



cogta

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Cooperative Governance and Traditional Affairs
PROVINCE OF KWAZULU-NATAL

IMPLEMENTATION EVALUATION OF THE DEPARTMENTAL INTERNAL CONTROL FUNCTION

Evaluation Report

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Dynamic Dashing Solutions

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LIST OF ACRONYMS

Acronym	Definition
AG	Auditor-General
CFO	Chief Financial Officer
COGTA	Department of Co-operative Governance and Traditional Affairs
DDS	Dynamic Dashing Solutions
HR	Human Resources
SCM	Supply Chain Management
SOP	Standard Operating Procedures
VAT	Value Added Tax

GLOSSARY OF TERMS

Term	Description
Problem Statement	This should include :- <ul style="list-style-type: none"> • A clear statement that the problem exists; • Evidence that supports the existence of the problem; • Evidence of an existing trend that has led to the problem; • Definitions of major concepts and terms (this can be provided below in a subsection), (e) a clear description of the setting; • Probable causes related to the problem; • and a specific and feasible statement.
Effectiveness	To what extent have the outcomes been achieved and have the outputs of the policy, programme or project contributed to achieving its intended outcomes?
Evaluation Methodology	Approaches used in conducting the evaluation.
Implementation Evaluation	Aims to evaluate whether an intervention's operational mechanisms support achievement of the objectives or not.
Literature Review	A literature review surveys books, scholarly articles, and any other sources relevant to a particular issue, area of research, or theory, and by so doing, provides a description, summary, and critical evaluation of these works in relation to the research problem being investigated. Literature reviews are designed to provide an overview of sources you have explored while researching a particular topic and to demonstrate to your readers how your research fits within a larger field of study.
Observation Method	Observation, as the name implies, is a way of collecting data through observing
Qualitative Analysis	This is the method used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative.
Quantitative Analysis	Quantitative measurement involves running statistical analysis on data that has numerical values.

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EXECUTIVE SUMMARY

Dynamic Dashing Solutions (DDS) was appointed by Department of Cooperative Governance and Traditional Affairs (COGTA) to conduct an Evaluation on the Implementation of Departmental Internal Control Function. The purpose of this executive summary is to provide a snapshot of the evaluation report on Implementation Evaluation of the Departmental Internal Control Function. This Executive Summary includes :-

1. INTRODUCTION

The introduction includes Internal Control Legislative Framework definitions, critical role, components, and monitoring activities of Internal Control System. It also provides definition of Internal Audit and differences between Internal Control System and Internal Audit .

(a) Internal Control Legislative Framework

(b) Definition of Internal Control

Internal controls are the policies, plans, procedures and organisational structures that are designed and adopted by managers in a public institution to provide reasonable assurance that objectives will be achieved and that undesired events will be prevented, detected and corrected.

(c) Critical Role of Internal Control

Internal controls enrich the understanding of governance requirements and the ability to distinguish between good and bad governance. The characteristics of good governance are transparency, accountability, responsibility and fairness.

(d) Components of Internal Control

i. Control Environment

Control environment entails the practice of ethical values by employees, their commitment to competence and their own development.

ii. Control Activities

Control activities refer to policies and procedures that are used by managers in public institutions to ensure that the directives are diligently adhered to. They can either be preventative, detective or corrective depending on how complex the risks may be and a combination of all these can be used.

iii. Risk Assessment

This is the process that is undertaken to detect and evaluate risks to ensure that public institutions achieve their objectives. The process is instituted to identify and analyse both the internal as well as the external risks that require urgent.

iv. Information and Communication

The internal control policies and the risks that the institution is faced with and how these risks must be dealt with must be communicated to all the employees. Information and communication strengthens internal controls and is important for the day-to-day functioning of a public institution.

v. Monitoring Activities

In order to ensure that internal control mechanisms function reliably and that it produces anticipated results, it must be constantly monitored. Monitoring may be in the form of regular supervisory activities and is dependent on the nature of the risks that a public institution is faced with and the conduct or behavior of employees that perform the duties.

(e) Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes.

Internal auditors are not responsible for the execution of company activities; they advise management and the oversight bodies regarding how to better execute their responsibilities.

(f) Difference between Internal audit and internal control function

Internal Auditors work on the basis of objectivity i.e. they strive as far as possible or practicable to reduce or eliminate bias, prejudice, or subjective evaluation by relying on verifiable data. In terms of Internal Control, their role is to examine the adequacy and effectiveness of internal controls and make recommendations where improvements **are needed.**

Since Internal Audit should remain independent and objective, Internal Audit does not have responsibility for developing or maintaining internal controls. It is the role of management to implement the policies adopted and to identify, evaluate, avoid or mitigate and control the risks the organization could face in achieving its objectives. However, the effectiveness of Internal Control is enhanced through the review process performed by Internal Audit and the recommendations made for improvement.

Internal Control on the other hand is one of the core business processes. An internal control system is an integral part of an organization's financial and business policies that control the strategic, financial and operational procedures of an Organisation. The process is based upon a system of management information, financial regulations, administrative procedures and a system of accountability.

2. PROBLEM STATEMENT

An effective Internal Control System, which presides over the mitigation of risks, depends upon the ability to analyse numerous options and ultimately select the control solutions that optimise cost and benefit. COGTA Internal Control manages and conduct compliance audit services in the Department, develops, implement and maintain fraud prevention strategies for the Department, formulate and implement a risk management strategy, coordinates the implementation of audit recommendations and undertakes internal investigations within the Department and monitor financial risks.

In conducting this evaluation on COGTA Internal Control(s), a firm distinction between assessing the architecture / design of the system and measuring the effective performance / functioning of the system was made. The overall assessment of the Internal Control System is a combination of the conclusion in both areas.

A system that is poorly designed leaves more room for undesirable residual risks than a well-designed Internal Control System, after taking into account the risk appetite and Risk Management Strategies. For this reason, if a system design is inadequate, it may not be cost beneficial to proceed assessing its performance until it is revised and strengthened. The evaluation of the architecture or design of the Internal Control System should consider all pertinent risk mitigation / control objectives. In order to be able to make that firm distinction the following were the objectives of the evaluation

3. OBJECTIVES OF THE EVALUATION

The following were objectives to evaluate the : -

- (a) Architecture or design of the internal control systems;
- (b) Effective performance of the systems for the agreed sections within the department, namely Supply Chain Management (SCM) and Human Resource (HR); and
- (c) Role and the effectiveness of the Internal Control function within the department.
- (d) The relevance of existing controls, their capability to preside over the specific business and governance objectives, and the means to identify deviations from expected results and correct the process;
- (e) The completeness of coverage—by the controls—of identified risks in relation to the specific business and governance objectives;
- (f) The timeliness of the controls in responding to negative events;
- (g) The strength of the selected controls based on several factors;
- (h) The availability of resources needed to perform the controls; and
- (i) Compliance with the established control design.

4. EVALUATION METHODOLOGY

In order to collect the required data , the following data collection methods and tools were used :

4.1. Document Review

The following documents were reviewed to collect the required data on the Design of the Internal Control System , effective performance of the system , deficiencies in the controls, role and effectiveness of the Internal Control function :-

- (a) Audit reports (Internal and External);
- (b) Audit Management Reports;
- (c) Policies (which policies) and Standard Operating Procedures;
- (d) Risk Registers;
- (e) Internal Control Business Plan;
- (f) Departmental Annual Performance Plan (APP)
- (g) Departmental Organograms
- (h) Internal control framework

4.2. Business processes walkthroughs

To confirm the processes as documented on the Standard Operating Procedures, walkthroughs were done on a sample basis for the HR and SCM business processes.

4.3. Face- to- Face interviews

A questionnaire was used to collect first-hand information from the following Departmental Business Units employees and Committees :-

- (a) Internal Control
- (b) Risk Management Committee;
- (c) Programme Chief Directors; and
- (d) Supply Chain Management (SCM)

Out of twenty four (24) employees that were sampled as participants for this evaluation, face- to- face interviews were conducted with twenty (20) employees

4.4. Observation of Management meetings

Departmental MANCO meeting was attended on the 18th of September 2018 . These were the observations made :-

- (a) Management has set a strong control environment
- (b) Management is firm in dealing with issues decisively

5. LITERATURE REVIEW

Most studies conducted In a study by L Lewis on “*The role of Internal auditing providing combined assurance: assessing internal financial controls*”, clarity on the roles and responsibilities of assurance providers was provided. This study provides publications that have a bearing on the topic being discussed in this report.

Management and/or operational management are primarily responsible for the day-to-day activities of the organisation and should implement corrective measures to mitigate risks on a daily basis. Management is further required to monitor daily operations and to identify possible control breakdowns, unforeseen exposures to risk on the part of the organisation, and inadequate and/or inefficient and ineffective operational processes (IIA Position Paper, 2013:1-7). The Internal Control Function is more of a support role to management; however, they can also assist in operational management with the defining of policies, procedures, roles and responsibilities. In addition, the second line of defense

departments can provide risk-mitigating frameworks to operational management, assist management with the identification of risk, and provide training and guidance to management.

In conclusion, there is therefore a need for all the assurance providers to thoroughly understand their roles and responsibilities as well as the level of assurance expected to be provided by them.

6. EVALUATION LIMITATIONS

The following limitations were identified :-

- (a) As indicated in the Inception Report and the Project Plan, Dynamic Dashing Solutions intended interviewing all the twelve (12) members of the Risk Committee however only six (6) members were available for face-to-face interviews.
- (b) Face-to-face interviews could not be conducted with the Head of Department (HOD), Chief Financial Officer (CFO), Audit Committee members and Internal Audit due to other commitments as per their diaries.
- (c) Observation was planned to be done at the Risk Committee meeting, however there was no meeting planned for the period of the evaluation but this was substituted with the observation of the proceedings of the Departmental MANCO meeting.

Dynamic Dashing Solutions found these limitations as influences that could not be controlled and served as shortcomings that impacted on conclusions and recommendations of this evaluation.

7. KEY EVALUATION FINDINGS

2.1. Summary of Document Review

Gaining an understanding of the internal control environment was a crucial part of the process as it formed a basis from which the other components of internal controls could be evaluated. As part of understanding the control environment, the necessary Department's documents were reviewed and evaluated, HR, SCM and Internal Control assessed.

The following are the key findings from :-

(a) Audit & Management Reports (Internal and External)

- There has been recurring findings resulting from deficiencies in internal controls particularly for the HR and SCM sections.
- Improvements in the internal controls in the last five years as presented by the AG showed that internal controls have either regressed or remained unchanged.

(b) Policies

SCM

Good SCM policy findings:

- The policy is aligned with the National Treasury guides, regulations, instructions and practice notes. The policy ensures the procurement process of the department is fair, equitable, and cost-effective.
- The policy ensures that there is no undue influence from SCM role-players with self-interests in bidders, thereby maintaining fairness of the SCM process.
- The policy ensures that the SCM process remain fair, equitable, and transparent.

