

INTERNAL CONTROLS AT THE ROODEPOORT CITY THEATRE

by

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DECLARATION

I hereby declare that this study entitled 'Internal controls at the Roodepoort City Theatre', as submitted to the Department of Public Administration and Management of the University of South Africa, is my own original work and has not previously been submitted to any other Higher Education Institution for the purpose of obtaining a degree. I further declare that all the sources that I have consulted or quoted have been indicated and acknowledged by means of a complete list of references.



Signature

Portia Ngcobo

07 October 2016

Date

DEDICATION

This study is dedicated to my late grandparents Philemon Momotho and Lillian Thokozile Nkosi as well as to my late father Oupa Isaiah Molomo.

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ABSTRACT

The assessment of internal controls has significant influence on the audit outcomes of public institutions, especially local municipalities. An effectively designed and implemented internal control enhances the ability to mitigate risks, and ultimately enables public institutions to achieve their predetermined objectives, to present reliable financial reporting and to comply with legislation and regulations. Without the internal controls, public institutions may experience challenges that may hinder them from achieving their performance objectives. The complementary role of the drivers of internal controls (leaders, managers and governance structures) is even more critical to strengthening internal controls. The study area at which the research activities were carried out was Roodepoort City Theatre at which three categories of documents (the general reports of the audit outcomes of the Gauteng Province local government, RCT's annual reports and internal audit reports) were targeted for analysis using three document analysis templates. From the results of this research on the main points that are expressed in the three documents, the Auditor-General has played a significant role of assisting managers in the RCT to strengthen internal controls, but RCT's internal controls still need to be strengthened through appropriate corrective measures by the drivers of internal controls. Therefore, it is pertinent to note that the changes in the composition of the drivers of internal controls of RCT had significant negative implications over internal controls.

Key words: Roodepoort City Theatre, Internal controls, Auditor-General South Africa, Drivers of internal controls, General reports on audit outcomes of Gauteng local government, Annual reports, Internal audit function reports, Audit outcomes, Audit trajectory.

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CHAPTER 1

GENERAL INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

Internal controls are an integral part of an effectively functioning public institution. They guide managers and employees about how the tasks should be performed, procedures and methods that should be followed and in general the legislation that should be adhered to. Importantly, they spell-out the objectives that employees in a public institution must strive to achieve, and, like any other fundamental area of functioning of a public institution, are regulated. In order to ensure that they help achieve institutional objectives, multiple stakeholders, some of which are external sources, play an important role in these endeavours. One such stakeholder is the Auditor-General of South Africa (AGSA) (hereinafter referred to as the Auditor-General), who plays a critical role in enabling South African public institutions to perform to satisfy the service delivery needs of the society.

In South Africa, the Auditor-General is a post-apartheid institution whose function is to ensure that public institutions at national, provincial and local spheres of government, operate within the ambit of the legislation, operate within the confines of their mandates and deliver goods and services in accordance of the required performance standards. This oversight role is necessary to ensure that the leadership, managers and governance structures within the public institutions are accountable for the public funds entrusted to them and that these funds are utilised efficiently and effectively to provide the services needed by the society. This study focuses on the internal controls of the South African local government, however, it is limited to the Roodepoort City Theatre municipal entity (hereinafter referred to as RCT, trading as Promusica).

This study situates the RCT within an audit trajectory to ascertain the reasons behind it achieving a financially unqualified audit opinion with no findings (also known as the clean audit) during 2009/10 financial year and a financially unqualified opinion with findings during the financial years 2008/09, 2010/11, 2011/12 and 2012/13. The need to

conduct such a study emanates from the view that even though this is a single case-study, the findings arrived at may be indicative of the interventions that need to be instituted; which ultimately may be helpful to other municipal entities that experience similar problems. For the reason that multiple stakeholders perform concurrent roles to ensure that the internal controls are effective, the findings of this study may help determine the internal controls deficiencies on which efforts must be intensified.

In terms of the layout, this chapter is introductory in nature and explains the background around which the need to conduct research on internal controls of municipal entities stems. The discussions that are dealt with in this chapter are about the problem statement, research questions, research objectives, research design and methodology and definition of frequently used keywords. The descriptions of the limitations of the study and the explanation of the structuring of chapters conclude this chapter.

1.2 BACKGROUND

Internal controls refer to activities that are designed and used by managers and employees in public institutions to provide reasonable assurance that their actions are aligned to their strategic objectives (Ratcliffe & Landes, 2009:2). As explained by Romaniuk (2011:113), internal controls include all characteristics of the operation of employees and verify whether public institutions and employees are equipped to perform well-defined tasks, and whether these tasks are understood and accepted by managers. When they are properly designed (cf. DiNapoli, 2010:1), internal controls reduce the occurrence of undetected errors or fraud, and ensure that the functional units of a public institution, other than the main finance unit, perform as expected. When they are regularly monitored (see Gyüre, 2012:178), internal controls help detect, prevent and correct operational failures.

Public institutions in general and particularly municipalities and municipal entities, which are by nature of their sphere of interaction at the forefront of service delivery (cf Van der Waladt, 2006:128), must design effective internal controls that help them to deliver on their legislative mandates (Sepsey, 2011:416), successfully detect risks, fraud and

corruption. Because internal controls have a substantial influence over audit outcomes, it is important that the accounting officers and other senior managers of municipalities and municipal entities ensure that internal controls are properly designed, implemented and regularly monitored to support municipal operational objectives. Properly designed internal controls help public institutions and municipalities in general to achieve their strategic goals, submit reliable financial and non-financial reports and generally adhere to legislation.

The absence of internal controls has negative implications on the audit outcomes of public institutions and creates opportunities for the abuse of assets, fraud and corruption (Morehead, 2007:1). Evidence of the negative implications that the absence of internal controls has on the audit outcomes of public institutions, especially of municipalities and their entities, is presented annually in the audit reports by the Auditor-General of South Africa¹ (AGSA, 2012 (a):10). As part of an audit through which the Auditor-General evaluates evidence and reports on accounts and financial statements (see Raffa, 2003:1), he also assesses the strength of the internal controls, whose assessment results form an integral part of the audit report. The auditing function, therefore, enables the Auditor-General to express an informed independent opinion on the presentation of financial statements of public institutions to determine whether they comply with the legislation and whether they have achieved their predetermined objectives.

