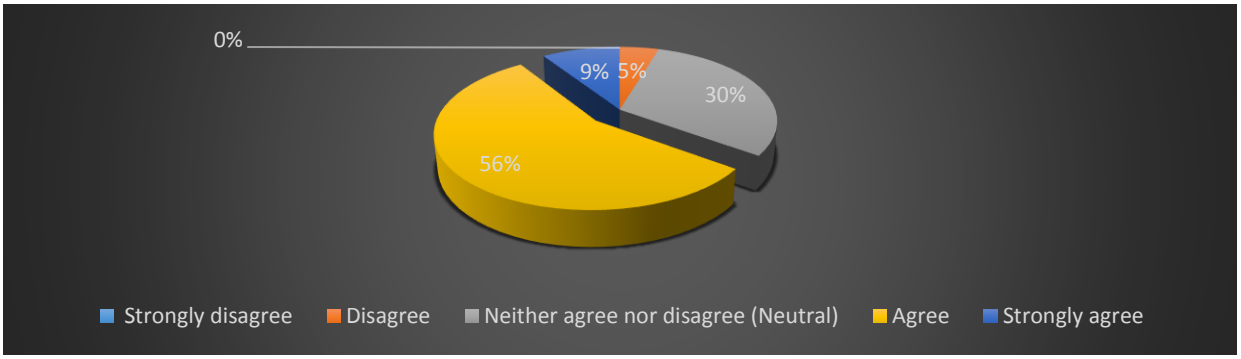


Figure 4.25 below presents the responses on segregation of duties. Here, 5% of respondents disagree that the segregation of duties exists at DSRAC, 11% are neutral, 72% agree and 12% strongly agree. The overwhelming majority of respondents confirm that the segregation of duties exists at DSRAC. This implies that a document is signed by different officials in the value chain of the authorisation process. Thus, controls are effective because chances of fraud haves been minimised due to segregation of duties.

Figure 4.25: Segregation of duties

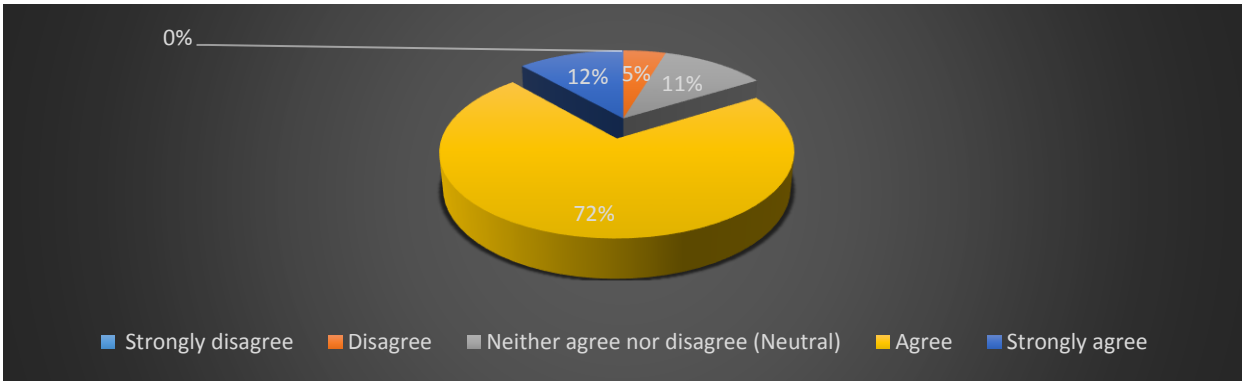


Figure 4.26 below presents the responses on the statutory financial reports. Here, 12% of respondents are neutral that DSRAC submits statutory financial reports to provincial treasury timeously, 60% agree, and 28% strongly agree. The overwhelming majority of respondents confirm that DSRAC does submit statutory financial reports to provincial treasury timeously. This illustrates that DSRAC complies with PFMA on statutory requirements of financial reports. The oversight bodies are there to monitor the performance of the department in order to highlight the shortcomings in the statutory reports, thus improving internal controls and audit outcomes.

Figure 4.26: Statutory financial reports

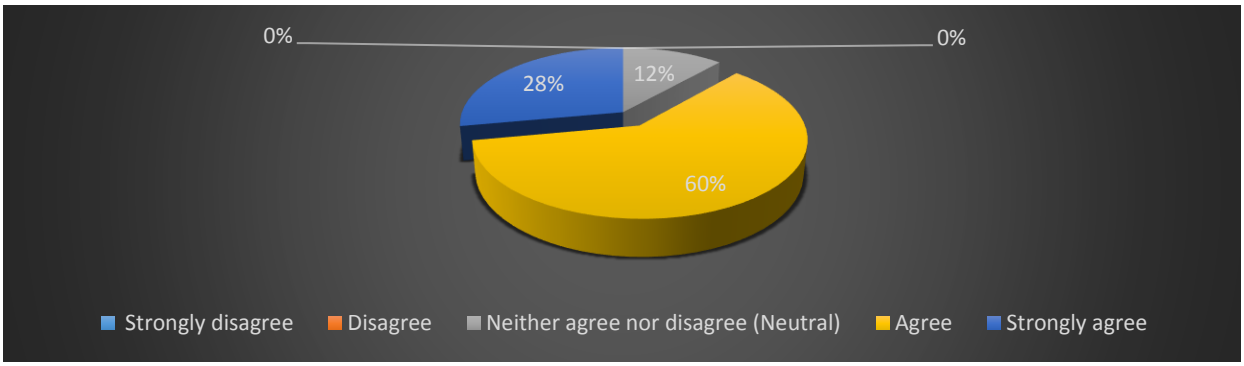


Figure 4.27 below presents the responses on a certificate of compliance to financial management performance indicators, where 2% of respondents disagree that DSRAC submits a certificate of compliance with financial management performance indicators to provincial treasury monthly, 23% are neutral, 49% agree and 26% strongly agree. The overwhelming majority of respondents confirm that DSRAC does submit a certificate of compliance with financial management performance indicators to provincial treasury monthly. This implies that DSRAC complies with treasury requirements. This certificate of compliance is approved by the Chief Financial Officer and the Accounting Officer to ensure compliance to all financial management performance indicators. If this certificate has not been signed and approved for submission to provincial treasury, it could affect the department negatively in the management of public funds, which could have an impact on the audit report.