Deficiencies

- The SCM Policy does not indicate who is responsible for monitoring implementation of SCM policy/procedures. Neither are there regular reviews of compliance of SCM processes by SCM practitioners and other role players.
- The Department's SCM policy does not indicate the process followed for amendment and approval of SCM policy where there have been changes in legislation/regulations or new instructions/guidance.

HR

Good HR policy findings:

- The policies are compliant with applicable employment acts and regulations of the public sector.
- The policies are clear and emphasize the crucial principles which are the cornerstones of the Department of Public Service and Administration.

Deficiencies:

- The department has not developed and adopted their own policies regarding the following processes:

Human Resource Planning and Organization

Compensation

Termination

The department is currently implementing policies that have been published by DPSA, it is important that the department develop policies that are customized to suit their processes.

(c) Standard Operating Procedures

SCM

Good SCM Business process findings:

- The department's business processes for SCM process are clearly articulated.
- Responsible person for executing the task is identified.
- Specifies the time it would take for the execution of the task.
- Identifies the documents to be used in performing the task.
- It determines the output of the tasks performed.

Deficiencies:

- The department has not established a process for contract management to ensure the department does not incur irregular expenditure.
- The department does not have an internal training plan for SCM practitioners and relies on intervention from Treasury.

HR

Good HR Business process findings:

- The department's business processes relating to Recruitment and Termination: III-Health Retirement are clearly articulated (Activity's in the process):
 - Responsible person for executing each task is identified;
 - Specifies the time it would take for the execution of the task; and
 - Identifies the documents to be used in performing the task;This enables the department to enforce accountability for inadequate execution of tasks and ensures efficiency in completing the respective process as each task is time-bound. Furthermore, a full audit trail is available to ensure completeness of documents, allowing for documents that went through the process to be evaluated.

Deficiencies:

- The department has not established documented procedures for the following processes:

- HR Planning and organization process
- Compensation process
- Performance management process
- Termination process - resignation, retirement and deceased employees

(d) Risk Registers

Good Risk Register findings

- The Risk Register covers the key critical elements namely;
 - Risk identification
 - Risk analysis
 - Risk evaluation
 - Risk treatment

(e) Internal Control Business Plan/APP/ Audit Improvement Strategy

Based on the 2017-18 Internal Control Business Plan, Annual Performance Plan and Annual Performance Report, the Internal Control Function has achieved all their targets.

(f) Departmental / Internal Control Unit Current Organogram

- There are clear reporting lines in the Departmental structures.
- There is a 60% vacancy rate in the Internal Control Unit.
- The Enterprise Risk and Integrity Management proposed structure will allow the Internal Control Unit to better service the Department as their function will be streamlined thus allowing them to be more efficient and effective.

(g) Internal Control Framework

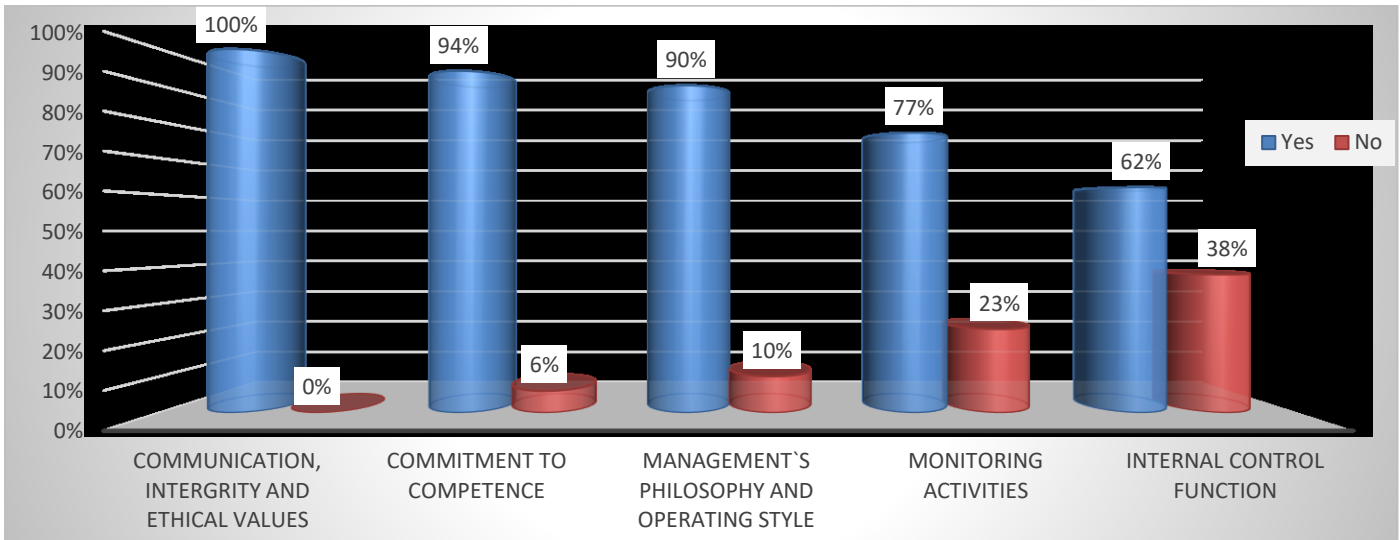
- The Internal Control Framework is in line with the APP and no concerns were noted.

7.2. Key Findings on Face- to- face interviews conducted

The key findings provide an understanding of the Internal Control systems in place, the role players and the effectiveness of the systems. The following graph is a presentation of key findings on quantitative data (yes or

no) :-

OVERALL YES OR NO RESPONSES



Graph 1 Overall Yes / No Responses

The following narratives are an interpretation of the graph above and present key findings on qualitative data gathered to substantiate yes or no responses .

(a) Communication and enforcement of Integrity and ethical values

Management referred to comprises Senior, Middle and Junior within the different Departmental Business Units. 100 % of the participants responded that Management is seen to be communicating and enforcing integrity and ethical values within the Department through their conduct and actions. There were no concerns identified that suggest that there is lack of integrity and ethical values by Management. There were no instances identified where Management had to deal with cases of misconduct from subordinates resulting from lack of integrity and ethical values.

(b) Commitment to competence

Although 94 % of the participants reflected that Management is committed to competence, 6% of the participants differed based on the following concerns :-

- The defining of tasks, roles and resources required by Management is a challenge as there is a scarcity of resources within the Department;
- Where Action Plans have been put in place to address identified deficiencies, actions are not always formally allocated at an operational level;

- Action Plans put in place often fail due to fact that they do not form part of documented job descriptions, processes and policies;
- Lack of training of employees is a challenge in the Department . Training needs are identified and sent for approval but are not always approved by Senior Management; and
- Although policies and procedures exist, and Management is often aware of new developments, the personnel / employees carrying out the day-to-day activities are not always aware.

(c) Management`s Philosophy and operating style

- 90% of the participants viewed Management's philosophy and operating style as effective whilst 10 % viewed it as not effective. The main concern is that although there is consideration of recommendations from independent evaluators, the implementation of corrective actions does not seem to be timeous.

(d) Monitoring activities

77 % of the participants reflected that Monitoring activities put in place by Management as there are there are processes in place to assess the effectiveness of internal controls within the business unit and 23 % differed with the following concerns : -

- Although open communication is encouraged in Business Units, there is no formal process to report Internal Control deficiencies.
- Deficiencies in Internal Controls are mainly addressed when they have been identified via the audit process (Internal and/or External) and not from Management's Monitoring processes.
- Some participants felt that there are not enough meetings held with the entire team within the Business Units, which results in ineffective communication of information which can cause the monitoring activities in place to fail.
- The Business Unit's Management and the Internal Control unit do not regularly work together to evaluate business processes and controls implemented to determine their effectiveness in preventing, detecting and correcting errors identified in the financial information.

(e) Effectiveness of Internal Control Function

62% of the participants felt that the Internal Control Function is effective and 38 % differed based on the following concerns : -

- The Internal Control Business Unit is not seen to be actively working together with Policy and Research Business Unit. They should be more involved in the analysis of existing policies, conducting research and developing new policies,

frameworks and procedure manuals for the Department to ensure that matters surrounding the internal controls are adequately addressed.

- There is a need for workshops on internal controls, frameworks, procedure manuals and methodologies to be conducted at an operational level for people who are responsible for the day-to day operations to enhance effectiveness in addition to MANCO meetings. This would also enhance the visibility and impact of the Internal Control Unit.
- Due to the large number of projects or assignments allocated to the Internal Control Unit Business Unit and capacity constraints of the unit Business Unit, the testing of controls to confirm whether the Internal Control Systems are being adhered to within the Department is not done at a satisfactory level to give adequate support to Business Units.

8. CONCLUSIONS

The Department has good policies in place. Although there is a need for improvement in the updating of such policies with the latest updates and in closing the gaps identified in the internal controls, the policies are mostly aligned with the latest developments and are in line with the Department's strategies and objectives.

The Department has good documented business processes in place however, there is a need to continuously improve these processes to manage the deficiencies identified in the internal controls. There is even a greater need to enforce and monitor the implementation of all the business processes and procedures to ensure a favorable desired outcome. Management should also consider documenting the processes that are not documented but are performed to ensure set standards are adhered to and procedures are adequately performed up to Management's expectations.

The Department has a good Risk Register in place however there is a need for the understanding of the roles and responsibilities in the compilation, adoption and execution of Action Plans in the Risk Register as this is critical in having an effective Risk Management document.

With regard to communication, enforcement of Integrity and ethical values, it can be concluded that the tone set by Senior Management has cascaded down to all Departmental employees, which has resulted in a good control environment where the role players are seen to have integrity and ethical values. This implies, that any internal control deficiencies identified are not stemming from a lack of integrity and ethical values from the role players.

Management is committed to competence however there seems to be some concerns surrounding the approval of training for employees, action plans not being formally allocated at operational level and employees carrying day to day activities not always being aware of new developments in policies and procedures.

The concern noted regarding management's philosophy and operating style is that the recommendations from independent evaluators and the implementation of corrective action does not seem to be timeous.

Although there are monitoring activities put in place by management, there is no formal process to report internal control deficiencies and deficiencies are mainly addressed when they have been identified by the independent evaluators and not from management's monitoring processes.

The ineffectiveness of the Internal Control Functions seems to be mainly stemming from capacity constraints caused by a high vacancy rate, the lack of workshops on internal controls for people involved in day to day operations, and a reactive approach to issues of internal controls.