After having performed an audit, the Auditor-General reports on its findings to the relevant legislature and to any other organ of state that has a direct interest on any matter that is contained in the audit report. The auditing and oversight role of the Auditor-General therefore requires that accounting officers and senior managers of public institutions continually manage internal controls deficiencies (Nombembe, 2011:1). For the internal controls to be effective, they require the involvement of senior

¹ The Auditor-General of South Africa (AGSA) is recognised in Section 181(e) of the Constitution of the Republic of South Africa (1996) as an independent Chapter 9 institution that supports South Africa's constitutional democracy. It is one of the Supreme Audit Institutions (SAI) that applies the International Standards on Auditing (ISA) in its regularity audits (AGSA, 2012 (a):17). The Auditor-General has adopted International Organization of Supreme Audit Institutions (INTOSAI) as the Generally Accepted Government Auditing Standards (GAGAS) (Puttick & Van Esch, 1998:658).

managers, efficient financial and performance management by managers and competent governance structures as the key drivers of internal controls. This role of the Auditor-General should be seen in the context of support which is needed by public institutions in general and municipalities and their entities in particular, especially in the scarce skills areas such as municipal financial management, auditing as well as policy and planning. By assisting drivers of internal controls to improve their internal controls, the Auditor-General indirectly helps them to improve their audit outcomes as well.

1.3 PROBLEM STATEMENT

In South Africa, there is limited research on 'public financial administration', especially on how internal controls can improve the audit outcomes of public institutions. The literature that exists has been developed by private sector companies (e.g. PricewaterhouseCoopers) and is therefore developed for consulting and commercial purposes, which is the condition that creates a vacuum of knowledge on public sector financial management. The findings of research on internal controls may be helpful in assisting public institutions, and in particular municipalities, to manage their internal controls effectively. If internal controls are managed effectively, there is the likelihood that budgets will be spent on areas where they will have the greatest impact and that they will help improve accountability, reduce loss of assets, ensure that accounting records are prepared in a timely and accurate fashion and that financial information is reported reliably. Effectively managed internal controls may also help to improve service delivery and deter undesired outcomes.

In general, the Auditor-General's annual audit reports in the South African local government report that municipalities are performing poorly and are unable to achieve clean audit outcomes. Poor internal controls dominate as areas in which municipalities perform poorly. Despite the institution of the Operation Clean Audit (2014) by the late Minister of Cooperative Governance and Traditional Affairs' (CoGTA), Mr Sicelo Shiceka, whose vision was to support municipalities to improve their audit outcomes (Shiceka, 2009), there is slow progress towards achieving the goals of this operation.

The Auditor-General's finding of municipalities in the Gauteng Province, where the RCT is situated, highlights the 3 year progress towards financially unqualified audit reports. The report indicates there is some improvement in the audit outcomes of the Gauteng Province local municipalities (cf. Table 1.1).

Table 1.1: Audit progress of Gauteng municipalities (2010/11 - 2012/13)

Audit outcome	2010/11	2011/12	2012/13
Financially unqualified audit opinion with no findings	5%	5%	9%
Financially unqualified audit opinion with findings	71%	79%	86%
Qualified audit opinion	24%	16%	5%

Source: AGSA, (2014 (a):13)

Table 1.1 illustrates the three year (2010/11-2012/13) audit progress of local municipalities in the Gauteng Province. As illustrated in this table, although there was no change in the number of municipalities that had obtained financially unqualified audit outcomes with no findings between 2010/11 – 2011/12, there was a slight increase of (4%) during the 2012/13 financial year. There was an improvement of 8% in the number of municipalities that obtained financially unqualified audit outcomes with findings during the financial year 2011/12 and which a further improvement of 7% during the financial year 2012/13. The table further illustrates that there was a definite decrease in the number of municipalities that obtained qualified audit outcomes from 24% in 2010/11 to 16% in 2011/12 and a further decrease to 5% during the 2012/13 financial year. Therefore, as the number of qualified local municipalities decreased, the number of financially unqualified outcomes with findings increased, which indicates an improvement by the municipalities.

The RCT as the case in point, has for the five year period ranging between 2008/09 and 2012/13, obtained one clean audit opinion for the financial year 2009/10 and four financially unqualified audit opinions with findings between the financial years 2008/09 and 2012/13. For the financial years 2010/11 and 2011/12 the RCT obtained an

unqualified audit opinion with findings on predetermined objectives and compliance with applicable regulations (AGSA, 2014 (a):107). The prevalence of the findings on compliance and predetermined objectives indicates that RCT has not adhered to the internal controls which then adversely impacted on its audit outcomes. It is therefore critical to explore the mechanisms that were put in place by senior managers of the RCT for the financial year 2009/10 that aided the RCT to obtain an unqualified audit opinion with no findings. Hence, this study explores the mechanisms that are put in place to evade another future regress. The objective of this study is therefore to explore and comprehend the influence of internal controls on the audit outcomes and the role of the Auditor-General with regard to the internal controls.

1.4 RESEARCH QUESTIONS

Four research questions that emanate from the problem statement and to which this study responds to have been identified and are listed below.

- What are internal controls and what is the role of the Auditor-General in as far as internal controls of the South African public sector institutions are concerned?
- Which research method and over which prolonged period of time can the strength of internal controls of the RCT be determined?
- What is the status of implementation of internal controls in the RCT?
- How can the efficiency of the drivers of internal controls of the RCT be improved and ultimately how can such mechanisms help the RCT to obtain a financially unqualified (clean) audit outcome?

1.5 RESEARCH OBJECTIVES

Following from the four research questions that have been put forward in the foregoing subsection, the following research objectives were formulated. The objectives of this study are to:

- discuss the literature review of internal controls and the role of the Auditor-General in the South African public sector;
- use document analysis to determine the strength of internal controls in the RCT over the financial years 2008/09 to 2012/13;

- discover the strength of the internal controls of the RCT over the financial years 2008/09 to 2012/13; and
- conclude and recommend ways through which the efficiency of the internal controls in the RCT can be improved, and thus its audit outcomes.

1.6 DEFINITION OF KEYWORDS

The key words that are frequently used in this study are briefly described below:

Internal controls

Internal controls, as defined by Erasmus and Visser (2011:9); Luyinda, Herselman and Botha (2008:32) and Puttick and 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. It refers to activities that are undertaken to ensure that predetermined objectives are achieved in an orderly and efficient manner and that the assets will be safeguarded against loss or damage. Internal controls help to guarantee that accounting records are prepared in a timely and accurate manner and that financial information is reported reliably. In terms of the Public Finance Management Act (1999) and Draft Treasury Regulations (2012), internal controls help to prevent misuse or damage of assets and protect the confidentiality and integrity of the information system.