Figure 4.27: Certificate of compliance to financial management performance indicators

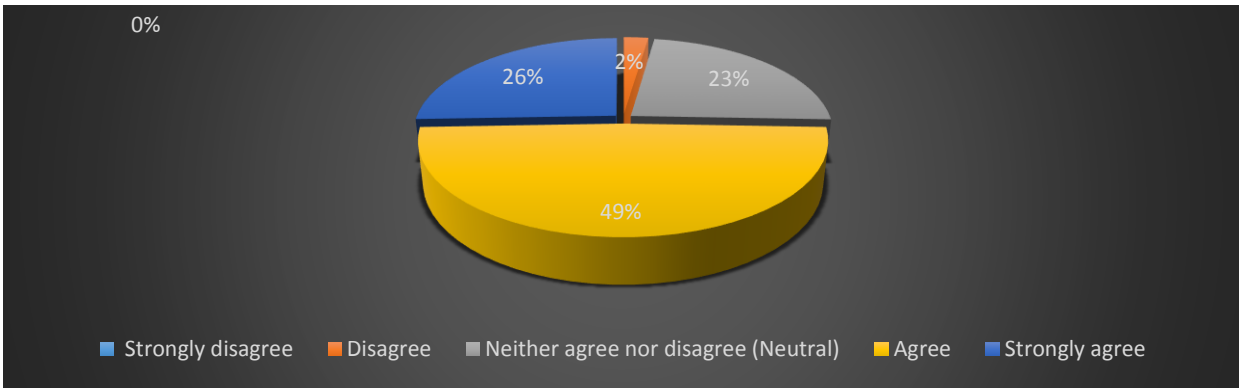


Figure 4.28 below presents the responses on working relations with the SCM directorate. Here, 7% of respondents disagree that the internal control unit has good working relations with SCM, 42% are neutral, 44% agree and 7% strongly agree. The majority of respondents confirm that the internal control unit has good working relations with SCM. This illustrates that controls could improve due to cooperation between the two units. SCM should work together with the internal control unit in order to enhance the implementation of policies and circulars. Irregular expenditure could be prevented due to the close relationship of these two units.

Figure 4.28: Working relations with supply chain management directorate

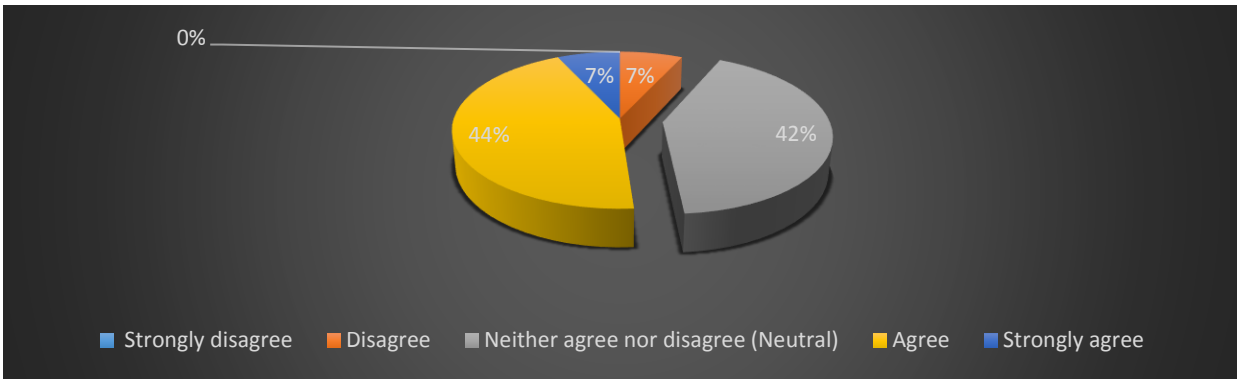


Figure 4.29 below presents the responses on effectiveness of the audit committee. Here, 14% of respondents are neutral that DSRAC has an effective audit committee with a charter outlining its responsibilities, 56% agree, and 30% strongly agree. The overwhelming majority of respondents confirm that DSRAC does have an effective audit committee with a charter outlining its responsibilities. The results of the study reveal that effective internal controls are assessed by the audit committee and the committee is vibrant. The AC consists of highly qualified members with relevant expertise in order to improve controls in the department.

Figure 4.29: Effectiveness of the audit committee

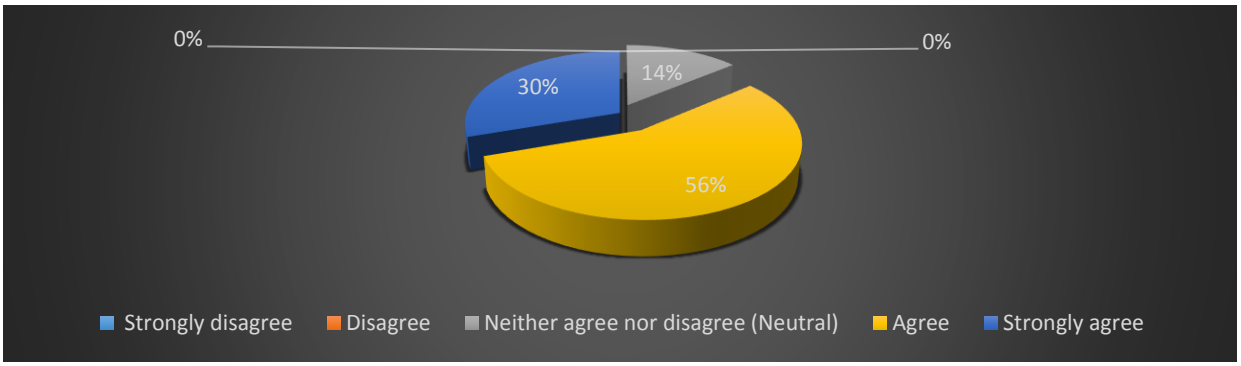


Figure 4.30 below presents the responses on an action plan to address shortcomings of the annual audit opinion. Here, 16% of respondents are neutral that DSRAC has an action plan to address shortcomings of the annual audit opinion, 68% agree, and 16% strongly agree. The overwhelming majority of respondents confirm that DSRAC does have an action plan to address shortcomings of the annual audit opinion. This reveals that DSRAC develops an audit improvement plan every year and is being monitored by oversight bodies. The audit action plan should be approved by the accounting officer before it is submitted to the oversight bodies.