There seems to be a need for a clarification of roles and responsibilities between the business unit's management and the Internal Control Function with regards to the department's internal controls. The unclear definitions create expectations from the role players and other stakeholders that are not met and, in the end, create frustrations. We have included a guide which seeks to clarify the roles and responsibilities for the role players with regards to Internal controls. This should not be seen as a prescription but as a guide that the Department can adopt in clarifying the roles and responsibilities with regards to internal controls. The adoption of this guide would include the incorporation of the such roles and responsibilities into job descriptions, action plans and performance agreements.

The Department's internal controls are the responsibility of every role player within the department. Management of the business units are primarily responsible for the day-to-day activities of the department and should implement corrective measures to mitigate risks on a daily basis. Management is further required to monitor daily operations and to identify possible control breakdowns, unforeseen exposures to risk on the part of the department, and inadequate and/or inefficient and ineffective operational processes.

The Internal Control Function should play a support role to management. Although the Internal Control Function is more remote from day-to-day management, it should assist management with things like defining of policies, procedures, roles and responsibilities, providing risk-mitigating frameworks to operational management, assist management with the identification of risk, provide training and guidance to management and also assist management with the monitoring of the day-to-day business of the department.

Management of the business units together with the Internal Control Function should provide combined assurance regarding the functioning and effectiveness of the internal controls in the department.

The Internal Audit Function is independent from management and none of management's responsibilities for internal controls should be expected to be performed by them. Their role as far as the internal controls are concerned is to express an independent opinion on the assertions made by management with regards to the functioning and effectiveness of the controls.

All the role players should therefore work together and harmoniously to provide combined assurance regarding the department's internal controls and to achieve the controls objectives.

9. RECOMMENDATIONS

It was resolved at the EXCO meeting held on the 3rd of December 2018 that the following recommendations will inform the Improvement Plan to be compiled by the Department:-

Policies

- To ensure full compliance with the SCM prescripts, Policy and Research Unit should regularly assess SCM's compliance with the Department's SCM policy , and all procurement related National Treasury's instructions, practice notes, regulations and guidance.
- To ensure the exclusion of non-performing suppliers, there should be an establishment of a Blacklisting Committee that will maintain a list of blacklisted suppliers and individuals.
- To ensure full compliance and alignment with the DPSA policies, The Department should develop and adopt their own policies regarding the following processes:
 - Human Resource Planning and Organisation
 - Compensation
 - Termination

Standard Operating Procedures

- To ensure guidance and adherence to the Department's policies and controls, Policy and Research Business Unit, in consultation with Human Resource Management and Development and Internal Control Business Units should develop well documented Standard Operating Procedures addressing the following processes:
- HR Planning and Organisation
- Compensation
- Performance Management
- Termination - resignation, retirement and deceased employees

Risk Register

- To ensure proper identification of risks and mitigating factors relating to internal controls and effective implementation of action plans. The Business Units should report on Risk Management processes when reporting on Business Plans progress at the end of each quarter to Monitoring and Evaluation and the Internal Control unit should assist in providing M&E with evidence to substantiate assertions made by management of the Business Units.

Internal Control Function

- To ensure that internal control deficiencies are identified and addressed timeously. As part of internal control unit's business plan, Internal controls (other than the deficiencies identified by the auditors) should be evaluated, recommendations made by the unit and implementation thereof monitored more frequently.
- To ensure effectiveness of the Internal Control Unit. Ad hoc projects not forming part of the Internal Control's business plan should be allocated subject to the availability of the capacity within the unit. Provision should be made in Internal Control's year plan for a certain number of ad hoc projects that may need to be performed urgently.
- To allow the Internal Control Unit to better service the Department as their function will be streamlined thus allowing them to be more efficient and effective. The proposed new structure of the Enterprise Risk and Integrity Management should be implemented as soon as possible.
- To ensure that the Internal Control unit has enough capacity to fulfil their duties. Vacancies within the Internal Control unit should be filled as soon as possible. Internal control Function should consider sourcing external capacity as an interim measure to supplement current structure.

All Business Units

- To ensure effective implementation of the action plans. Consequence management should be put into place for the Business Units that have not adhered to dates and/ or deliverables of the action plans.
- To ensure that the staff keep abreast of changes thus ensuring that they can carry out their duties at the required level and skill. Job descriptions of personnel in all Business Units should be revised to incorporate duties that are additional to those currently documented if they are performed.
- Vacancies within the department should be filled to ensure that the department has enough resources to effectively perform their function.
- To ensure that the staff keep abreast of changes thus ensuring that they can carry out their duties at the required level and skill. Training of staff should be identified based on skills gaps identified during the PDP process and planned for and approved based on the availability of funds.
- To ensure that personnel are accountable for any deviations from established internal control processes, ultimately allowing for timeous consequence management and corrective measures. The Department (COGTA) should develop a platform where employees are able to report breakdowns in internal controls throughout the department.
- To ensure that matters surrounding internal controls are adequately addressed in policies and procedures. The process of analysing of existing policies, conducting research and developing new policies, frameworks and procedure manuals as done by the Policy and Research Unit should be done frequently in collaboration with the Internal Control Unit.
- To enhance the visibility and impact of the Internal Control Unit. Workshops to communicate strategies of the Internal Control Unit should be communicated below the EXCO level as well so that personnel who are responsible for the day-to-day operations and adherence to the strategies are well informed.
- To ensure effectiveness of the Internal Control unit in addressing internal control deficiencies. The advice or assistance given by the Internal Control to Business Units should be held at high esteem as it relates to part of their core function. The action implemented should be discussed fully by both parties and the best recommendation, that will address the root cause implemented.

FULL REPORT

2. INTRODUCTION

The introduction includes definition, critical role, components, and monitoring activities of Internal Control System. It also provides definition of Internal Audit and differences between Internal Control System and Internal Audit .

(a) Definition of Internal Control

Internal controls, as defined by Erasmus & Visser (2011:9); Luyinda, Herselman & Botha (2008:32) and Puttick & Van Esch (1998:162) includes the policies, plans, procedures and organisational structures that are designed and adopted by managers in a public institution to provide reasonable assurance that objectives will be achieved and that undesired events will be prevented, detected and corrected. In terms of the Public Finance Management Act, 1999 and Draft Treasury Regulations (2012), internal controls help to prevent misuse or damage to assets and protect the confidentiality and integrity of the information system. To achieve good governance, the three interconnected categories of internal controls (COSO 1994:108), that is, effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations must be aligned to the institutional objectives (Romaniuk 2011:111).

(b) Critical Role of Internal Control

Internal controls enrich the understanding of governance requirements and the ability to distinguish between good and bad governance. The International Federation of Accountants (2013:47) defines public sector governance as encompassing the political, economic, administrative, legal measures and other measures that are established to ensure that the outcomes are defined and achieved as planned. The characteristics of good governance, as described by Marx, Van der Watt, Bourne & Hamel (2009:4-5), are transparency, accountability, responsibility and fairness. Clamp et al. (2012:1) argue that the lack of a culture of good governance, dishonesty, unethical practices, the lack of skills and the inability by leaders to account, ineffective implementation as well as the lack of monitoring of internal controls are some of the features that characterise the South African public sector.

(c) Components of Internal Control

• Control Environment

The control environment as defined by (DiNapoli 2010:6) as a measure of how managers account for the effectiveness and efficiency of internal controls and how it helps achieve the goals of the public institution. Control environment entails the practice of ethical values by employees, their commitment to competence and their own development (Romaniuk 2011:112).

- **Control Activities**

These may be instituted at different levels of a public institution. The types of control activities that are instituted depend on the type of activities that are performed by employees. Control activities refer to policies and procedures that are used by managers in public institutions to ensure that the directives are diligently adhered to (Ratcliffe & Landes 2009:5). Examples of control activities, as identified by COSO (1994:4), include approvals, authorization, verifications, reconciliations, and performance appraisals, security of assets and segregation of duties. They can either be preventative, detective or corrective depending on how complex the risks may be and a combination of all these can be used (INTOSAI 2004:13).

- **Risk Assessment**

This is the process that is undertaken to detect and evaluate risks to ensure that public institutions achieve their objectives (INTOSAI 2004:13). The process is instituted to identify and analyse both the internal as well as the external risks that require urgent attention (AGSA 2014a:4). It helps managers in public institutions to detect and manage the risks that relate to changes in the institutional operation (COSO 1994:4). Managers can assess the risks by making use of either numerical or non-numerical techniques and in order to understand which risks are likely to occur and how they will be managed when they occur (Erasmus & Visser 2011:72). Hence, the designing of internal controls must fit the purpose.

- **Information and Communication**

The internal control policies and the risks that the institution is faced with and how these risks must be dealt with must be communicated to all the employees. Information and communication strengthens internal controls and is important for the day-to-day functioning of a public institution. In an effectively managed public institution, managers and employees must have access to relevant, complete, reliable, correct and timely communication to be able to make informed decisions (INTOSAI 2004:13). In this case, information about internal controls policies, the risks that a public institution is faced with and how it should, however be encouraged that communication flows in both directions, that is, both the top-down and bottom-up approaches are used.

- **Monitoring Activities**

The operation of Internal Control system is the responsibility of the relevant line managers (Internal Audit Framework, 2009)

This is an important part of the duties that are performed by managers in public institutions. It ensures that internal controls are understood and adhered to. In order to ensure that internal control mechanisms function reliably and

that it produces anticipated results, it must be constantly monitored. Monitoring may be in the form of regular supervisory activities and is dependent on the nature of the risks that a public institution is faced with and the conduct or behavior of employees that perform the duties (COSO 1994:5). When monitoring is designed and implemented effectively, public institutions are able to identify potential risks accurately.

(d) Definition of Internal audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes.

With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. The scope of internal auditing within an organization is broad and may involve topics such as an organization's governance, risk management and management controls over: efficiency/effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals and conducting post investigation fraud audits to identify control breakdowns and establish financial loss.

Internal auditors are not responsible for the execution of company activities; they advise management and the oversight bodies regarding how to better execute their responsibilities.

(e) Difference between Internal audit and internal control function

Internal Auditors work on the basis of objectivity i.e. they strive as far as possible or practicable to reduce or eliminate bias, prejudice, or subjective evaluation by relying on verifiable data. In terms of Internal Control, their role is to examine the adequacy and effectiveness of internal controls and make recommendations where improvements are needed.

Since Internal Audit should remain independent and objective, Internal Audit does not have responsibility for developing or maintaining internal controls. It is the role of management to implement the policies adopted and to identify, evaluate, avoid or mitigate and control the risks the organization could face in achieving its objectives. However, the effectiveness of Internal Control is enhanced through the review process performed by Internal Audit and the recommendations made for improvement.

Internal Control on the other hand is one of the core business processes. An internal control system is an integral part of an organization's financial and business policies that control the strategic, financial and operational

procedures of an Organisation. The process is based upon a system of management information, financial regulations, administrative procedures and a system of accountability.

