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AVOIDING THE PITFALLS: STRENGTHENING INTERNAL AUDIT IN THE SOUTH AFRICAN PUBLIC SECTOR

Introduction

Internal audit functions are a cornerstone of good governance, risk management, and effective control within any organisation. In South Africa's public sector – encompassing national and provincial departments, municipalities, and state-owned entities – their role is even more critical. Mandated by the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA), internal audit is intended to provide assurance that public funds are used efficiently, effectively, economically, and for their intended purposes, thereby supporting service delivery and upholding public trust. However, reports from the Auditor-General of South Africa (AGSA) consistently highlight significant weaknesses in financial management, internal controls, and compliance across many public sector institutions.

These persistent negative audit outcomes, often including disclaimers or qualified opinions, point towards challenges within the internal control environment, including the internal audit function itself. Avoiding common mistakes is crucial for internal audit to fulfil its mandate and contribute positively to public sector performance.

Common Internal Audit Mistakes and Their Manifestation in the SA Public Sector

Several recurring mistakes can undermine the effectiveness of internal audit. Let us examine five common pitfalls, as identified in the provided image, and how they play out within the unique context of the South African public sector:

1. Lack of Adequate Planning (Absence of a Risk-Based Approach):

The Mistake: Commencing an audit without a thorough, risk-based plan often leads to inefficient use of resources and poor coverage of critical areas.

SA Public Sector Context: The public sector environment is complex, governed by extensive legislation (PFMA, MFMA, SCM regulations, etc.). A significant challenge identified is internal auditors sometimes lacking deep "business knowledge" of the specific department or entity's core functions and risks. Without adequate risk assessment and planning, audits might focus on low-risk areas while neglecting critical zones like supply chain management (SCM) – a frequent source of irregular expenditure flagged by the AGSA – or the reliability of performance information related to service delivery targets. This contributes to recurring audit findings year after year.

2. Overlooking Root Cause Analysis:

- **The Mistake:** Focusing merely on the symptoms (e.g., identifying an instance of non-compliance) without delving into the underlying reasons why the failure occurred.
- **SA Public Sector Context:** The AGSA often cites recurring findings and slow implementation of recommendations. When internal audit reports non-compliance or irregular expenditure but fails to adequately analyse the root causes (e.g., lack of specific skills, unclear policies, inadequate system controls, poor 'tone at the top', or crucially, lack of consequence management), management may struggle to implement effective corrective actions. This leads to a cycle of repeat findings and limited improvement in overall control environments, contributing to the stagnation or regression in audit outcomes observed in some areas.

3. Insufficient Stakeholder Engagement:

- **The Mistake:** Failing to engage key stakeholders, particularly management, early and throughout the audit process.
- **SA Public Sector Context:** Lack of management support is frequently cited as a major challenge for internal audit units in the South African public sector. Without early engagement to understand management's perspective, agree on audit scope, and communicate potential issues transparently, findings might be met with resistance, misunderstanding, or defensiveness. This hinders the acceptance and implementation of recommendations, rendering the audit less impactful. It can also exacerbate the challenge of securing necessary resources and cooperation during the audit.

4. Inadequate Documentation:

- **The Mistake:** Failing to maintain clear, comprehensive, and well-organised evidence and working papers to support audit procedures, findings, and conclusions.
- **SA Public Sector Context:** Poor record-keeping is a pervasive issue noted in AGSA reports. For internal audit, inadequate documentation weakens the audit trail, makes it difficult to substantiate findings under scrutiny (by management, audit committees, or the AGSA), and hampers quality reviews. This can lead to findings being challenged or dismissed and may prevent the AGSA from placing reliance on the work of internal audit, necessitating duplicated effort. Proper documentation is fundamental for accountability.

5. Ignoring Soft Controls and Culture:

- **The Mistake:** Focusing exclusively on 'hard' controls (e.g., segregation of duties, reconciliations) while overlooking 'soft' controls like the ethical climate, management's attitude towards controls (tone at the top), and organisational culture.