Auditor-General of South Africa

In terms of the Public Audit Act 25 of 2004, the Auditor-General of South Africa is a Chapter 9 institution established in terms of Section 181(1)(e) of the Constitution of the Republic of South Africa (1996) to audit and report about the findings on the auditees' annual financial statements, performance against predetermined objectives and compliance with legislation, financial management and other related matters of organs of state (public institutions) that are funded from public money. The function of the Auditor-General is to conduct regularity and performance audits (Erasmus & Visser 2011:21), in particular in terms of the Auditor-General Act 12 of 1995, provide the

procedure through which auditing shall be conducted and the activities that will be performed during the auditing process.

Auditing process

The auditing process entails a process in which a number of activities are performed and in which an assessment of the root causes of deficiencies are identified (AGSA, 2013 (c):84). The strength of the internal controls is assessed as part of the auditing process. As explained by Donald, Craig, James, Robert, James, Helen, Thomas, David, Thomas and John (1994: 12-25) , the auditing process consists of six phases: (1) preliminary planning, which is the initial step of the audit process, (2) pre-survey, where the audit team determines the laws, regulations or guidelines relevant to the audit objectives, (3) survey to assemble information that will enable the auditors to make decisions about the nature, timing and extent of audit work, (4) data collection and analysis of evidence to determine cause of and quantifying the effect of the condition identified in the survey, (5) reporting after data collection and analysis, and (6) post-audit evaluation to determine the strengths and weaknesses of the audit and to recommend techniques to enhance the quality of future audit efforts.

Audit report

An audit report is a formal independent opinion and recommendation that is issued as a result of an external audit that is performed by the Auditor-General. The audit report, in terms of the Public Audit Act 25 of 2004, reports on opinions and statements as may be required by legislation to the auditee. It also reports on the annual financial statements, financial matters and the performance of the auditee against predetermined objectives. In terms of the Public Finance Management Act (1 of 1999), the Auditor-General may include in the annual report whether the auditee resources were procured economically and utilised efficiently and effectively. The Public Audit Act 25 of 2004 also requires that the Auditor-General must audit the consolidated financial statements and submit an audit report on the statements of an auditee to the National Treasury within three months.

Internal auditors

The role of internal auditors is to advise the accounting officer and to report to the audit committee on the implementation of the internal audit plan. Depending on the decisions that are taken by the public institution, the internal auditors may consist of one or numerous persons who perform routine compliance auditing or diverse responsibilities (Craythorne, 2003:243-244). The Public Finance Management Act (1 of 1999) designates the National Treasury to make regulations or issue instructions that guide the functioning of the internal audit component as well its functions. Each auditee (accounting entity) must establish an internal audit unit and must prepare a risk-based audit plan and an internal audit program consistent with the Institute of Internal Auditors (IIA) guidelines for each financial year. In order to reduce duplication of roles, the internal audit must also co-ordinate with internal and external service providers of assurance (Erasmus & Visser, 2011:20).

Auditee

An auditee refers to a public institution or accounting entity that is being audited by the Auditor-General or any auditing institution appointed by the Auditor-General to do so. An auditee may include an accounting entity whose financial statements are to be consolidated in terms of Section 4(2) of the Public Audit Act 25 of 2004. Section 19 (1) of this Act tasks an auditee to reasonably assist the Auditor-General to complete the audit within the stipulated timeframes and to accede free of charge to all reasonable requests of the Auditor-General or the authorised auditor to facilitate the expeditious completion of the audit. In the case of this study, the RCT is an auditee.

Audit and risk committee

The audit committee, as explained by the New South Wales' department of Local Government (2008:23), is a committee that provides managers of a public institution with independent reasonable assurance in the areas of internal controls, risk management, compliance with legislation and financial reporting and its role is important in the governance framework. In terms of the Municipal Finance Management Act (56 of 2003), an auditee must establish an audit committee that consists of at least three

experienced persons. The members of an audit committee may not be employed on a full-time basis by the auditee and they are appointed by a municipal council or, in the case of a municipal entity, by a municipal council of the parent municipality.

According to the Public Finance Management Act (1 of 1999), this committee advises the municipal council, the political office-bearers, the accounting officer and senior managers of the auditee; and in the case of a municipal entity, the board of directors, the accounting officer and senior managers of the municipal entity. The audit committee must convene at least three meetings during a financial year or frequently as determined by the chairperson. This committee must comment on the effectiveness of the internal controls, their evaluation of the Auditor-General's annual financial statements and may communicate any concerns it may have to the Auditor-General, to an external auditor that is appointed by the Auditor-General and to the municipal public accounts committee (MPAC).

1.7 RESEARCH METHODOLOGY

The research methodology that is used in this study is qualitative in nature and consists of both the literature review and non-empirical investigation.

1.7.1 Literature review

Literature review of internal controls and the role of the Auditor-General in the South African public sector is the locus of this study. As part of the literature review, this study utilised the financial management and auditing books, auditing frameworks, standards and principles, journal articles, dissertations and theses that focus on public administration and auditing.

1.7.2 Legislation, government policies and reports

Despite considering literature sources as critical sources of information, this study also made use of the South African legislation, published and unpublished government reports such as the quarterly reports that are compiled by the audit and risk committee, internal audit function reports, annual reports compiled by the Roodepoort City Theatre,

annual audit reports that are compiled by the Auditor-General as well as government policies and other official documents that focuses on internal controls.

1.7.3 Non-empirical research method

This study used a non-empirical research method which in terms of Moody's (2002:1) explanation, explores or analyses historic documents in order to enrich an understanding of internal controls at the RCT.

1.7.3.1 Document analysis

The documents that are analysed in this study included those that were created between the financial years 2008/09 to 2012/13. These documents were classified into three (3) categories that comprised of the general reports of the audit outcomes of the Gauteng Province local government (5), RCT annual reports (5) and quarterly internal audit function reports (20). A detailed explanation of the document population, document selection procedure and targeted documents is presented in the discussion of the research design in Chapter 3.

1.8 ADHERENCE TO ETHICAL REQUIREMENTS

As a way of ensuring that the study adheres to the ethical requirements, permission to undertake the research activities at the RCT was requested and granted by means of a letter compiled by the RCT general manager (see Appendix A). In order to report accurately, measures, as explained in detail in Chapter 3, were undertaken to ensure that bias in the collection, analysis and reporting information are minimised.