3. PROBLEM STATEMENT

An effective Internal Control System, which presides over the mitigation of risks, depends upon the ability to analyse numerous options and ultimately select the control solutions that optimise cost and benefit. COGTA Internal Control manages and conduct compliance audit services in the Department, develops, implement and maintain fraud prevention strategies for the Department, formulate and implement a risk management strategy, coordinates the implementation of audit recommendations and undertakes internal investigations within the Department and monitor financial risks.

In conducting this evaluation on COGTA Internal Control(s), a firm distinction between assessing the architecture / design of the system and measuring the effective performance / functioning of the system was made. The overall assessment of the Internal Control System is a combination of the conclusion in both areas.

A system that is poorly designed leaves more room for undesirable residual risks than a well-designed Internal Control System, after taking into account the risk appetite and Risk Management Strategies. For this reason, if a system design is inadequate, it may not be cost beneficial to proceed assessing its performance until it is revised and strengthened. The evaluation of the architecture or design of the Internal Control System should consider all pertinent risk mitigation / control objectives. In order to be able to make that firm distinction the following were the objectives of the evaluation

4. OBJECTIVES OF THE EVALUATION

The following were objectives to evaluate the : -

- (a) Architecture or design of the internal control systems;
- (b) Effective performance of the systems for the agreed sections within the department, namely Supply Chain Management (SCM) and Human Resource (HR); and
- (c) Role and the effectiveness of the Internal Control function within the department.
- (d) The relevance of existing controls, their capability to preside over the specific business and governance objectives, and the means to identify deviations from expected results and correct the process;
- (e) The completeness of coverage—by the controls—of identified risks in relation to the specific business and governance objectives;
- (f) The timeliness of the controls in responding to negative events;

- (g) The strength of the selected controls based on several factors;
- (h) The availability of resources needed to perform the controls; and
- (i) Compliance with the established control design.

5. EVALUATION METHODOLOGY

In order to collect the required data , the following data collection methods and tools were used :

5.1. Document Review

Table 1 Document Review

Type of data collected	Method	Tools (Documents reviewed)	Reasons for using the tool(s)
• Secondary Data	Documents Reviewed	<ul style="list-style-type: none"> • Audit reports (Internal and External); • Audit Management Reports; • Policies and Standard Operating Procedures; • Risk Registers; • Internal Control Business Plan; • Departmental Annual Performance Plan (APP) • Audit Improvement Strategy • Departmental Organograms • Internal control framework 	<ul style="list-style-type: none"> • The first step was to review selected relevant documents to generate the required data on the : - • Design of the internal control system; • Effective performance; • Deficiencies in the controls • Role and effectiveness of the Internal Control function; • Reporting procedures and alignment of processes and plans to the APP and APR;

5.2. Business processes walkthroughs

To confirm the processes as documented on the Standard Operating Procedures, walkthroughs were done on a sample basis for the HR and SCM business processes.

5.3. Face- to- Face interviews

Table 2 Face to Face interviews

Type of data collected	Method	Tools	Reasons for using the tool(s)
• Primary Data	Survey	Face – to- face interviews were conducted using a : -	Conducted face-to to collect first-hand information from the following

	Questionnaire	Departmental Business Units employees and Committees :- <ul style="list-style-type: none"> • Internal Control • Risk Management Committee; • Programme Chief Directors; and • Supply Chain Management (SCM)
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Out of twenty four (24) employees that were sampled as participants for this evaluation, face- to- face interviews were conducted with the following twenty (20) employees :-

Table 3 Interview Participants

Participants	Date	Number interviewed
Departmental Risk Committee Members:		
Programme Chief Directors	7 to 27 September 2018	6
Internal Control		
Deputy Directors	11 to 20 September 2018	2
Assistant Directors	11 to 20 September 2018	1
Human Resource		
Directors	10 to 19 September 2018	1
Assistant Directors	10 to 19 September 2018	3
Supply Chain Management		
Directors	11 to 21 September 2018	1
Assistant Directors	11 to 21 September 2018	2

Participants	Date	Number interviewed
Other (Traditional Affairs, Policy & Research & Municipal governance)		
Directors	10 to 19 September 2018	2
Assistant Director	10 to 19 September 2018	1
External Assurance Providers (Auditor General)		
Audit Manager	1. September 2018	1

5.4. Observation of Management meetings

Table 4 Observation at MANCI meetings

Type of data collected	Method	Tools	Reasons for using the tool(s)
Primary Data	Observation	Departmental MANCO meeting was attended on the 18 th of September 2018	Observed Management's philosophy and operating style and the tone set in the control environment.

6. LITERATURE REVIEW

In a study by L Lewis on "*The role of Internal auditing providing combined assurance: assessing internal financial controls*", clarity on the roles and responsibilities of assurance providers was provided. This study provides publications that have a bearing on the topic being discussed in this report.

All assurance providers should work together to present an effective combined assurance outcome. Combined assurance can be defined as the process in which assurance providers give diverse perspective on key risks they have all identified. According to Sarens et al., (2012:21) merely focusing on controls and providing assurance in terms of the effectiveness of risk management, governance and internal control processes is no longer adequate: assurance providers need to be responsible for the assurance that they supply. They should, furthermore, bear the consequences should that assurance prove to be inadequate. In other words, assurance providers must remain accountable. Effective

combined assurance will result in the reduction of duplication of efforts, the consistent improvement in the organisation and should ultimately result in operational excellence.

Management is a part of any organization's assurance providers. The Internal assurance providers includes for example the risk, compliance, forensic, internal control and legal departments. The External assurance providers include external audit and government regulators. There are several different combined assurance models currently in use. In some instances, combined assurance is seen as being one of the organization's "line of defence", (Nkonki, 2011; PWC, 2011:4. According to PWC (2011:4) and Nkonki (2011), the defense is seen as being provided by clear and direct reporting lines that facilitate sound internal controls. Management is the first line of defense. Within an organisation the risk, compliance, forensic, internal control and legal departments, for example, provide the second line of defense and the internal auditors the third. External audit and government regulators provide the last line of defense.

Management and/or operational management are primarily responsible for the day-to-day activities of the organisation and should implement corrective measures to mitigate risks on a daily basis. Management is further required to monitor daily operations and to identify possible control breakdowns, unforeseen exposures to risk on the part of the organisation, and inadequate and/or inefficient and ineffective operational processes (IIA Position Paper, 2013:1-7).

The second line of defense is more remote from day-to-day management and is indirectly responsible for combined assurance. The second line of defense department's contribution to combined assurance is more of a support role to management; however, they can also assist in operational management with the defining of policies, procedures, roles and responsibilities. In addition, the second line of defense departments can provide risk-mitigating frameworks to operational management, assist management with the identification of risk, and provide training and guidance to management. The second line of defense can also assist management with the monitoring of the day-to-day business of the organisation (IIA Position Paper, 2013: 1-7).

According to the IIA's Position Paper (2013: 1-7), there are three lines of defense in an effective risk management and controls, the organisation's final line of defense being internal audit. Internal audit should operate objectively, be independent from management, and therefore be able to combine the assurance given by the first and second line of defense into an overall assurance opinion for the organisation. The regulators and external auditors are not part of the governance structure of the organisation; however, they are important parties and it is important to consider their input to achieve generally accepted and sound governance.

In conclusion, it is therefore important to note that combined assurance is a process of integrating and aligning the various assurance processes with each other and to the organisation's risk appetite. There is, therefore, a need for all the assurance providers to thoroughly understand their roles and responsibilities as well as the level of assurance expected to be provided by them.

7. EVALUATION LIMITATIONS

The following limitations were identified :-

- (a) As indicated in the Inception Report and the Project Plan, Dynamic Dashing Solutions intended interviewing all the twelve (12) members of the Risk Committee however only six (6) members were available for face-to-face interviews.
- (b) Face-to-face interviews could not be conducted with the Head of Department (HOD), Chief Financial Officer (CFO), Audit Committee members and Internal Audit due to other commitments as per their diaries.
- (c) Observation was planned to be done at the Risk Committee meeting, however there was no meeting planned for the period of the evaluation but this was substituted with the observation of the proceedings of the Departmental MANCO meeting.

Dynamic Dashing Solutions found these limitations as influences that could not be controlled and served as shortcomings that impacted on conclusions and recommendations of this evaluation.

8. EVALUATION FINDINGS

8.1. Summary of Document Review

Gaining an understanding of the internal control environment was a crucial part of the process as it formed a basis from which the other components of internal controls could be evaluated. As part of understanding the control environment, the necessary Department's documents were reviewed and evaluated, HR, SCM and Internal Control assessed.

The following are the key findings from :-

(h) Audit & Management Reports (Internal and External)

- There has been recurring findings resulting from deficiencies in internal controls particularly for the HR and SCM sections.
- Improvements in the internal controls in the last five years as presented by the AG showed that internal controls have either regressed or remained unchanged.

Table 5 Analysis of Audit improvement strategy

Activity	Responsible Unit
Development of action plans	Internal Control Unit and Unit affected by deficiency identified
Updating action plans	Internal Control Unit
Implementation of action plans	Unit affected by deficiency identified
Monitoring and verification of the implementation of action plans	Internal Control Unit

In assessing the effectiveness of the audit improvement strategy, a snapshot of the recurring internal control findings, as presented by the AG reports is illustrated below:

Table 6 Internal Control findings by AG

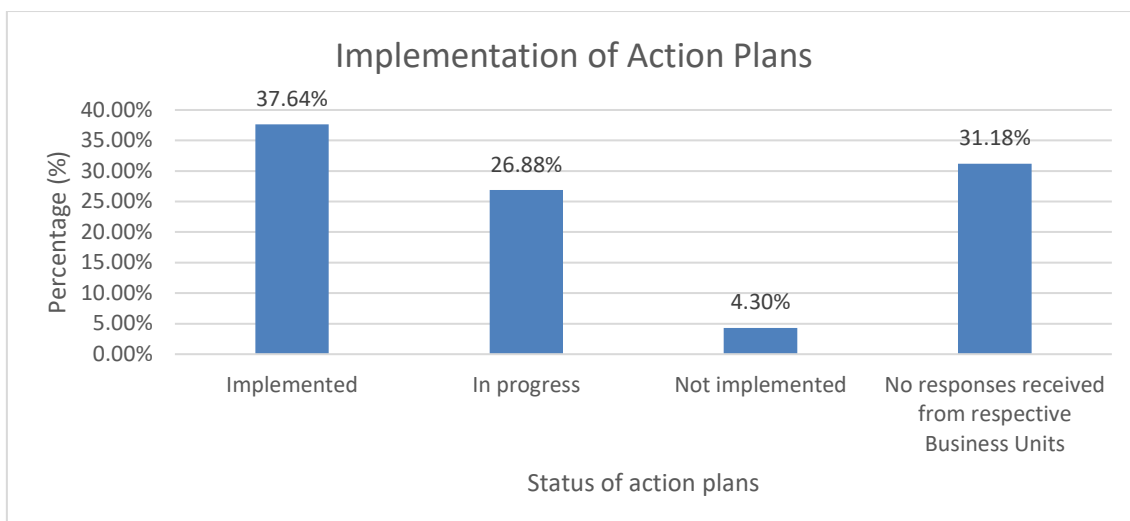
	2017/18	2016/17	2015/16	2014/15	2013/14
<u>LEADERSHIP</u>					
Oversight responsibility	✓	✓		✓	✓
Human resource management	✓	✓	✓		✓
Policies and procedures	✓	✓			
Action plans to address internal control deficiencies	✓	✓			✓

	2017/18	2016/17	2015/16	2014/15	2013/14
<u>FINANCIAL AND PERFORMANCE MANAGEMENT</u>					
Proper record keeping	✓		✓		✓
Daily and monthly processing and reconciling of transactions	✓	✓	✓		
Regular, accurate and complete financial and performance reports	✓	✓			✓
Compliance monitoring	✓	✓			✓
Information technology systems	✓			✓	
Formal control over Information Technology systems					✓
<u>GOVERNANCE</u>					
Risk management activities and risk strategy	✓	✓		✓	

Furthermore, an analysis of whether there have been improvements in the internal controls in the last two years as presented by the AG showed that internal controls have either regressed or remained unchanged. The effectiveness of the strategy is thus questionable.