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- **Ignoring Soft Controls and Culture:**
- **The Mistake:** Focusing exclusively on 'hard' controls (e.g., segregation of duties, reconciliations) while overlooking 'soft' controls like the ethical climate, management's attitude towards controls (tone at the top), and organisational culture.
- **SA Public Sector Context:** Given the challenges of non-compliance, irregular expenditure, and sometimes alleged corruption, understanding the control environment's softer aspects is vital. Ignoring red flags in leadership attitudes, resistance to implementing controls, high staff turnover in key positions, or a culture that tolerates non-compliance means internal audit misses critical risks. Assessing the ethical culture and the effectiveness of consequence management (or lack thereof) is crucial for a holistic view of the control environment.
- **The High Cost:** Consequences of Internal Audit Weaknesses
- When internal audit functions are hampered by these mistakes, the consequences for the South African public sector are severe:

- **Financial Losses:** Billions of Rand in irregular, fruitless, and wasteful expenditure continue to plague the public sector, diverting funds from essential services.
- **Poor Service Delivery:** Ineffective use of resources and weak project oversight contribute to failures in delivering basic services like water, housing, and infrastructure maintenance.
- **Lack of Accountability:** Weak internal controls and insufficient consequence management allow mismanagement and potential corruption to persist.
- **Erosion of Public Trust:** Repeated negative headlines and service delivery failures undermine citizens' confidence in public institutions.
- **Negative Audit Outcomes:** These internal weaknesses contribute significantly to the qualified, adverse, or disclaimed opinions issued by the AGSA.

Impact on Public Sector Auditors and Accountants

The professionals working within these challenging environments face significant repercussions:

- **Damaged Credibility:** When internal audit functions are perceived as ineffective or fail to prevent major control breakdowns, the credibility of the auditors and accountants involved suffers. The AGSA may explicitly state limitations in relying on their work.
- **Increased Workload and Pressure:** Dealing with recurring issues, poor documentation from auditees, lack of cooperation, and pressure to meet deadlines despite challenges increases stress and workload. Auditors have even reported facing hostility or pushback when reporting unfavourable findings.
- **Ethical Dilemmas:** Finance professionals must navigate complex ethical situations, upholding principles like integrity, objectivity, and professional competence (as per the SAICA Code of Professional Conduct, which adopts the international IESBA code) even when faced with unsupportive management, pressure to ignore findings, or uncovering potential wrongdoing by superiors.
- **Barriers to Effectiveness:** Lack of skills, inadequate resources, insufficient management support, and poor organisational culture can severely limit the ability of auditors and accountants to perform their duties effectively and make a meaningful impact.
- **Morale and Retention:** Working in a consistently challenging environment with limited positive reinforcement or impact can lead to low morale and high staff turnover, further exacerbating skills shortages.

Moving Towards Solutions

Addressing these common mistakes requires a concerted effort:

- **Leadership Buy-in:** Management and leadership must champion and support the internal audit function, providing necessary resources and enforcing the implementation of recommendations.
- **Skills Development:** Continuous investment in training is needed, particularly focusing on understanding the specific operational complexities and risks of the public sector environment, risk-based auditing techniques, and root cause analysis.
- **Robust Planning:** Implementing rigorous, risk-based audit planning that focuses on key risk areas identified by both internal assessments and AGSA findings.
- **Strengthened Documentation:** Adhering strictly to documentation standards to ensure clear audit trails and supportable findings.
- **Cultural Assessment:** Integrating the assessment of soft controls and ethical culture into audit methodologies.
- **Consequence Management:** Both internal audit and management must push for, and implement, meaningful consequences for non-compliance and financial mismanagement.

Conclusion

An effective, independent, and well-resourced internal audit function, staffed by competent and ethical auditors and accountants, is indispensable for good governance in the South African public sector. By consciously avoiding common pitfalls like inadequate planning, superficial analysis, poor stakeholder engagement, weak documentation, and neglecting organisational culture, these professionals can significantly enhance their impact. Overcoming these challenges is vital not only for achieving cleaner audit outcomes but, more importantly, for improving accountability, safeguarding public resources, and ultimately enabling better service delivery for all citizens.

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The Southern African Institute of Government Auditors is a non-profit professional body that certifies and develops finance and auditing professionals in the public sector. SAIGA represents a unique brand of professionals, the Registered Government Auditors (RGA) in the public sector and academia. SAIGA is the sole provider of the RGA, which is regarded as the highest professional qualification in public sector auditing.

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