Although all the documents that were collected for the purpose of this study are by nature public documents, they were solely used for the purpose of this study and were not shared with any other person or institution. This measure was undertaken to uphold confidentiality and protect the right of employees whose role is to oversee, manage or perform internal controls in the RCT. As per the request of the managers of the RCT, a copy of the study, upon completion will be made available to them, whilst the University of South Africa (Unisa) will hold the copyright.

1.9 LIMITATIONS OF THE STUDY

Although there is often mention of the South African public sector, this study is of a limited scope and focuses only on the RCT as a study area. It is further limited to the assessment of the strength of internal controls between the financial years 2008/09 to 2012/13 and not any other period prior to or after that. Although the study refers to the role of the Auditor-General in the South African public sector as part of the literature review in Chapter 2, the unit of analysis is the strength of internal controls and not other components of auditing. Some of the documents, that is, internal audit function reports, that were targeted for the purpose of an analysis could not be accessed. However, they were replaced with alternative documents that offered the same insight about the strength of internal controls in the RCT. The findings of this study may be relevant to any other South African municipal entity or public institution at any sphere of government that experiences similar challenges experienced by in the RCT.

1.10 STRUCTURING OF CHAPTERS

This dissertation is divided into five chapters whose primary focus is introduced in the subsequent discussions.

Chapter 1: General introduction to the study

This chapter is introductory in nature and it explains why it is necessary to conduct research on internal controls of public institutions in the South African public sector. It explains the background to the problem, problem statement, research methodology and the research objectives. The chapter also defines the keywords that are frequently referred to and outlines the structure of chapters that are dealt with in the study.

Chapter 2: Internal controls and the role of the Auditor-General in the South African public sector

The discussions in Chapter 2 focus on the basic literature review of internal controls and the role of the Auditor-General in the South African public sector. The assessment of the strength of internal controls of South African public institutions is undertaken as part of an auditing function that the Auditor-General is mandated to perform.

Chapter 3: Research design and methodology

An important element of the discussions in Chapter 3 is that it introduces the study area (RCT) at which the research activities were undertaken. As part of the discussion of the research design, the chapter explains the document population, from which a sample was drawn, sampling procedures and targeted documents. The discussions of the research methodology introduce all the documents on which an analysis was performed. A critical aspect of the discussions in Chapter 3 is that they lay a foundation for the findings that are presented in Chapter 4.

Chapter 4: Data analysis and findings of the study

This chapter discusses the findings of the study. These findings are discussed following the sequence that was used in the research methodology in Chapter 3.

Chapter 5: Concluding remarks and recommendations

This chapter concludes this study and puts forth concluding remarks and the recommendations derived from the findings that are presented in Chapter 4. The proposed recommendations shed light on how the internal controls of the RCT can be improved and maintained.

CHAPTER 2

INTERNAL CONTROLS AND THE ROLE OF THE AUDITOR-GENERAL IN THE SOUTH AFRICAN PUBLIC SECTOR

2.1 INTRODUCTION

The first chapter presented a general introduction in which the need to conduct research on internal controls is explained. From the general introduction, it is evident that most public institutions, especially municipalities and their municipal entities and in particular the RCT still find it difficult to obtain financially unqualified audit outcomes. This difficulty is partly ascribed to the inability of the drivers of internal controls in these public institutions, namely the leaders, managers and governance structures, to effectively design, implement and continuously monitor internal controls. In the sphere of local government, the research about internal controls contributes to the understanding of the municipal management system, the role of the internal (e.g. managers) and external stakeholders (e.g. Auditor-General) that are involved in improving internal controls and how effective internal controls can help municipalities improve their performance in delivering services to their communities.

The discussions in this chapter focus on the literature review of internal controls and the role of the Auditor-General as an important stakeholder in the internal controls of South African public sector. As part of the literature review of internal controls, this chapter defines internal controls and discusses the categories of internal controls, components of internal controls, how internal controls influence audit outcomes and the drivers of internal controls in the South African public sector. As part of the literature review of the role of the Auditor-General, the chapter discusses the legislative framework from which the role of the Auditor-General is founded, the Auditor-General's role as provided for by legislation, the independence of the Auditor-General, the role of the Auditor-General in as far as internal controls are concerned and the types of audits that are performed by the Auditor-General.

2.2 INTERNAL CONTROLS

A brief literature review of internal controls was discussed in Chapter 1. Internal controls were defined as an integral part of an effectively functioning public institution and as providing guidelines to managers and employees about how tasks should be performed, about procedures and methods that should be followed and in general the legislation that should be adhered to. As explained in Chapter 1, internal controls spell out the objectives that employees in a public institution must strive to achieve.

Internal controls, as explained by Romaniuk (2011:110), refer to a set of actions, processes, or activities that are initiated and implemented in line with the interests of the public institution. These processes, in terms of the International Organisation of Supreme Audit Institutions (INTOSAI, 2001:5) and the Committee on Sponsoring Organisations of the Treadway Commission (hereafter referred to as COSO) (1994:5), govern the activities of public institutions and help them operate efficiently and effectively to accomplish their performance goals. Internal controls are mechanisms through which accountability to members of the public is enhanced (Morehead, 2007:4).

Internal controls, as defined by Erasmus and Visser (2011:9), Luyinda, Herselman and Botha (2008:32), as well as Puttick and 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. It refers to activities that are undertaken to ensure that predetermined objectives are achieved in an orderly and efficient manner and that the assets will be safeguarded against loss or damage. Internal controls help to guarantee that accounting records are prepared timely and accurately and that financial information is reported reliably.

Managers, as part of the drivers of internal controls of public institutions, have the responsibility to design, implement, supervise the effectiveness of and maintain internal controls (INTOSAI, 2004:43). These managers are also required to use internal controls as guidelines to achieving efficient and effective operations (INTOSAI, 2001:5), for

example, keeping reliable financial reports, and complying with legislation and regulations (Arens, Elder & Beasley, 2008:290). Internal controls empower managers in the public institutions with capabilities to adapt to changing economic and competitive environments (Ratcliffe & Landes, 2009:2) and serve as part of a primary alert system that is used to guide managers to improve audit outcomes (Nombembe, 2011:1).