Implementation of action plans

Outcomes of implementation of action plans documented in the audit improvement strategy are illustrated below:



Graph 2 Implementation of Action Plans

The low success rate in the timeous implementation of action plans negatively contributes to the effectiveness of internal controls within the department.

Below is a summary of the possible barriers to success that were identified and recommendations:

Table 7 Barriers to success of Internal Control Function

Possible barriers to success	Explanations
Reactive measures	The action plans are reactive rather than proactive i.e. from AG audit findings. This exercise only takes place at the end of the year and thus new/previously unidentified deficiencies by the auditors may continue, ultimately resulting in negative audit outcomes.
Monitoring of corrective measures	The monitoring of these action plans is not frequent or thorough enough to ensure that the deficiencies have been eradicated/minimised to a tolerable level.
Action plans not implemented	Business units have not adhered to the targeted dates of the achievement of action plans, action plans not implemented, and no responses have been received. This means that previously identified deficiencies continue and are likely to be reported by the AG in the following period. Although the Internal Control Unit cannot control whether the respective business units implement action plans or not, the non-response/non-implementation of action plans suggests a weakness in the process of monitoring action plans.

(i) Policies

SCM

Good SCM policy findings:

- The policy is aligned with the National Treasury guides, regulations, instructions and practice notes. The policy ensures the procurement process of the department is fair, equitable, and cost-effective.
- The policy ensures that there is no undue influence from SCM role-players with self-interests in bidders, thereby maintaining fairness of the SCM process.
- The policy ensures that the SCM process remain fair, equitable, and transparent.

Deficiencies

- The SCM Policy does not indicate who is responsible for monitoring implementation of SCM policy/procedures. Neither are there regular reviews of compliance of SCM processes by SCM practitioners and other role players.
- The Department's SCM policy does not indicate the process followed for amendment and approval of SCM policy where there have been changes in legislation/regulations or new instructions/guidance.

HR

Good HR policy findings:

- The policies are compliant with applicable employment acts and regulations of the public sector.
- The policies are clear and emphasize the crucial principles which are the cornerstones of the Department of Public Service and Administration.

Deficiencies:

- The department has not developed and adopted their own policies regarding the following processes:
Human Resource Planning and Organization
Compensation
Termination

The department is currently implementing policies that have been published by DPSA, it is important that the department develop policies that are customized to suit their processes.

(j) Standard Operating Procedures

SCM

Good SCM Business process findings:

- The department's business processes for SCM process are clearly articulated.
- Responsible person for executing the task is identified.
- Specifies the time it would take for the execution of the task.
- Identifies the documents to be used in performing the task.
- It determines the output of the tasks performed.

Deficiencies:

- The department has not established a process for contract management to ensure the department does not incur irregular expenditure.
- The department does not have an internal training plan for SCM practitioners and relies on intervention from Treasury.

HR

Good HR Business process findings:

- The department's business processes relating to Recruitment and Termination: III-Health Retirement are clearly articulated (Activity's in the process):
 - Responsible person for executing each task is identified;
 - Specifies the time it would take for the execution of the task; and
 - Identifies the documents to be used in performing the task;This enables the department to enforce accountability for inadequate execution of tasks and ensures efficiency in completing the respective process as each task is time-bound. Furthermore, a full audit trail is available to ensure completeness of documents, allowing for documents that went through the process to be evaluated.

Deficiencies:

- The department has not established documented procedures for the following processes:
 - HR Planning and organization process
 - Compensation process
 - Performance management process
 - Termination process - resignation, retirement and deceased employees

(k) Risk Registers

Good Risk Register findings

- The Risk Register covers the key critical elements namely;
 - Risk identification
 - Risk analysis
 - Risk evaluation
 - Risk treatment

(l) Internal Control Business Plan/APP/ Audit Improvement Strategy

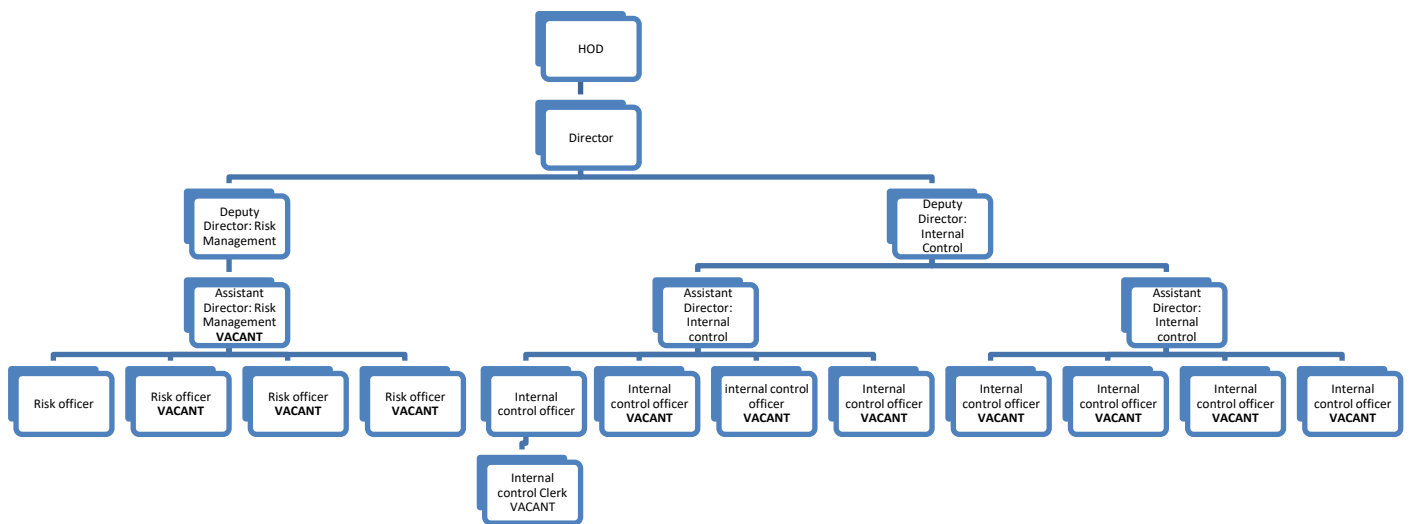
Based on the 2017-18 Internal Control Business Plan, Annual Performance Plan and Annual Performance Report, the Internal Control Function has achieved all their targets.

(m) Departmental / Internal Control Unit Current Organogram

- There are clear reporting lines in the Departmental structures.
- There is a 60% vacancy rate in the Internal Control Unit.
- The Enterprise Risk and Integrity Management proposed structure will allow the Internal Control Unit to better service the Department as their function will be streamlined thus allowing them to be more efficient and effective.

Organogram

Current Organogram:



Resources play a major role in the successful execution of the Business Plan. Vacancies in the unit can therefore be a hindrance to performance at an optimal level. Below is a summary of the vacancies within the unit.

Table 8 Internal Control unit vacancies

Vacant Positions	Number of vacancies
Assistant Director: Risk Management	1
Risk officers	3
Internal control officers	7
Internal control clerk	1
Total	12

Percentage of vacant positions	60%
---------------------------------------	------------

A vacancy rate of 60% is significant and it is recommended that the posts should be filled as soon as possible to assist the unit in its effectiveness when performing its duties.

Proposed Organogram:

As per the proposed new structure, the unit will be split into 3 different units as follows:

(a) Internal Control

Internal Control
Purpose: To manage internal control services
Functions:
1. Ensure the department operates within the statutory and regulatory environment
2. Analyse the financial management environment to identify potential risk areas and deviations from financial controls
3. Ensure the implementation of corrective measures and preventive controls in respect of financial risks and audit findings
4. Co-ordinate and manage auditor-general and Treasury queries

Organogram of Internal Control:

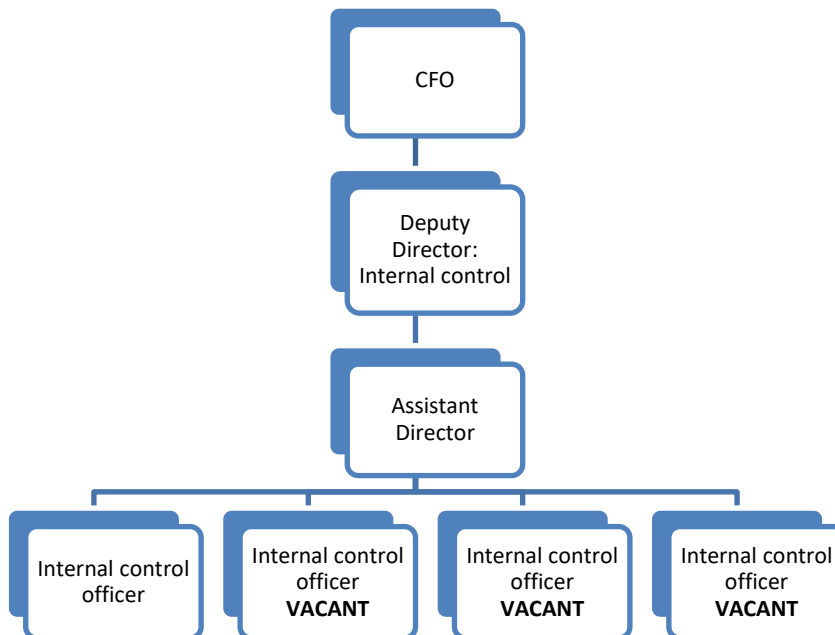


Figure 1 Internal Control's proposed organogram

i. Internal Audit:

Internal Audit:
Purpose: To manage internal audit services
Functions:
1. Undertake departmental audits
2. Provide support services to the Internal Audit Committee
3. Report on findings

Organogram of Internal Audit:

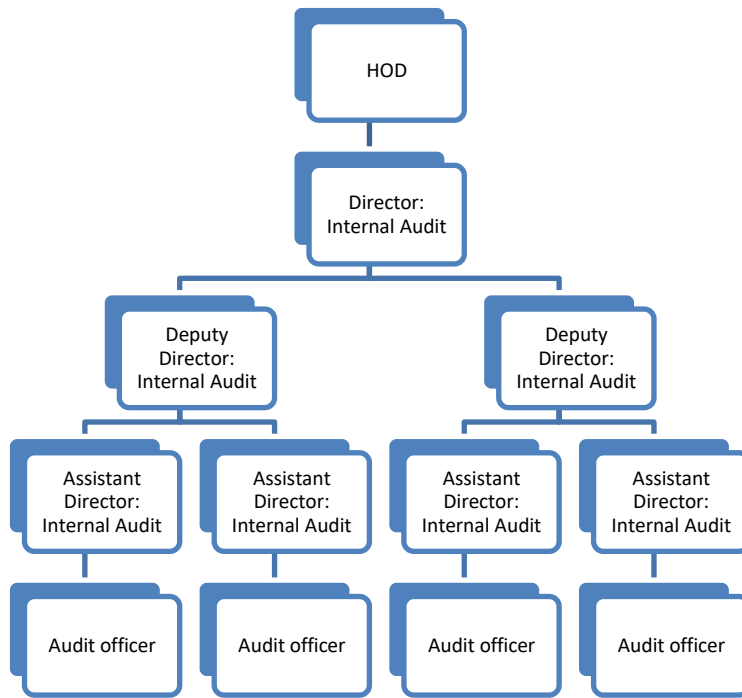


Figure 2 Internal Audit organogram

ii. Enterprise Risk and Integrity Management

Enterprise Risk and Integrity Management
Purpose: To manage enterprise risk and integrity management services
Functions:
1. To provide risk management services
2. To promote integrity management within the Department

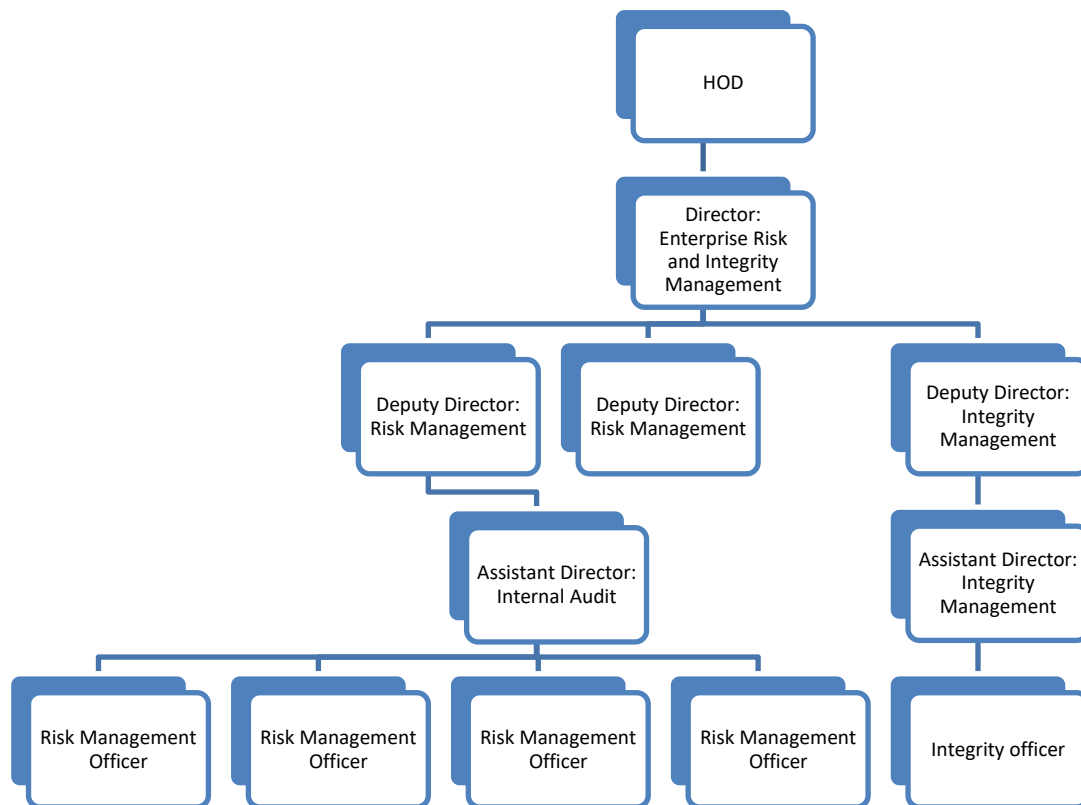


Figure 3 Enterprise Risk and Integrity Management proposed structure

The proposed new structure will allow the internal control unit to better service the Department as their function will be streamlined thus allowing them to be more efficient and effective.

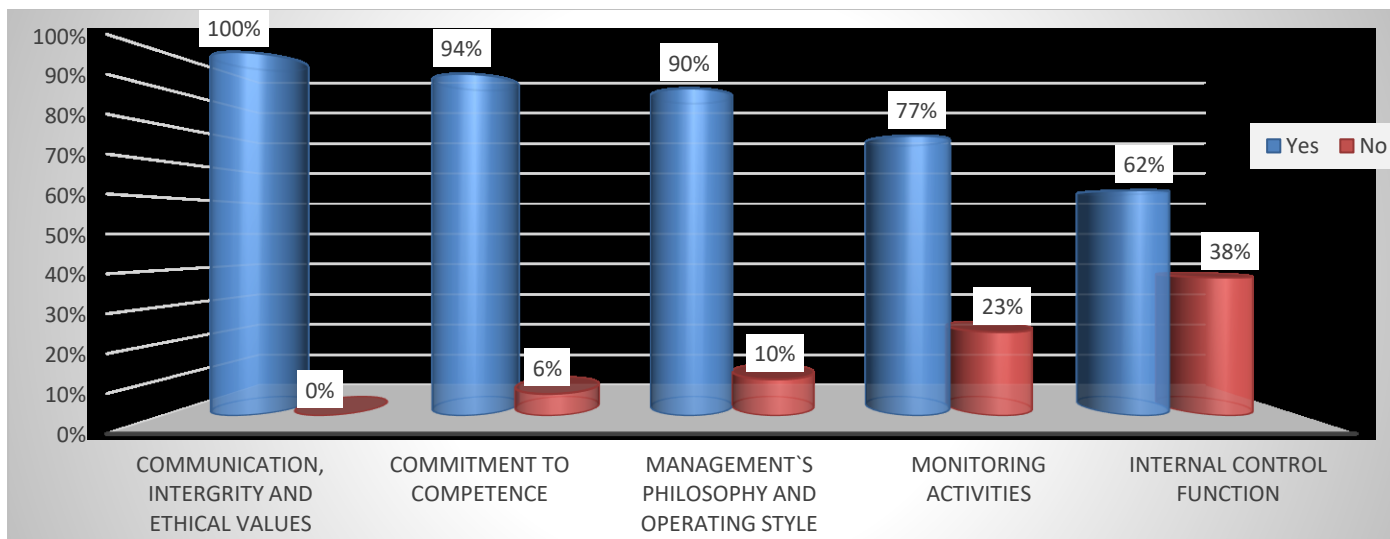
(n) Internal Control Framework

- The Internal Control Framework is in line with the APP and no concerns were noted.

7.2. Key Findings on Face- to- face interviews conducted

The key findings provide an understanding of the Internal Control systems in place, the role players and the effectiveness of the systems. The following graph is a presentation of key findings on quantitative data (yes or no) :-

OVERALL YES OR NO RESPONSES



Graph 3 Overall Yes / No Responses

The following narratives are an interpretation of the graph above and present key findings on qualitative data gathered to substantiate yes or no responses .

(a) Communication and enforcement of Integrity and ethical values

Management referred to comprises Senior, Middle and Junior within the different Departmental Business Units. 100 % of the participants responded that Management is seen to be communicating and enforcing integrity and ethical values within the Department through their conduct and actions. There were no concerns identified that suggest that there is lack of integrity and ethical values by Management. There were no instances identified where Management had to deal with cases of misconduct from subordinates resulting from lack of integrity and ethical values.

Table 9 Communication and enforcement of Integrity and ethical values

1. Communication and enforcement of Integrity and ethical values – 100%	
Respondent's views:	
Demonstration of integrity and ethics	<ul style="list-style-type: none"> Management has continually demonstrated, through their directives,

	actions and behavior the importance of integrity and ethical values
Addressing of deviations from codes of conduct	<ul style="list-style-type: none"> • Deviations from the Code of Conduct are dealt with in accordance with the departments processes. • Respondents are not aware of any cases where there have been deviations from the code of conduct. This implies that there have been no deviations in the unit.

(b) Commitment to competence

Although 94 % of the participants reflected that Management is committed to competence, 6% of the participants differed based on the following concerns :-

- The defining of tasks, roles and resources required by Management is a challenge as there is a scarcity of resources within the Department;
- Where Action Plans have been put in place to address identified deficiencies, actions are not always formally allocated at an operational level;
- Action Plans put in place often fail due to fact that they do not form part of documented job descriptions, processes and policies;
- Lack of training of employees is a challenge in the Department . Training needs are identified and sent for approval but are not always approved by Senior Management; and
- Although policies and procedures exist, and Management is often aware of new developments, the personnel / employees carrying out the day-to-day activities are not always aware.