Figure 4.30: Action plan to address shortcomings of the annual audit opinion

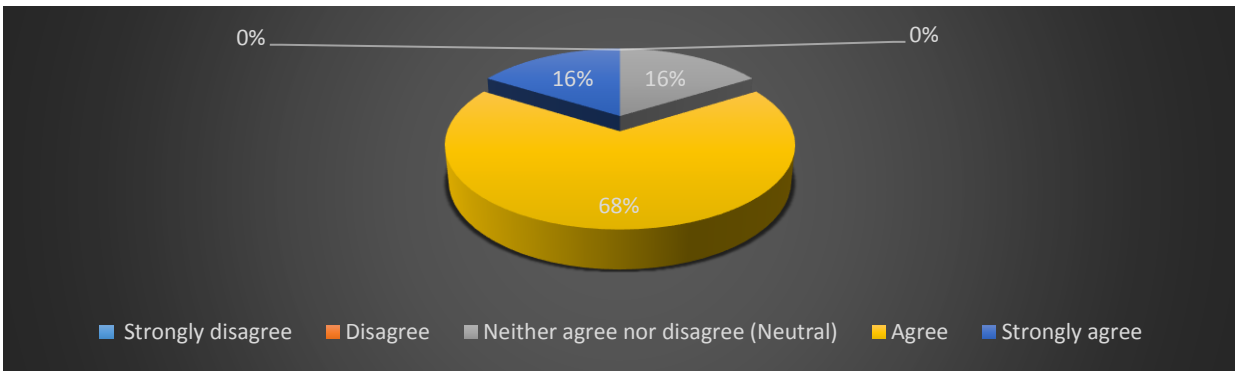


Figure 4.31 below presents the responses to preventing the occurrence of irregular expenditure, where 14% of respondents disagree that DSRAC prevents the occurrence of irregular expenditure, 16% are neutral, 54% agree and 16% strongly agree. The overwhelming majority of respondents confirm that DSRAC does prevent the occurrence

of irregular expenditure. This implies that DSRAC works tirelessly to clean the irregularities on public funds. The study reveals that identified irregular expenditure is reported to the provincial treasury in compliance with the PFMA reporting requirements. The guideline on irregular expenditure states that DSRAC should conduct an investigation into all reported irregular expenditure to determine if there is an official liable. Also, the investigation should check if the state has not suffered any loss due to the transgressions and value for money was created on the services that were rendered. Then after all the steps listed in the guide have been exhausted, an application for condonation should be made to the relevant condoning authority; however evidence of the steps taken should be provided before the irregular expenditure is condoned.

Figure 4.31: Preventing the occurrence of irregular expenditure

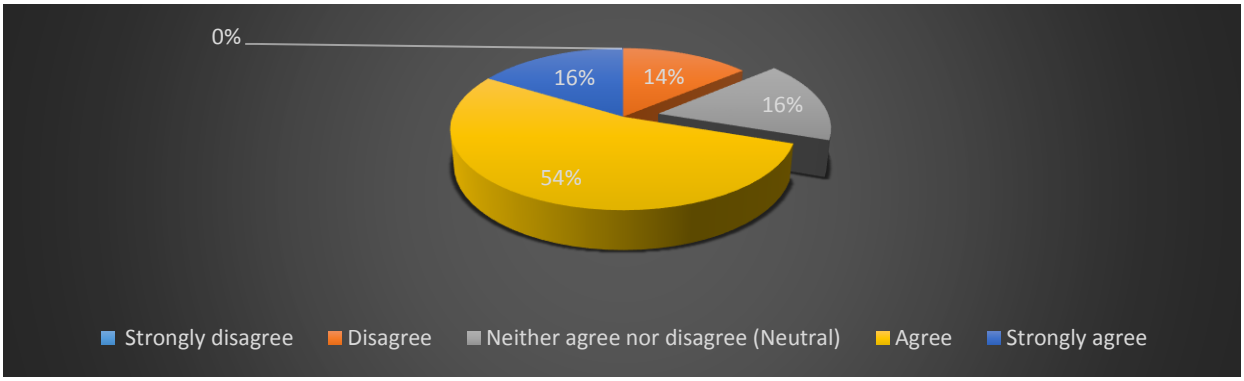


Figure 4.32 below presents the responses on the Internal Control Committee. Here, 2% of respondents disagree that DSRAC has an Internal Control Committee, 21% are neutral, 49% agree and 28% strongly agree. The overwhelming majority of respondents confirm that DSRAC has an Internal Control Committee. The study reveals that DSRAC has a functioning internal control committee chaired by the CFO. The committee meets quarterly to address all reported irregular expenditure and provides recommendations to the accounting officer. This implies that the committee is functioning effectively. The role of the Committee is to serve in an advisory role to the Accounting Officer/Accounting Authority in matters concerning irregular, unauthorised, fruitless and wasteful expenditure and on charges of financial misconduct. The Committee should play an oversight role

and monitor and report on the role of managers in maintaining discipline of their respective officials. This implies that clean administration can be achieved by DSRAC.