According to INTOSAI (2004:13), for public institutions to be able to maintain effective internal controls, managers must have an overall understanding of the institution's performance objectives and such objectives must be linked to the internal controls. This will ensure that risks and changes to which public institutions are exposed to are managed. Internal controls assist managers to develop and implement internal controls practices, such as procedures, processes, physical arrangements, organisational structure and assignment of responsibility and authority (see INTOSAI, 2001:5 & ISSAI, 2003:21). In addition to enabling public institutions to achieve their performance goals, effectively designed internal controls improve their audit outcomes and as a result, contribute to major improvements in service delivery (Clamp, Murwira & Kubheka, 2012:1). In order to be able to maintain effective internal controls, the internal controls process must be continually monitored to ensure that the risks are minimised

2.2.1 Categories of internal controls

From the definition of internal controls in the preceding section, three categories of objectives of internal controls emerge. These categories include the efficiency and effectiveness of operations, reliability of financial reporting and compliance with applicable laws and regulations (Romaniuk, 2011:111). Although they are distinctive, the objectives of these three categories are interconnected (COSO, 1994:108).

2.2.1.1 Efficiency and effectiveness of operations

Internal controls, as defined earlier, ensures that the objectives of public institutions are achieved in an efficient and effective manner. According to Ratcliffe and Landes (2009:3), efficient and effective operations refer to the goals of public institutions, which include performance objectives, the safeguarding of assets against loss, misuse and

damage (INTOSAI, 2007:10). Efficient and effective operations of public institutions, as described by Arens and Loebbecke (2000:289), avails accurate information for internal decision making. Therefore, for public institutions to be able to make ethical decisions they must ensure that they operate efficiently and effectively (Sepsey, 2011:416) and managers in these public institutions must regularly check the reliability of internal controls to ensure that they achieve the basic functions for which they were instituted (Gyüre, 2012:178). It should however be noted that changes in a public institution and the attitudes of the managers can influence the effectiveness of internal controls and the employees that perform internal controls (INTOSAI, 2004:12).

2.2.1.2 Reliability of financial reporting

Financial reporting in the South African public sector is done through the submission of financial statements by the auditee to the Auditor-General. These financial statements are, in terms of Section 14 of the Public Audit Act (25 of 2004), audited by the Auditor-General to give assurance to the users of financial statements (ISSAI (2013 (e):4). In terms of ISSAI (2013 (e):29), the Auditor-General expresses an opinion about the financial statements in a written report. This opinion is based on an assessment of the conclusions that are drawn from the audit evidence that is obtained from the auditee. Whilst auditing the financial statements, the Auditor-General checks whether the financial statements adhere to the financial reporting framework. Standardised financial reporting encourages public institutions to strengthen their internal controls (INTOSAI, 2010:23).

2.2.1.3 Compliance with applicable laws and regulations

Because public institutions are established through the Constitution of the Republic of South Africa (1996), their mandates derive from legislation. This essentially means that they must comply with the legislation. As described by ISSAI (2010 (b):5), compliance refers to the degree to which public institutions obey the laws and regulations, policies, legislation, established codes and standards to which they are subjected. Section 5 (1) (c) of the Municipal Finance Management Act (56 of 2003) empowers the National Treasury with powers to enforce compliance with the regulations it establishes in terms

of Section 216 of the Constitution of the Republic of South Africa (1996). In the sphere of local government, the Treasury may, in terms of Section 5 (2) (c) of the Municipal Finance Management Act (56 of 2003), monitor and assess compliance by municipalities and municipal entities with any applicable standards of generally recognised accounting practice and uniform expenditure and revenue classification systems. To improve accountability, it is essential for the public institutions identify and reveal any unlawful, irregular and uneconomical expenses they have incurred due to non-compliance with legislation (AGSA, 2014 (b):8).

2.2.2 Components of internal controls

Five inter-related components that are provided for by COSO (2013:6) and McNally (2013:5) and that were highlighted in both the definition and categories of internal controls are discussed in this section. These components are derived from the way in which managers perform their duties and form part of the process of managing activities of public institutions (COSO, 1994:4). These components include the following:

2.2.2.1 Control environment

Internal controls are not undertaken in a vacuum; they are influenced by and in turn influence the environment within which they are undertaken. According to INTOSAI (2004:17), the control environment, as the foundation for all other components of internal controls, provides for discipline, structure and the climate which influences the overall value of internal controls in a public institution. It is a measure of how managers account for the efficiency and effectiveness of internal controls and how they help achieve the goals of the public institution (DiNapoli, 2010: 6). The control environment entails the practice of ethical values by employees, their commitment to competence and their own development (Romaniuk, 2011:112).

2.2.2.2 Risk assessment

Risk assessment is the process that is undertaken to detect and evaluate risks (e.g. corruption and fraud) to ensure that public institutions achieve their objectives (INTOSAI (2004:13). The process is instituted to identify and analyse both the internal

and external risks that require urgent attention (INTOSAI, 2007:27; AGSA, 2014 (b):4) and helps managers in public institutions to determine the procedures that they will use in order to overcome them. Since changes in the operations of public institutions and in the external environment of public institutions occur rapidly, managers need to detect and manage the risks that relate to these changes (COSO, 1994:4). Erasmus and Visser (2011:72) explain that managers in public institutions can assess the risks by making use of either numerical and non-numerical techniques and in order for them to be successful in dealing with the risks they must understand which risks are likely to occur and how they will be managed when they occur. Hence, the designing of internal controls must fit the purpose.

2.2.2.3 Control activities

Control activities 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, authorisation, verifications, reconciliations, performance appraisals, security of assets and segregation of duties. According to INTOSAI (2004:13), control activities can either be preventative, detective or corrective and depending on how complex the risks (e.g. financial, operational, compliance risks) may be and a combination of all these can be used. Preventative controls refer to those that are designed to prevent risks such as fraud and errors from occurring while detective controls help to detect when risks occur. Corrective controls, sometimes referred to as after-the-fact controls, are controls that are used after the risk has occurred.

2.2.2.4 Information and communication

Information and communication strengthens internal controls and are 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).

Information must be communicated using the established internal communication channels and managers must ensure that such communication is clear, accessible and understandable. In this case, information about internal controls policies, the risks that a public institution is faced with and how the public institution will deal with the risks must be communicated to all the employees. It should, however, be encouraged that communication flows in both directions, i.e. both the top-down and bottom-up approaches are used. In this way, communication is effective that when it flows from the top to the bottom.

2.2.2.5 Monitoring activities

Monitoring 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 controls function reliably and that they produce anticipated results, they 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). Thornton (2009:2) adds that when monitoring is designed and implemented effectively, public institutions are able to identify and correct internal controls deficiencies in time.