Table 10 Commitment to competence

2. Commitment to competence – 94%	
Respondent's views:	
Defined tasks, roles and resources required	<ul style="list-style-type: none"> • Tasks, roles and resources required to achieve the unit's objectives are clearly defined. • Scarcity of resources within the departments • Roles, tasks and resources required by the department are defined. The department has all the inputs; however, the output portrays a different picture. This implies that monitoring activities are where the department falls short.
Existence of policies and procedures	<ul style="list-style-type: none"> • Policies and procedures to reflect

	<p>competence required to support the achievement of the unit's objectives are in place.</p> <ul style="list-style-type: none"> • Policies and procedures are in place; however, these are not updated frequently enough. The department relies primarily on published circulars for updates. Management is often aware of changes, however the personnel carrying out the day-to-day activities are not always aware.
<p>Specification of skills and competencies required</p>	<ul style="list-style-type: none"> • Competencies and skills required to achieve the unit's objectives are specified.
<p>Job descriptions detailing expectations within each role</p>	<ul style="list-style-type: none"> • Job descriptions which detail expectations in terms of knowledge, skills, expertise and credentials needed to effectively carry out responsibilities for each position. However, the frequency with which evaluation of job descriptions are done needs to improve. • Employee's skills and competence are not evaluated to establish if they are relevant and adequate to carry out department's objectives. • Evaluation of whether the skills and competencies of staff are not regularly evaluated to ensure relevance. Where action plans have been put in place to address identified deficiencies, actions are not formally allocated at an operational level. Action plans put in place often due to fact that they do not form part of documented job descriptions, processes and policies.
<p>Regular evaluation of skills and competencies to establish relevance and adequacy</p>	
<p>Training of employees</p>	<ul style="list-style-type: none"> • Trainings are provided by the department; however, they are not provided to junior personnel - although there is a need for them to attend to capacitate them. • Staff was asked to complete application forms for any skills and competence they require but no training took place. • Training requested by personnel is often declined. Furthermore, the identification of training needed is left to the staff member who wants it. Management does not identify skill gaps and recommend staff for training. • Management uses Project Khaedu and

	<p>HCD to conduct trainings if necessary for HR employees.</p> <ul style="list-style-type: none"> • PDP's are used in identifying training needs of personnel.
Evaluation of performance	<ul style="list-style-type: none"> • Employee's performance is evaluated bi-annually through PDP's. • EPMS is used to evaluate and monitor employee's performance. This process is also used to determine whether employee's skills and competencies are still relevant and adequate to carry out the department's objective
Sourcing of external service providers when required	<ul style="list-style-type: none"> • The unit outsources certain services when additional services are required

(c) **Management's Philosophy and operating style**

- 90% of the participants viewed Management's philosophy and operating style as effective whilst 10 % viewed it as not effective. The main concern is that although there is consideration of recommendations from independent evaluators, the implementation of corrective actions does not seem to be timeous.

Table 11 Philosophy and operating style

3. Philosophy and operating style – 90%	
Respondent's views:	
Consideration of recommendations from independent evaluators and implementation of corrective actions timeously	<ul style="list-style-type: none"> • Management takes recommendations from independent evaluators of internal controls and uses action plans to monitor the implementation of deficiencies identified. • Recommendations of independent evaluators are updated into action plans of the department; however, the plans are not being implemented in a timely manner • Management takes recommendations mainly from the Auditor General's findings and the risk register compiled by the internal control unit. Management creates and implements action plans, based on identified deficiencies. • Recommendations of independent evaluators are considered through audit improvement strategy. The weakness in this process however, is that actions are not allocated at an operational level.

Information systems to enable personnel to carry out internal control responsibilities	<ul style="list-style-type: none"> • Management has put in place information systems and functions to enable employees to carry out their internal control responsibilities • Teammate software was procured to assist the unit in carrying out their duties, however the tool is not being used effectively for the Internal Control Unit. • The systems in place are HARDCAT system (asset management) and Sage Evolution, these are functioning effectively and produce reliable information for the SCM department. • The department has adequate IT systems in place, however the department is struggling with the integration between the manual and IT processes

(d) Monitoring activities

77 % of the participants reflected that Monitoring activities put in place by Management as there are there are processes in place to assess the effectiveness of internal controls within the business unit and 23 % differed with the following concerns : -

- Although open communication is encouraged in Business Units, there is no formal process to report Internal Control deficiencies.
- Deficiencies in Internal Controls are mainly addressed when they have been identified via the audit process (Internal and/or External) and not from Management’s Monitoring processes.
- Some participants felt that there are not enough meetings held with the entire team within the Business Units, which results in ineffective communication of information which can cause the monitoring activities in place to fail.
- The Business Unit’s Management and the Internal Control unit do not regularly work together to evaluate business processes and controls implemented to determine their effectiveness in preventing, detecting and correcting errors identified in the financial information.

Table 12 Monitoring activities

4. Monitoring activities – 77%	
Respondent’s views:	
Ongoing monitoring activities to address operations of internal controls	<ul style="list-style-type: none"> • Meetings with staff are held as part of the monitoring process.

	<ul style="list-style-type: none"> • Documents are signed by relevant officials prior to submission to other users. • There are adequate monitoring activities within the unit. However, there are not enough meetings held with the entire unit which results in information being communicated repeatedly. • The Internal Control Unit regularly conducts evaluations of internal controls and reports on findings. The deficiencies identified by the internal control unit are updated into action plans for implementation by HR. • Daily review, Monthly reporting and meetings, are in place to address the operations of internal controls and discuss identified issues addressed and come up with solutions. • There are time frame differences between activities which leads to AG findings such as, findings for payment of suppliers after 30 days with interest. • Daily meetings with staff are held to find out if they need assistance to timeously address issue before it is too late. • The department has action plans that are used to address deficiencies identified by independent evaluators such as AG.
<p>Communication of breakdowns in the system of internal control</p>	<ul style="list-style-type: none"> • There is no formal process to report Internal Control deficiencies, however, open communication is encouraged in departments. • Employees can communicate openly, however there are no platform or documented process for employees to formally report breakdowns in internal controls. • Management allows employees to communicate freely about breakdowns in internal controls. • No process in place for to communicate breakdowns in internal controls but lower level staff are free to give their views on anything. • Not aware of the existence of such a system
<p>Deficiencies identified from on-going or separate evaluations (i.e. not from internal or external audit)</p>	<ul style="list-style-type: none"> • Discussions on internal controls are held in MANCO and EXCO meetings. • Deficiencies identified by personnel within a unit are discussed and addressed during

	<p>staff meetings.</p> <ul style="list-style-type: none"> • Deficiencies in internal controls are mainly addressed when they have been identified via the audit process (Internal and External) • Random evaluations are conducted by the Internal Control Unit to confirm adherence to internal controls. • Internal control does not regularly evaluate processes and controls implemented to determine their effectiveness in preventing, detecting and correcting errors.
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(e) Effectiveness of Internal Control Function

62% of the participants felt that the Internal Control Function is effective and 38 % differed based on the following concerns : -

- The Internal Control Business Unit is not seen to be actively working together with Policy and Research Business Unit. They should be more involved in the analysis of existing policies, conducting research and developing new policies, frameworks and procedure manuals for the Department to ensure that matters surrounding the internal controls are adequately addressed.
- There is a need for workshops on internal controls, frameworks, procedure manuals and methodologies to be conducted at an operational level for people who are responsible for the day-to day operations to enhance effectiveness in addition to MANCO meetings. This would also enhance the visibility and impact of the Internal Control Unit.
- Due to the large number of projects or assignments allocated to the Internal Control Unit Business Unit and capacity constraints of the unit Business Unit, the testing of controls to confirm whether the Internal Control Systems are being adhered to within the Department is not done at a satisfactory level to give adequate support to Business Units.

Table 13 Effectiveness of Internal Control

5. Effectiveness of Internal Control Function – 62%	
Respondent's views:	
Does the unit develop, implement and maintain a plan for risk mitigation strategies and procedures	<ul style="list-style-type: none"> • Risk register and an audit improvement strategy is used to develop, implement and maintain a plan for risk mitigation strategies

	<p>and procedures The challenge faced by the Internal control unit is that risk owners do not take enough responsibility in mitigating risks. This contributes to the ineffectiveness of the plans.</p> <ul style="list-style-type: none"> Internal control's role has been inadequate in identifying potential risks for the SCM unit and developing internal controls to be implemented and maintained to mitigate risks identified prior to the risks being identified by external audit.
<p>Compilation of findings report and recommendations</p>	<ul style="list-style-type: none"> The unit compiles findings report on identified internal control deficiencies and makes recommendations. Internal control comes after year end with a report of all identified risks. The internal control unit is very re-active as they wait on findings of the AG before any action plans are developed.
<p>Analysis of existing policies, conducting research and developing new policies, frameworks and procedure manuals</p>	<ul style="list-style-type: none"> The Policy and Research Unit is responsible for the analysis of existing policies, conducting research and developing new policies, frameworks and procedure manuals. The Internal Control Unit is consulted at different stages of approval of policies and procedures. The Policy and Research Unit is responsible for the analysis of existing policies, conducting research and developing new policies, frameworks and procedure manuals. The Internal Control Unit is not engaged during the process, and this may result in the matters relating to the internal control environment not being adequately addressed. Some of the respondents mentioned that the Policy and Research Unit is responsible for the analysis of existing policies, conducting research and developing new policies, frameworks and procedure manuals. Some of the respondents stated that the Internal Control Unit and Policy and research Unit is responsible for the analysis of existing policies, conducting research and developing new policies, frameworks and procedure manuals.
<p>Workshops/Information sharing sessions on</p>	<ul style="list-style-type: none"> Internal Control Function assist in

<p>internal control, frameworks, procedure manuals, strategies and methodologies</p>	<p>conducting workshops to communicate internal control, frameworks, procedure manuals, strategies and methodologies within the department policies during their annual workshops and at MANCO meetings.</p> <ul style="list-style-type: none"> • Workshops and information sharing sessions to communicate strategies of the unit are conducted at an EXCO level. Workshops on internal control, frameworks, procedure manuals methodologies are not conducted. The Unit has a challenge when it comes to visibility in the department. • Workshops/Information sharing sessions on internal control, frameworks, procedure manuals, strategies and methodologies are not conducted by the unit
<p>Advice and guidance regarding the implementation and maintenance of internal controls</p>	<ul style="list-style-type: none"> • The Internal Control Function provides advice and guidance regarding the implementation and maintenance of internal controls. • The unit provides advice and guidance regarding the implementation and maintenance of internal controls during the review of action plans. Risk owners ultimately decide on what actions to take. • The Internal control unit does not provide advice and guidance regarding the implementation and maintenance of internal controls.
<p>Investigation of whether internal control systems are being adhered to within the department</p>	<ul style="list-style-type: none"> • The Internal Control Function Investigates whether internal control systems are being adhered to within the department • The unit investigates whether internal control systems are being adhered to during the testing of the implementation of action plans. The unit is not pro-active in performing their monitoring activities with regards to the implementation of action plans. • Due to the number of projects and capacity constraints of the unit, the testing of these controls is not done at a satisfactory level. • The Internal Control Unit does not conduct Investigations of whether internal control

	<p>systems are being adhered to within the department.</p>
<p>Attend to all queries satisfactorily</p>	<ul style="list-style-type: none"> • The Internal Control Function generally attends to all queries satisfactorily, however there have been cases where the unit has not. • No reports regarding the dissatisfaction of the work done by the unit has been reported. • No reports regarding the dissatisfaction of the work done by the unit has been reported. • The unit does not attend to all queries satisfactorily.