Figure 4.32: Internal Control Committee

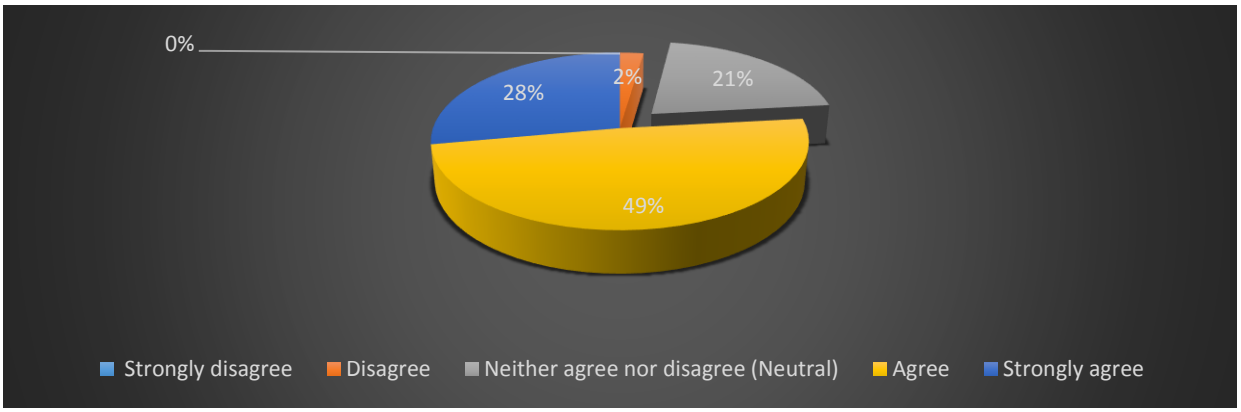
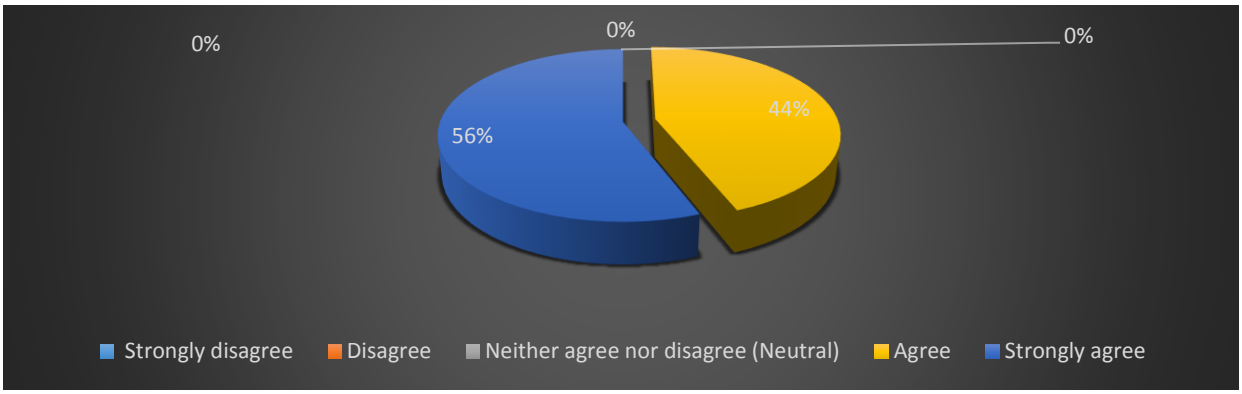


Figure 4.33 below presents the responses on the aim of DSRAC on the audit opinion. Here, 44% of respondents agree that DSRAC's aim is to move from an unqualified audit to a clean audit opinion and 56% strongly agree. The overwhelming results from all respondents confirm that DSRAC's aim is to move from an unqualified audit to a clean audit opinion. The study reveals that DSRAC is working very hard with a clear vision to all officials to achieve the clean audit and improve audit outcomes.

Figure 4.33: Aim of DSRAC on audit opinion



4.4 Conclusion

The findings and interpretation of data haves been presented by the researcher on internal controls. The results of the study indicate that the Department of Sport, Recreation, Arts and Culture has a great potential to move from an unqualified audit to a clean audit opinion. Furthermore, the respondents have shown an understanding of the importance of internal controls in the public sector, although certain respondents are neutral in their responses to the majority of statements. However, the data results reflect that respondents, who are involved in the implementation of internal controls, are well qualified and competent to perform their duties. The next chapter will present the conclusion and recommendations of the study.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The previous chapter of this report discussed the findings and interpretation of data from respondents. This chapter draws a conclusion and makes recommendations based on the findings and interpretation of data from respondents on improving internal control systems in the Department of Sport, Recreation, Arts and Culture. The recommendations are made to enhance the effectiveness of internal controls at DSRAC.

5.2 Summary of chapters

Chapter one presented the rationale and background of the study, research problem, problem statement, and hypothesis to the study, research objectives, scale and scope of the research, research questions, and layout.

Chapter two discussed the theoretical framework and relevant legislation to the study. The emphasis was placed on internal controls and their functions, international best practice pertaining to internal controls, COSO Internal Control Integrated Framework, implementation, effectiveness and efficiency of internal controls. The audit committee's effectiveness regarding internal controls was discussed. The combined assurance model was briefly discussed, which is key for the effectiveness of internal controls. The model gives assurance to the organisation in an integrated manner to executives and management, on effectiveness and efficiency of internal controls, compliance with laws and regulations, management of risks, internal audit and external audit.

Chapter three discussed the methodology and research design. This chapter also presented data analysis techniques used. This chapter was grouped into the following: research design; target population; sources of data collected; sampling procedure; and analysis methods. The qualitative and quantitative methods were used for gathering data in this study.

Chapter four presented findings and interpretation of data. The results were analysed and they consisted of the demographics of respondents and issues of internal controls.

Chapter five discusses conclusions and recommendations based on the results gathered.

5.3 Problem statement

The problem statement of the study was that DSRAC is unable to move from an unqualified audit opinion to a clean audit opinion because of an inability to deal with issues relating to irregular, unauthorised, fruitless and wasteful expenditure by the internal control function. The Auditor General has over the last five years emphasised that the internal controls within DSRAC have not met the required standards and have thus negatively impacted on the ability of the Department to effectively and efficiently account for the resources that it has used in service delivery. The repeated inability of the Department to meet the internal controls requirements points to an inherent inability of DSRAC to comply with internal controls and obtain a clean audit report.