2.2.3 The influence of internal controls on audit outcomes

Internal controls were referred to in Chapter 1 as influencing the audit outcomes of public institutions and that they are assessed as part of an auditing process that is performed by the Auditor-General. The Auditor-General assesses internal controls to determine their strength (Selby, 2009:12) against the criteria that is established by the Committee on Sponsoring Organisations of the Treadway Commission (COSO) (DiNapoli, 2010: 4). The intention of assessing the strength of internal controls (cf Nombembe, 2011:1), is not to test or evaluate their operational effectiveness, but to weigh them and to identify any deficiencies and inaccuracies and to provide managers of a public institution with a formal record that outlines the areas that need attention and the dates at which such deficiencies should have been resolved.

Before the auditors assess the internal controls to determine their strengths, it is important that they understand each of the five components that were discussed earlier in this chapter. An understanding of these components helps the auditors to develop an engagement strategy and to create an audit plan. The assessment of the internal controls, as explained by Erasmus and Visser (2011:34) and Franca (2014:225), includes the review of the risk element, to define the objectives of the internal controls and to evaluate whether they operate reliably and that they comply with the internal and external requirements. Internal controls are assessed to understand their strength with regard to financial (F) and performance reporting (P) and compliance (C) (Nombembe, 2011:1). Therefore, the assessment of internal controls helps the Auditor-General to weigh whether they are functional and that the drivers of internal controls in the public institution manage them effectively.

The influence of internal controls on the audit outcomes may be explained in various ways and through using different examples. When internal controls are generally inadequate, assets are misused, finances are used fruitlessly, resources are generally wasted and abused, employees perform poorly, records are not kept and as a result, operations become ineffective. Ineffective operations make it impossible for public institutions to achieve their predetermined objectives and to comply with the requirements of legislation. This state of affairs therefore, ultimately makes it impossible for them to obtain clean audit outcomes. However, when they are effectively designed, implemented by qualified and experienced drivers of internal controls and regularly monitored, internal controls provide managers of public institutions with assurance that unforeseen circumstances will be detected, prevented and corrected. Resources are in this case used sparingly, employee performance and morale improves, operations become efficient and effective and as such, the probability of achieving predetermined objectives and complying with legislation becomes even more likely. Public institutions are in this case able to obtain favourable audit opinions.

2.2.4 Drivers of internal controls

For internal controls to be effective, they require competent leadership, managers that are skilled in various management functions (e.g. financial and performance management) and a good governance structure. Even though the roles that are performed by the drivers of internal controls are distinctive, they co-exist in that they collectively improve the audit outcomes of public institutions. The roles of the three drivers of internal controls, namely leaders, managers and the governance structures (the audit and risk committee and the internal audit function) are discussed in this section.

2.2.4.1 Leadership

The question that arises is whether the leaders of public institutions, and in particular municipalities and municipal entities, actually understand the findings that are made by the Auditor-General. If so, to what extent are they able to resolve the queries that are raised in the audit reports? It is reported in a study that was conducted by Jack (2011:16) that the inability of municipalities to obtain clean audits can be partly ascribed to the incompetence of municipal leadership. All public institutions consist of both the political and administrative leaders who perform different but complementary roles (Craythorne, 2003:261). Leaders develop a plan of action that directs the activities of the public institution, mobilise the resources that are required to implement the plan and oversee that the managers and groups of employees understand the plan and that they commit to strive to achieve the goals that are spelt out in it.

Leaders ensure that plans are aligned with all the activities that are performed by managers and employees (Oberholzer & Diedricks, 2012:1) and ensure that the roles are clearly defined to avoid duplication (cf. De Visser, 2010:94) and interference, especially in local government wherein municipalities are controlled politically by municipal councils and committees and administered by managers and public officials (Johnsson, 2008:541).

At the sphere of local government, the implementation of plans tends to be ineffective due to the lack of skills and the capacity to effectively manage the internal controls. Deficiencies in internal controls are evident in financial and performance reporting and generally, in compliance with laws and regulations (Clamp *et al*, 2012:1). Due to ineffective political and administrative leadership, municipalities in South Africa (cf. Oberholzer & Diedricks, 2012:2) are also faced with human resource management challenges in that they employ candidates that do not have the required skills to perform their jobs effectively.

2.2.4.2 Managers

In addition to leadership, effective management is required to ensure that the activities that derive from the strategic plans are effectively managed. Managers are responsible for developing and maintaining internal controls (Arens *et al*, 2008:291). Effective financial management, systems development, administration and oversight, performance management, monitoring and evaluation, as well as compliance with laws and regulations are factors that help public institutions to obtain clean audits (Oberholzer & Diedricks, 2012:1; CoGTA, 2011:40). In order to ensure that employees understand their roles, internal controls objectives and procedures, managers must continually communicate internal controls policies to them.

In addition to correcting the deficiencies that are reported by the Auditor-General, they are also expected to develop effective human resource management practices that help them to attract skilled and experienced employees whose conduct is not questionable. Furthermore, they are expected to initiate an Information Technology governance framework that supports goals and that enables the public institution to function effectively, deliver value and improve its performance. They also have the responsibility to institute disciplinary sanctions for serious transgressions by employees. Senior managers in South Africa's local government are assigned the responsibility by Section 77 of the Municipal Finance Management Act (56 of 2003) to assist the accounting officer in managing and coordinating the financial administration of the municipalities. Through the leadership of the accounting officer, all senior managers and public officials

are responsible for managing financial resources within their respective areas of functioning. Although they are entrusted with the responsibility to delegate duties, managers remain accountable and as such have the responsibility to verify that tasks that are delegated are effectively carried out (Erasmus & Visser, 2011:18). This means that managers bear the greatest responsibility for the operation of the internal controls in public institutions (Romaniuk, 2011:113).

Despite holding managers accountable for financial management and performance management, Section 57 of the Public Finance Management Act (1 of 1999) assigns the responsibility to all public officials to efficiently, effectively, economically and transparently use financial and other resources that are allocated to public institutions. Section 105 of the Municipal Finance Management Act (56 of 2003) further assigns to all public officials the responsibility to ensure that the systems of financial management and internal controls are always adhered to and that deficiencies are reported to the accounting officer. Due to insufficiently skilled managers in South Africa's local government, performance management practices and systems are sometimes not instituted (Oberholzer & Diedricks, 2012:2), a factor that has a negative influence over their audit outcomes (AGSA, 2013 (b):19). The roles that managers perform to ensure that internal controls are effective include ensuring that relevant and accurate information is kept safely and is accessible, record keeping, to support financial and performance reporting, the reconciliation of transactions, and compliance monitoring.