9. CONCLUSIONS

The Department has good policies in place. Although there is a need for improvement in the updating of such policies with the latest updates and in closing the gaps identified in the internal controls, the policies are mostly aligned with the latest developments and are in line with the Department's strategies and objectives.

The Department has good documented business processes in place however, there is a need to continuously improve these processes to manage the deficiencies identified in the internal controls. There is even a greater need to enforce and monitor the implementation of all the business processes and procedures to ensure a favorable desired outcome. Management should also consider documenting the processes that are not documented but are performed to ensure set standards are adhered to and procedures are adequately performed up to Management's expectations.

The Department has a good Risk Register in place however there is a need for the understanding of the roles and responsibilities in the compilation, adoption and execution of Action Plans in the Risk Register as this is critical in having an effective Risk Management document.

With regard to communication, enforcement of Integrity and ethical values, it can be concluded that the tone set by Senior Management has cascaded down to all Departmental employees, which has resulted in a good control environment where the role players are seen to have integrity and ethical values. This implies, that any internal control deficiencies identified are not stemming from a lack of integrity and ethical values from the role players.

Management is committed to competence however there seems to be some concerns surrounding the approval of training for employees, action plans not being formally allocated at operational level and employees carrying day to day activities not always being aware of new developments in policies and procedures.

The concern noted regarding management's philosophy and operating style is that the recommendations from independent evaluators and the implementation of corrective action does not seem to be timeous.

Although there are monitoring activities put in place by management, there is no formal process to report internal control deficiencies and deficiencies are mainly addressed when they have been identified by the independent evaluators and not from management's monitoring processes.

The ineffectiveness of the Internal Control Functions seems to be mainly stemming from capacity constraints caused by a high vacancy rate, the lack of workshops on internal controls for people involved in day to day operations, and a reactive approach to issues of internal controls.

There seems to be a need for a clarification of roles and responsibilities between the business unit's management and the Internal Control Function with regards to the department's internal controls. The unclear definitions create expectations from the role players and other stakeholders that are not met and, in the end, create frustrations. We have included a guide which seeks to clarify the roles and responsibilities for the role players with regards to Internal controls. This should not be seen as a prescription but as a guide that the Department can adopt in clarifying the roles and responsibilities with regards to internal controls. The adoption of this guide would include the incorporation of the such roles and responsibilities into job descriptions, action plans and performance agreements.

The Department's internal controls are the responsibility of every role player within the department. Management of the business units are primarily responsible for the day-to-day activities of the department and should implement corrective measures to mitigate risks on a daily basis. Management is further required to monitor daily operations and to identify possible control breakdowns, unforeseen exposures to risk on the part of the department, and inadequate and/or inefficient and ineffective operational processes.

The Internal Control Function should play a support role to management. Although the Internal Control Function is more remote from day-to-day management, it should assist management with things like defining of policies, procedures, roles and responsibilities, providing risk-mitigating frameworks to operational management, assist management with the identification of risk, provide training and guidance to management and also assist management with the monitoring of the day-to-day business of the department.

Management of the business units together with the Internal Control Function should provide combined assurance regarding the functioning and effectiveness of the internal controls in the department.

The Internal Audit Function is independent from management and none of management's responsibilities for internal controls should be expected to be performed by them. Their role as far as the internal controls are concerned is to express an independent opinion on the assertions made by management with regards to the functioning and effectiveness of the controls.

All the role players should therefore work together and harmoniously to provide combined assurance regarding the department's internal controls and to achieve the controls objectives.

10. RECOMMENDATIONS

It was resolved at the EXCO meeting held on the 3rd of December 2018 that the following recommendations will inform the Improvement Plan to be compiled by the Department:-

Policies

- To ensure full compliance with the SCM prescripts, Policy and Research Unit should regularly assess SCM's compliance with the Department's SCM policy, and all procurement related National Treasury's instructions, practice notes, regulations and guidance.
- To ensure the exclusion of non-performing suppliers, there should be an establishment of a Blacklisting Committee that will maintain a list of blacklisted suppliers and individuals.
- To ensure full compliance and alignment with the DPSA policies, The Department should develop and adopt their own policies regarding the following processes:
 - Human Resource Planning and Organisation
 - Compensation
 - Termination

Standard Operating Procedures

- To ensure guidance and adherence to the Department's policies and controls, Policy and Research Business Unit, in consultation with Human Resource Management and Development and Internal Control Business Units should develop well documented Standard Operating Procedures addressing the following processes:
 - HR Planning and Organisation
 - Compensation
 - Performance Management
 - Termination - resignation, retirement and deceased employees

Risk Register

- To ensure proper identification of risks and mitigating factors relating to internal controls and effective implementation of action plans. The Business Units should report on Risk Management processes when reporting on Business Plans

progress at the end of each quarter to Monitoring and Evaluation and the Internal Control unit should assist in providing M&E with evidence to substantiate assertions made by management of the Business Units.

Internal Control Function

- To ensure that internal control deficiencies are identified and addressed timeously. As part of internal control unit's business plan, Internal controls (other than the deficiencies identified by the auditors) should be evaluated, recommendations made by the unit and implementation thereof monitored more frequently.
- To ensure effectiveness of the Internal Control Unit. Ad hoc projects not forming part of the Internal Control's business plan should be allocated subject to the availability of the capacity within the unit. Provision should be made in Internal Control's year plan for a certain number of ad hoc projects that may need to be performed urgently.
- To allow the Internal Control Unit to better service the Department as their function will be streamlined thus allowing them to be more efficient and effective. The proposed new structure of the Enterprise Risk and Integrity Management should be implemented as soon as possible.
- To ensure that the Internal Control unit has enough capacity to fulfil their duties. Vacancies within the Internal Control unit should be filled as soon as possible. Internal control Function should consider sourcing external capacity as an interim measure to supplement current structure.

All Business Units

- To ensure effective implementation of the action plans. Consequence management should be put into place for the Business Units that have not adhered to dates and/ or deliverables of the action plans.
- To ensure that the staff keep abreast of changes thus ensuring that they can carry out their duties at the required level and skill. Job descriptions of personnel in all Business Units should be revised to incorporate duties that are additional to those currently documented if they are performed.
- Vacancies within the department should be filled to ensure that the department has enough resources to effectively perform their function.
- To ensure that the staff keep abreast of changes thus ensuring that they can carry out their duties at the required level and skill. Training of staff should be identified based on skills gaps identified during the PDP process and planned for and approved based on the availability of funds.
- To ensure that personnel are accountable for any deviations from established internal control processes, ultimately allowing for timeous consequence management and corrective measures. The Department (COGTA) should develop a platform where employees are able to report breakdowns in internal controls throughout the department.

- To ensure that matters surrounding internal controls are adequately addressed in policies and procedures. The process of analysing of existing policies, conducting research and developing new policies, frameworks and procedure manuals as done by the Policy and Research Unit should be done frequently in collaboration with the Internal Control Unit.
- To enhance the visibility and impact of the Internal Control Unit. Workshops to communicate strategies of the Internal Control Unit should be communicated below the EXCO level as well so that personnel who are responsible for the day-to day operations and adherence to the strategies are well informed.
- To ensure effectiveness of the Internal Control unit in addressing internal control deficiencies. The advice or assistance given by the Internal Control to Business Units should be held at high esteem as it relates to part of their core function. The action implemented should be discussed fully by both parties and the best recommendation, that will address the root cause implemented.

11. Guide on Roles and Responsibilities

The understanding of the roles and responsibilities is critical in understanding what is expected from all the role players involved as far as the internal controls are concerned. A guide on such roles and responsibilities has been set out below.

Business unit's management

The Accounting officer is ultimately accountable for the controls of the department. This responsibility is however delegated to the management of each business unit within the department. Management of each business unit should take the responsibility of the controls under his/ her business units and should thus ensure the following:

Table 14 Management's responsibilities regarding Internal controls

Management's responsibilities regarding Internal Controls	Explanations
1. The controls in place provide assurance regarding the achievement of the department's objectives.	The controls put in place: <ul style="list-style-type: none"> • Are economic, efficient and effective. • Ensure good internal financial control • Ensure compliance with applicable laws and regulations.
2. There is a good control environment.	Management sets the tone and influences the control consciousness of its staff. Attitude and awareness of the directors and managers to internal controls and their importance to the department should promote an environment where adherence to controls is very important.
3. There is a risk assessment process within each business unit.	There is an effective process for identifying the business risks relevant to the financial reporting objectives and how they are addressed.
4. There are good control activities in place.	There are policies and procedures that ensure that controls are in place to achieve internal control objectives.
5. There are good monitoring controls in place.	There are processes in place to assess the effectiveness of internal controls within the business unit.

Internal Control Unit

The internal Control Unit should not be seen in isolation from management but should be an extension which is responsible for assisting management in achieving its responsibilities as set out above regarding internal controls. The assistance may come in different forms as per the department's needs however, the responsibility of the controls should remain with management of the business units. Below is guidance on the Internal Control's responsibilities in providing support to management.

Table 15 Internal control Unit's responsibilities

Internal Control Unit's responsibilities.	Explanations
Conduct internal control inspections to identify lack/ineffective internal control and risk management systems within the department	Assist in analysing and document areas of potential risk and mitigation factors within the department.
	Assist in Conducting statistical analysis to quantify risk and internal control deficiencies for each business units within the department.
	Assist in developing, implement and maintain plan for risk mitigation strategies and procedures.
	Assist in developing risk profile on the significant risk exposure for the department.
	Compile findings report on the identified internal control deficiencies and make recommendations.
Implement effective and efficient internal control Policies, Frameworks and Procedure Manuals throughout the department	Assist with the Analysis existing departmental policies, frameworks and procedure manuals.
	Assist in conducting research and developing of the draft departmental policies, frameworks and procedure manuals.
	Assist in facilitation of drafts approvals at different consultative processes.
	Assist in conducting workshops to communicate internal control, frameworks, procedure manuals, strategies and methodologies within the department policies
Provide transversal support, advice and guidance in terms of internal control prescripts	Provide advice and guidance regarding the implementation and maintenance of internal control in terms of the prescripts.
	Participate in the facilitation of information sharing sessions
	Attend to all queries satisfactorily.

Participate in the compilation of reports to the Executing Authority on internal control compliance programs	Investigate whether internal control systems are being adhered to within the department.
	Participate in the compilation of internal control and risk management compliance reports
Provide inputs on the development of departmental internal control, frameworks and procedure manuals	Participate in the development of Internal Control and risk management policies, frameworks, monitoring and evaluation, procedure manuals and guidelines
	Assist in the review and implementation of internal control and risk management policies, frameworks, monitoring and evaluation, procedure manuals and guidelines policies

EVALUATION REPORT OFFICIAL SIGN - OFF

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