5.4 Testing of hypothesis

The above mentioned problem statement has formed the basis for generating a hypothesis that states the inability of DSRAC to implement effective and efficient internal controls systems from its inability to comply with international best practice pertaining to internal controls. The inability to attain a clean audit, because DSRAC is unable to deal with issues relating to irregular, unauthorised, fruitless and wasteful expenditure, has been tested. The annual reports for the years covered in the scope of the study reveals the inability of DSRAC to deal with issues of irregular expenditure.

5.5 Research question

The research question is therefore how can DSRAC move from an unqualified audit opinion to a clean audit opinion?

In order to answer this research question a number of secondary research questions would have to be answered. These include:

- What are internal controls?
- What is irregular, unauthorised, fruitless and wasteful expenditure?
- What is the function of internal controls?
- What is international best practice regarding internal controls?
- To what degree does DSRAC comply with international best practice?
- What can DSRAC do to ensure compliance with international best practice and thus enhance its internal control function?

5.6 Research objectives

Based on these research questions mentioned above, the following research objectives have been formulated:

- Define internal controls and their functions.
- Define irregular, unauthorised, fruitless and wasteful expenditure.
- Determine international best practice pertaining to internal controls.
- Determine how DSRAC can move from an unqualified audit opinion to a clean audit opinion.
- Determine the degree to which DSRAC complies with international best practice.
- Define the actions that DSRAC needs to take to increase the effectiveness and efficiency of its internal controls.

5.7 Scope and scale of research

The limitation on the scope and scale of the research study is a five year financial period. The period covers the financial years 2012/2013 to 2016/2017. The reason for using the five year period is due to the fact that government is using Medium Term Expenditure Framework for budgets. The researcher has considered the issues of pre-determined objectives in the Auditor General's report, but was focused on the issues of financial statements in this research study.

5.8 Findings

The study reveals that officials of DSRAC understand the significance of internal controls and their functions, issues of irregular, unauthorised, fruitless and wasteful expenditure and how it affects the audit outcomes. The research findings reveal that there are poor controls in monitoring irregular, fruitless and wasteful expenditures to be cleared in the books of the department, and there is room for improvement. The report of the Auditor General (2017), revealed that DSRAC has still got an outstanding balance of R35 million on irregular expenditure incurred in prior years. The annual report of DSRAC (2017) reflected a balance of R865 thousand on fruitless and wasteful expenditure. This implies that the prior years' balances have not been cleared timeously in the books, although management is in the process of clearing outstanding balances in DSRAC's books.

The results of the research reveals that DSRAC complies with international best practice pertaining to internal controls and financial reporting although there are areas for improvement. Furthermore, respondents confirmed that DSRAC complies with the components of internal controls prescribed by the COSO framework, such as control environment, risk assessment, control activities, information and communication, and monitoring activities, and this is within international best practice of internal controls. The results confirmed that the personnel in key control positions of DSRAC are competent in discharging their legislative responsibilities. Some respondents in the sample are Chartered Accountants, Certified Internal Auditors and Registered Government Auditors and this illustrates great potential for the department to improve its internal control systems. All participants in the study revealed that DSRAC will move from an unqualified audit to a clean audit report.

The study reveals that the department continues to work with the 2008 organisational structure, although the structure should be reviewed after every five years. In terms of Public Service Regulations chapter 4 paragraphs 39(2), at least once every 60 calendar months, an executive authority should review job descriptions and titles and, where necessary, redefine them to ensure that they remain appropriate and accurate. The organisational structure of DSRAC has not been updated or reviewed timeously as the

last review and approval was in 2008. This needs urgent attention in order to ensure that the department is operating on the appropriate and accurate organisational structure.

The process for the New Organogram started in 2011 and the proposed structure was submitted to OTP but OTP could not approve because the structure exceeded the budget. The department had interactions with the Treasury to increase the budget but treasury refused. The department had to cut the number of posts in the proposed structure and this had to be done in consultation with DPSA. The impact is the absence of an organisational structure that sufficiently addresses the needs of the department which could:

- result in non-compliance with laws and regulations as monitoring roles are not clear.
- Have a negative impact on service delivery as the skills needed would not be available and decisions/resolutions would not be made timeously.

This implies that the department is not up to the required standard in revising job description of employees in order to achieve its objectives.

The study reveals that there is not adequate monitoring of policies as the department has not finalised the policy framework which will give guidance on the monitoring and updating and reviewing of policies. This has resulted in policy reviews and updates not being monitored effectively and efficiently. Policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities were not established and communicated. The lack of approved policies may have the following impact:

- The risk of a contravention with applicable laws and regulations is increased by the absence of documented policy.
- Possible non-compliance with section38 (1) (a) (i) of the PFMA.
- The risk of misstatement in the annual financial statements could be increased as there are no standard procedures implemented over certain accounting functions, and

- The effective, efficient and economical management of the Department could be hindered, thereby affecting service delivery.

5.9 Recommendations

Based on the results of the study, the researcher made the following recommendations that should be considered and implemented by DSRAC:

5.9.1 Irregular expenditure

The department should clear to zero balance the outstanding irregular expenditure for prior years, as the current balance will have a negative effect on the clean audit opinion. Management should move with speed to put tight controls in place to avoid the occurrence of irregular expenditure, as it was indicated by the respondents that there is a nil balance to the current year's irregular expenditure. Furthermore, the department should continue to prevent the irregular expenditure from occurring. The department should also review the irregular, fruitless and wasteful expenditure policy. The researcher suggests that management should also strengthen controls to monitor occurrence of non-compliance matters to avoid further cases of irregular expenditure. Furthermore, management should investigate the reported non-compliance expenditure and apply consequence management to liable officials. Management should keep track in monitoring the expiry of contracts through the contracts management office. The performance of these contracts with service providers should be presented on a monthly basis to avoid occurrence of irregular expenditure should they expire.

5.9.2 Fruitless and wasteful expenditure

Management should clear the balance of fruitless and wasteful expenditure for the prior years as this expenditure is being accumulated over the financial years, and although it is not huge balance, to achieve the clean audit, it must be a nil balance at the end of the financial year. Management should follow the National Treasury guideline to clear the fruitless and wasteful expenditure. Then consequence management should be applied to any official found liable for the occurrence of fruitless and wasteful expenditure.