2.2.4.3 Governance

The characteristics of good governance, as described by Marx *et al* (2009:4-5), are transparency, accountability, responsibility and fairness. According to Clamp *et al* (2012:1), lack of a culture of good governance, dishonesty, unethical practices, the lack of skills and the inability by leaders to account, ineffective implementation and the lack of monitoring of internal controls are some of the features that characterise the South African public sector. As a result (cf. Van Der Walt, 2010:9), risks are not managed, fraud is not prevented, thereby leading to ineffective governance. The discussion of governance is limited to two main role-players in this study, namely, the roles that are

undertaken by the audit and risk committee and the internal audit function, which are discussed in the following subsections.

2.2.4.3.1 Audit and risk committees

In South Africa's local government, the audit and risk committees are established in accordance with the requirements of Section 166 of the Municipal Finance Management Act (56 of 2003). They report to the municipal councils about the concerns that are raised by the Auditor-General in the audit report. The audit and risk committees, as independent entities (cf. Fourie, 2004:26), are also mandated to resolve any differences of opinion that may exist between the Auditor-General (or any other external auditor appointed by the Auditor-General) and managers of the auditee (Van der Nest, Thornhill & and De Jager, 2008:555). Reviews of some existing research (cf. Van der Nest, 2008:185; AGSA, 2013 (d):71), identify most of the audit and risk committees in the South African public sector as ineffective in achieving their mandates.

2.2.4.3.2 Internal audit functions

The internal audit functions, sometimes referred to as 'sections' or units, are established in terms of Section 165 of the Municipal Finance Management Act (56 of 2003). In contrast to the audit and risk committees, they do not interact with the municipal council, but advise the accounting officer and managers in public institutions. Some of the roles of the internal audit function are to prepare annual audit plans and internal audit programs, and to generally examine and contribute to the effectiveness of the internal controls (INTOSAI, 2004:43). Unlike the audit and risk committees, they consist of employees that are appointed within the public institution. The internal audit sections' knowledge and understanding of the activities of the public institution help in constructing effective relationships, assessing and improving the efficiency of risk management, strength of internal controls, and integrity of the governance processes (INTOSAI, 2010:4). Both the audit and risk committees and internal audit sections ensure that the Auditor-General is continually engaged and that managers within public institutions are informed. The relationship between the audit and risk committees,

internal audit functions and leaders requires to be nurtured and to be based on trust (Oberholzer & Diedricks, 2012:2).

2.3 THE ROLE OF THE AUDITOR-GENERAL IN THE PUBLIC SECTOR

The Auditor-General in South Africa was established during the apartheid era in accordance with the requirements of the Exchequer and Audit Act (66 of 1975) in 1910 (AGSA, 2011 (a):8) and its operations officially commenced on the 12th May 1911. Since then, the Auditor-General operated for decades under the leadership of the apartheid government until in 1994 when the African National Congress (ANC) led government came into power. Its role was configured to satisfy the requirements of a democratic society and as such it was given the powers to perform its functions independently of the South African government (AGSA, 2011 (a):8; AGSA, 2014 (c):16). Amongst the achievements presented to the Auditor-General since then is the prominent Jörg Kandutsch Award, which was awarded by the International Organization of Supreme Audit Institutions (INTOSAI) after it successfully hosted the 20th International Congress of Supreme Audit Institutions (INCOSAI2) during the period 21st – 27th of November 2010.

Consistent with the introductory remarks of this chapter, the discussion in this part is on the literature review of the role of the Auditor-General in the South African public sector. The areas on which this literature review focuses are the legislative framework of the Auditor-General, the constitutional functions and its independence, the types of audits that are performed and the meanings of the types of audit opinions or outcomes expressed after an audit has been performed.

2.3.1 Legislative framework for the Auditor-General

The Auditor-General in South Africa has been established in accordance with the requirements of Chapter 9 of the Constitution of the Republic of South Africa (1996). It

² The aim of the Congress was to promote the dialogue and to share experiences between SAIs in the field of government auditing and financial management, discuss and adopt resolutions on subjects of common and technical interest, draw conclusions and make recommendations and decisions on issues of international cooperation between SAIs (Africa Boso, 2010:1)

is one of six state institutions, namely: the Public Protector, the South African Human Rights Commission, the Commission for the Promotion and Protection of Rights of Cultural, the Religious and Linguistic Communities, the Commission for Gender Equality and the Electoral Commission, whose roles are to support constitutional democracy in the Republic of South Africa. The mandates of these state institutions are derived from the Constitution and as such, the principles that establish and govern them are entrenched in the Constitution as well. For the purpose of the discussion of the legislative framework of the Auditor-General, the Constitution of the Republic of South Africa (1996), Public Audit Act (25 of 2004), Public Finance Management Act (1 of 1999) and Municipal Finance Management Act (56 of 2003) are discussed. This discussion also reflects briefly on how these legislations relate to each other.

2.3.1.1 Constitution of the Republic of South Africa (1996)

The Constitution of the Republic of South Africa is the supreme law of the Republic. Section 181 (e) of the Constitution identifies the Auditor-General as one of the state institutions whose roles it is to uphold constitutional democracy in the Republic and which by nature of their designation are subject only to the Constitution and the law. Section 193, subsections (3) and (4) of the Constitution entrusts the President of the Republic of South Africa with the power to appoint the Auditor-General. In accordance with the requirements of Section 188 of the Constitution, the constitutional functions of the Auditor-General are to audit and report on the accounts, financial statements and financial management of the organs³ of the state (public institutions). Section 181 (3) of the Constitution assigns the responsibility to managers of public institutions to assist and protect the Auditor-General in order to discharge his or her constitutional functions independently, impartially, with dignity and effectively. Furthermore, Section 181 (4) of the Constitution prohibits any person or organ of state from interfering with the functioning of the Auditor-General. In accordance with the requirements of Section 188 (5) of the Constitution, the Auditor-General answers to the National Assembly.

³ Organs of the state refer to institutions that are referred to in the Constitution of the Republic of South Africa (1996) and include national and provincial state departments and administrations; all municipalities and accounting entities that are required by national and provincial legislations to be audited by the Auditor-General.