5.9.3 Unauthorised expenditure

The department should keep on maintaining spending within the allocated budget to the vote or programme within a vote. This will help DSRAC to avoid overspending on goods and services which result in an audit query and makes the department unable to obtain a clean audit report.

5.9.4 Internal control committee

The Committee should have terms of reference which are reviewed annually and these must be appointed by the accounting officer. The existing internal control committee of the department should meet quarterly to discharge its functions and responsibilities pertaining to internal control issues. The committee should also include labour relations as a member of the committee for easy implementation of consequence management to liable officials, because in the current committee labour relations is not included. The internal control committee should always be chaired by the chief financial officer. The internal control committee should review the internal control checklists and procedures manual in order to close the gaps occurring. Through the internal control committee, the components of internal controls should be integrated and implemented to strengthen controls of monitoring financial resources. The department should act promptly on suggestions for improvement to internal controls through the internal control committee.

The committee should be responsible for advising on matters such as reviewing the irregular, unauthorised, fruitless and wasteful expenditure policy and standards to be applied by DSRAC. The committee should report on the implementation of the irregular, unauthorised, fruitless and wasteful expenditure policy. The committee should be responsible for conducting disciplinary hearings, hearing feedback on investigations done and considering possible sanctions to be imposed for all matters of irregular, unauthorised, fruitless and wasteful expenditures that are of a serious nature.

5.9.5 Finance committee (In-Year Monitoring)

The department should continue to put the internal control issues as the standing agenda item to its In-Year Monitoring (IYM) meetings. The head of internal control unit should

make a presentation on audit improvement plan, update on irregular expenditure and non-compliance issues on a monthly basis in these IYM meetings which all the senior management of the department attend. The finance committee should be chaired by the accounting officer.

5.9.6 International best practice pertaining to internal controls

The department should comply with international best practice pertaining to internal controls for effective and efficient implementation of internal controls. This should include reviews of the financial policies and procedures manual. The department should upload the copy of the procedures manual and policies on the departmental website so that each employee can have access to it. Management should report monthly, quarterly and annually all financial statutory reports to the relevant oversight bodies as per the relevant legislation such as PFMA and DORA. The audit committee should be more effective in discharging its functions and responsibilities. The department should encourage officials to subscribe to professional bodies in order for them to perform their functions and responsibilities with integrity and in a professional manner. This will improve service delivery in the public sector and strengthen internal controls in monitoring financial resources effectively and efficiently. The internal control unit should have good working relations with SCM to ensure the implementation of SCM policies and circulars promptly.

5.9.7 Adequate job descriptions for all positions

The department should have adequate and clear job descriptions for all positions on each employee. These job descriptions should be aligned to the organogram of the department to improve the efficient performance for all employees. Clear job descriptions for all positions in the department will increase the effectiveness and efficiency of the internal control operations and enhance the service delivery. This will result in the achievement of a clean audit opinion by the department.

5.9.8 Training in the use of the accounting system

The department should improve on the training of finance staff in the use of accounting systems and use of the standard chart of accounts, although the researcher is quite

satisfied with the training of finance staff based on the data obtained from the respondents. This will enhance the accuracy in the classification and recording of financial transactions. The department should ensure that there is a responsible system controller for each accounting system; that is, BAS, Logis, Persal, thus this area needs to improve at DSRAC.

5.9.9 Whistleblower protection policy

The department should have a whistleblower protection policy prohibiting retaliation against whistleblowers. Risk management should have awareness campaigns with the officials of DSRAC on whistleblowing to report suspicious activities. The department should conduct risk assessments for all programmes of the department in order to mitigate risks that might occur.

5.9.10 Weaknesses in internal control systems

The department should implement all recommendations made by auditors to address identified weaknesses in internal control systems within the past twelve months. Management should develop action plans to address shortcomings of the annual audit opinion through the use of an audit improvement plan monitoring tool. The department should also incorporate the recommendations of the internal audit unit to those of the Auditor General and report the progress made on the implementation of the action plans to the oversight bodies timeously on stipulated timelines.

5.9.11 Evaluation of internal controls

Through the results of the risk assessment, the DSRAC Internal Audit must evaluate the adequacy and effectiveness of internal controls encompassing the department's governance, operations, and information systems. These controls contain reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws and, regulations.

The DSRAC Internal Audit should perform adequate audit assignments and gather information to form an opinion on the adequacy and effectiveness of internal control

processes. The Chief Audit Executive should communicate the overall opinion timeously. To ensure that controls are effective, correct and supported by acceptable evidence, the auditors are required to analyse and evaluate the findings in order to determine whether the internal controls are effective or not. The present internal controls are effective when they give a reasonable assurance that the process will accomplish its performance objectives. On the other hand, the present internal controls are ineffective when they do not give reasonable assurance that the process will accomplish its performance objectives (South Africa, 2009:50).

5.9.12 Organisational structure

DSRAC management should review job descriptions and titles on the organogram to ensure that they remain appropriate and accurate. Effective human resource management is needed to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

5.9.13 Review of policies

Management should review and update the policies and procedures where necessary. They should regularly communicate the policies and procedures to ensure all employees understand what is required of them in terms of those policies and procedures. Furthermore, they should design controls (for example regular reviews) that will ensure that the policies and procedures are implemented effectively. The policies and procedures should be aligned to the relevant laws and regulations where applicable. The approved policies should be uploaded to the departmental website.

5.9.14 Leadership

The leadership of DSRAC should have overall responsibility and accountability, especially for identifying the risks of the department which need to be addressed. All different levels of management should also be involved in the process of identifying risk and should be primarily responsible for designing and implementing the necessary books, records, documents, policies and procedures. Management should also be responsible for maintaining the process thus ensuring that policies and procedures are carried out

properly and timeously and that they remain effective. Most of the time, it is the ordinary employees who are responsible for executing the internal control procedures, such as signing a document, issuing a goods received voucher or receipt, reconciling accounts, and the success of the procedures will depend on them. Ordinary employees often have a far better understanding of their functions and may be well placed to participate in the risk assessment process (Jackson & Stent, 2012:5/3).

5.10 Future research

The research was limited to the internal controls covering the area of financial statements within DSRAC. Future research should be on improving reporting based on pre-determined objectives. This is because the reports of the Auditor General regarding financial management in the government departments are worrying and cast doubt on the accountability of the officers in the area of performance information reporting. This area is always a repeated finding on the Auditor General's reports. The performance information against the budget and expenditure s always gives problems in the Auditor General's findings. The value for money issue on the services rendered is a great concern. The auditors in terms of testing the departmental programmes need to obtain an understanding of the internal controls. The main objective is to ensure that what is presented is valid, accurate and complete. The usefulness of information considers the measurement, relevance, consistency and presentation of indicators and targets. The reliability of information is a comparison made with what has been reported in the performance report and the supporting documents that are provided.

5.11 Conclusion

Internal controls play a very critical role in the financial governance of the department to improve the audit outcomes. It is important to note the importance oft effective communication with legislative oversight bodies, executive authority and those charged with governance of the department aimed at taking the lead on commitment for corrective actions necessary to enhance audit opinion, improved oversight and effective accountability, and ultimately to clean financial governance. A written assessment of the

drivers of internal control is provided to the parties involved and participants. These controls are touched under leadership, financial and governance.

The researcher found that internal controls are very important in the operations of the department as a whole, especially in financial governance. The internal controls play an integral part in the organisation because all processes need controls as tool to mitigate the risks. In order for the department to prevent the emphasis of matter on audit reports or to achieve a clean audit report, it must strengthen its internal controls. Although this study did not cover the issues of pre-determined objectives, implementation of internal controls is necessary for the improvement of reporting on performance information.

The study concluded that the Department of Sport, Recreation, Arts, and Culture complies with international best practice pertaining to internal controls and financial reporting. The department has a great opportunity to obtain a clean audit report. It also has potential to increase the effectiveness and efficiency of its internal controls by strengthening the functioning of the internal control committee, risk management committee as well as finance committee (In-Year Monitoring). The executive authority and senior management of the department are the people who should enforce the implementation of internal controls through the use of the internal control function of the department, although the audit committee assists in ensuring the effectiveness of these internal controls.

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Appendix A:

Nelson Mandela Metropolitan University

for tomorrow

ETHICS CLEARANCE FOR TREATISES/DISSERTATIONS/THESES

Please type or complete in black ink

FACULTY: BUSINESS AND ECONOMIC SCIENCES

SCHOOL/DEPARTMENT: DEVELOPMENT STUDIES

I, (surname and initials of supervisor) LIEBENBERG S.

the supervisor for (surname and initials of candidate) MTSHOTSHISA M.

_____ (student number) 211 026 28

a candidate for the degree of MPHIL IN DEVELOPMENT FINANCE

with a treatise/dissertation/thesis entitled (full title of treatise/dissertation/thesis):

IMPROVING INTERNAL CONTROL SYSTEMS IN THE PUBLIC SECTOR: A CASE STUDY OF THE EASTERN CAPE DEPARTMENT OF SPORT, RECREATION, ARTS AND CULTURE (DSRAC).

considered the following ethics criteria *(please tick the appropriate block)*:

	YES	NO
1. Is there any risk of harm, embarrassment of offence, however slight or temporary, to the participant, third parties or to the communities at large?		X
2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?		X
2.1 Are subjects/participants/respondents of your study:		X
(a) Children under the age of 18?		X
(b) NMMU staff?		X
(c) NMMU students?		X
(d) The elderly/persons over the age of 60?		X
(e) A sample from an institution (e.g. hospital/school)?		X
(f) Handicapped (e.g. mentally or physically)?		X

3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an organisation that is established by government to protect vulnerable people)		X
3.1 Are you intending to access participant data from an existing, stored repository (e.g. school, institutional or university records)?		X
4. Will the participant's privacy, anonymity or confidentiality be compromised?		X
4.1 Are you administering a questionnaire/survey that:		
(a) Collects sensitive/identifiable data from participants?		X
(b) Does not guarantee the anonymity of the participant?		X
(c) Does not guarantee the confidentiality of the participant and the data?		X
(d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?		X
(e) Will create doubt whether sample control measures are in place?		X
(f) Will be distributed electronically via email (and requesting an email response)? Note: • If your questionnaire **DOES NOT** request respondents' identification, is distributed electronically and you request respondents to return it *manually* (print out and deliver/mail); **AND** respondent anonymity can be guaranteed, your answer will be NO. • If your questionnaire **DOES NOT** request respondents' identification, is *distributed via an email link and works through a web response system (e.g. the university survey system)*; ***AND*** respondent anonymity can be guaranteed, your answer will be NO.		X

*Please note that if **ANY** of the questions above have been answered in the affirmative **(YES)** the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.*

and hereby certify that the student has given his/~~her~~ research ethical consideration and full ethics approval is not required.

SUPERVISOR(S) — **DATE** 14 May 2016

HEAD OF DEPARTMENT — **DATE** 16/05/2016

STUDENT(S) — **DATE** 16-05-2016

Appendix B:

ORIGINALITY REPORT

22%	13%	9%	18%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to University of South Africa Student Paper	4%
2	www.nmhdu.org.uk Internet Source	2%
3	Submitted to Walter Sisulu University Student Paper	2%
4	Submitted to Mancosa Student Paper	2%
5	repository.nwu.ac.za Internet Source	1%
6	www.bdo.com Internet Source	1%
7	docplayer.net Internet Source	1%
8	eprints.mdx.ac.uk Internet Source	1%
9	Christine Stilwell. "Public Libraries and Social Inclusion: An Update from South Africa", Emerald, 2016 Publication	1%
10	ebpaqc.aicpa.org Internet Source	1%
11	Submitted to University of KwaZulu-Natal Student Paper	1%
12	c.ymcdn.com Internet Source	1%
13	internalaudit.uncc.edu Internet Source	1%
14	www.kpmg.com Internet Source	1%
15	"Auditor-General Kimi Makwetu On 2014-15 Audit Results for National and Provincial Government [press ", Africa News Service, Nov 26 2015 Issue Publication	1%
16	Submitted to Sheffield Hallam University Student Paper	1%
17	Submitted to University of the Free State Student Paper	1%
18	www.dcc.mil.za Internet Source	1%
19	mcgladrey.com Internet Source	1%

20	www.pmg.org.za Internet Source	1 %

Exclude quotes	On	Exclude matches	< 1%
Exclude bibliography	On		

Appendix C:

Editing Service: Lee Kemp

14 Carlisle St

Mount Croix

Port Elizabeth

6001

31 May 2018

082 723 5408

TO WHOM IT MAY CONCERN

EDITING OF REPORT: Mr Mongezi Mtshotshisa (**211102628**)

This serves to confirm that I edited Mr Mtshotshisa's Masters of Philosophy in Development Finance treatise.

The editing covered all aspects of language, punctuation and layout. I also crosschecked in-text referencing against the reference list.

Yours Faithfully

Ms L. Kemp

B.A. (Hons English); MBA

Appendix D:

QUESTIONNAIRE

RESEARCH TITLE: **IMPROVING INTERNAL CONTROL SYSTEMS IN THE PUBLIC SECTOR: THE EASTERN CAPE DEPARTMENT OF SPORT, RECREATION, ARTS AND CULTURE.**

The following questionnaire consists of section A and section B. Section A contains seven (7) statements or questions and Section B contains thirty eight (38) statements or questions.

SECTION A : DEMOGRAPHICS AND PERSONAL DETAILS OF RESPONDENT

Please make a cross (x) in the appropriate box to indicate your demographics

1. Indicate your age group do you belong to.

18 – 25	
26 – 35	
36 – 45	
46 – 55	
56 – 65	
Above 65	

2. What is your gender?

Male	
Female	

3. What is your race?

White	
Black	
Indian	
Coloured	
Other (please specify)…….	

4. Highest educational qualification?

Matric	
Diploma	
Bachelor's Degree or B.Tech	
Advanced or Higher Diploma	
Honour's Degree or Post Graduate Diploma	
MBA or MBL	
Masters	
DBA or DBL	
PhD	
Other (please specify) ……	

5. What is your professional qualification?

Chartered Accountant - CA (SA)	
Certified Internal Auditor – CIA	
Registered Government Auditor - RGA	
Chartered Management Accountant - CIMA	
Chartered Certified Accountant - ACCA	
Chartered Development Finance Analyst - CDFA	
Certification in Control Self-Assessment - CCSA	
Other (please specify) ……..	

6. What is your field(s) of specialisation in your highest educational qualification?

Accounting	
Auditing	
Taxation	
Financial Management	
Public Finance or Local Government Finance	
Small Business Management or Business Management	
Public Administration	
Development Finance or Development Studies	
Economics	
Information Technology	
Other (please specify) ……	

7. How long have you been working for/with DSRAC?

Less than 1 year	
Between 1 - 2 years	
Between 3 - 5 years	
Between 6 – 10 years	
More than 10 years	

SECTION B: EFFECTIVE INTERNAL CONTROLS TO DSRAC

The statements or questions should be answered according to a Likert scale measuring 1 to 5 as follows:

1 – Strongly disagree

2 – Disagree

3 – Neither agree nor disagree (Neutral)

4 – Agree

5 – Strongly agree

State your opinion in the applicable box by marking with an X.

B1. There are adequate job descriptions for all finance positions.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B2. The level of competence is carefully defined for each job in the finance department.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B3. DSRAC does have written financial policies.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B4. DSRAC does have written financial procedures manual.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B5. DSRAC financial procedures manual is up to date.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B6. All DSRAC employees do have a copy of procedures manual.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B7. All DSRAC employees are compliant with the procedures manual.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B8. DSRAC complies with international best practice pertaining to internal controls.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B9. DSRAC complies with international best practice regarding to financial reporting.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B10. The finance staff has been appropriately trained in the use of the accounting system.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B11. The finance staff has been appropriately trained in the use of standard chart of accounts.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B12. DSRAC does have a responsible system controller for each accounting system.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B13. When employees assigned to financial duties are on leave, another employee does assume their responsibilities.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B14. There is a written policy whereby employees are required to report suspicious activities to the appropriate level of management.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B15. DSRAC does have a whistleblower protection policy prohibiting retaliation against whistleblowers.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B16. The delegations of authority to personnel are approved by the Accounting Officer.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B17. The delegation of authority is signed by the accepting responsibility manager.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B18. The delegations of authority complies with Public Finance Management Act.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B19. DSRAC does keep specimen signature for personnel with authority to approve.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B20. Ongoing reviews of the internal controls for key processes are being performed.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B21. The suggestions for improvement to internal controls are acted on promptly.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B22. DSRAC's internal controls are adequately protect assets from inappropriate use.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B23. DSRAC's financial controls incorporate authorisation of transactions.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B24. Timely reconciliation of balances are performed.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B25. The segregation of duties exist at DSRAC.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B26. DSRAC submit statutory financial reports to provincial treasury timeously.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B27. DSRAC submit certificate of compliance to financial management performance indicators to provincial treasury monthly.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B28. Electronic data is adequately protected from improper use.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B29. Internal control unit has a good working relations with supply chain management directorate.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B30. DSRAC have effective audit committee with a charter outlining its responsibilities.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B31. All recommendations made by auditors to address identified weaknesses in internal control systems, within the past twelve months have been implemented.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B32. DSRAC have an action plan to address shortcomings of the annual audit opinion.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B33. DSRAC prevent the occurrence of irregular expenditure.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B34. DSRAC report an identified irregular expenditure to provincial treasury monthly.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B35. DSRAC conduct an investigation on all reported irregular expenditure to determine if there is no official liable.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B36. DSRAC has an Internal Control Committee.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B37. Internal Control Committee meets quarterly to address all reported irregular expenditure.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

B38. DSRAC's aim is to move from unqualified audit to clean audit opinion.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