2.3.1.2 Public Audit Act (25 of 2004)

The Public Audit Act (25 of 2004) gives effect to the provisions of the Constitution of the Republic of South Africa (1996). It establishes and assigns functions to the Auditor-General and provides for accountability arrangements of the Auditor-General. Consistent with the constitutional and legal status of the Auditor-General as provided for in the Constitution, the Public Audit Act describes the status and lists in Chapter 2 Part 1, the Constitutional functions of the Auditor-General and in Part 2, it makes provision for the appointment and conditions of employment of the Auditor-General. In accordance with Section 3 of the Public Audit Act, the Auditor-General has a legal status as the Supreme Audit Institution (SAI) that is subject to the Constitution, the law and the Public Audit Act.

The Auditor-General, in accordance with Section 10 (1) of the Public Audit Act, is required to submit annually a report about his or her performance of functions to the National Assembly. Amongst other requirements, this report must include the standards that were applied to perform the audits, categories of services that were rendered to auditees, public institutions to which such services were rendered and report about instances in which the Auditor-General had co-operated with private service providers.

Section 20 (2) of the Public Audit Act requires the Auditor-General to express an opinion or make a finding in the audit report about the auditee's status of the financial statements, compliance with legislation and regulations, financial management and other related matters and the performance of the auditee against the predetermined objectives. Section 40 (6) of the Public Audit Act furthermore requires that the audit and risk committees comment in the auditee's annual reports about the effectiveness of the internal controls.

2.3.1.3 Public Finance Management Act (1 of 1999)

The Public Finance Management Act (1 of 1999) was enacted to regulate and modernise the system of financial management in the South African public sector. Like the Public Audit Act, the Public Finance Management Act was enacted into law by the

Parliament of the Republic of South Africa to give effect to the requirements of the Constitution of the Republic of South Africa. Unlike the Public Audit Act which makes direct provision to the legal status, functions and accountability arrangements of the Auditor-General, the Public Finance Management Act makes provision for the roles of the drivers of internal controls, especially of the leaders, managers and governance structures. This legislation requires that public institutions perform their activities transparently, accountably and that they utilise the resources that are allocated to them sparingly. It also provides for the responsibilities of the persons that are entrusted with financial management within public institutions.

The Auditor-General is mandated by Section 8 (2) of the Public Finance Management Act (1 of 1999) to report to the National Treasury within three months after the end of each financial year. The National Treasury, as an oversight body, has powers to investigate the internal controls in any organ of the state. In terms of Sections 76 and 77 of this Public Finance Management Act, the accounting officers of public institutions have the responsibility to ensure that internal controls are efficient, effective and that they are maintained. It further gives the accounting officers the responsibilities to institute transparent systems of financial and risk management and to ensure that the internal audit sections of a public institution and the audit and risk committees comply with and operate within the ambit of the regulations and prescribed instructions. Although the accounting officers may, in compliance with Section 44 (a) and (b), delegate their powers to other managers, they still remain accountable for those delegated tasks.

2.3.1.4 Local Government Municipal Finance Management Act (56 of 2003)

The purpose of the Local Government Municipal Finance Management Act (56 of 2003) is to secure a sound and sustainable management of the financial affairs of municipalities and municipal entities. In contrast to the Public Audit Act and Public Finance Management Act whose requirements are complied with by public institutions at different spheres of government, the application of the Municipal Finance Management Act is confined to local government. A characteristic that distinguishes the

Municipal Finance Management Act from other subordinate legislations, namely Public Audit Act and Public Finance Management Act, is that it directly places the responsibilities to ensure effective, efficient and transparent systems of financial and risk management and internal controls on accounting officers (Sass, 2008:2).

Section 84 (2) of the Local Government Municipal Finance Management Act provides for the establishment of municipal entities whose mandate is to provide services on behalf of the parent municipality. More importantly, this Act subjects municipalities and municipal entities as public institutions to audits that are performed by the Auditor-General and bestows on them the responsibility to co-operate with and assist the Auditor-General to perform his/her functions independently, impartially, with dignity and effectively. The Municipal Finance Management Act (56 of 2003) further establishes the norms and standards that municipalities and municipal entities must adhere to, that is, to institute measures of transparency, accountability and that managers must develop appropriate lines of responsibility in their financial affairs.

It furthermore regulates how revenues and expenditures, assets and liabilities and financial transactions, the budgets and financial planning processes should be managed. Accounting officers, in terms of the provisions of the Municipal Finance Management Act, have the responsibility to align and co-ordinate the municipal processes with those of other public institutions at the national and provincial spheres of government. They also have to control borrowing and manage financial problems that are experienced by municipalities and to effectively manage the supply chain management processes. The Act cautions, through Section 105, public officials that administer the finances of the municipalities and municipal entities to take reasonable steps within their area of responsibility to ensure that the norms and standards of financial management and internal controls are observed and complied with. Sections 165 and 166 of the Local Government Municipal Finance Management Act respectively make provision for the establishment of the internal audit sections and audit and risk committees that play a critical role in strengthening the internal controls of municipalities and municipal entities.

2.3.2 The Constitutional functions of the Auditor-General

The legislative framework that was discussed earlier denotes the constitutional functions of the Auditor-General. In terms of this discussion, the constitutional functions of the Auditor-General are to audit and report on the accounts, financial statements and financial management of public institutions. Auditing in this regard entails gathering and assessing the evidence before a conclusion is reached and a report is compiled (Arens & Loebbecke, 2000:16). It is performed to give assurance that the evidence that has been assessed is credible (Harris & Pushkin, 2011:123) and to enforce reliability and accountability.

Auditing is defined by ISSAI (2013 (b):4) and Suzuki (2004:40) as a systematic and objective process of obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Auditing is not a fault finding procedure that is used to penalise, but to assist managers to identify areas that require improvement. The objective of auditing public institutions is to ensure that they achieve their predetermined goals and that resources are managed responsibly and effectively (Goodson, Mory & Lapointe, 2012:5). It helps managers to account for the funds and assets that are entrusted to them. Auditing creates a mutual relationship between the Auditor-General and managers of public institutions. It is performed to ensure that there is consistency, to guide the managers on how they can best achieve predetermined goals and to improve their efficiency and effectiveness. It is not periodical in nature, but involves practices that are applied regularly by employees and enforces compliance with legislation and adherence to national and international standards.

According to Marx, van der Watt, Bourne and Hamel (2009:1), auditing is based on eight basic principles that are sometimes referred to as 'the postulates of auditing'. These principles give assurance that:

- (1) financial statements and financial data that are submitted by the auditee for the purpose of the audit are a true reflection of all the transactions that have occurred within a public institution for the period under review;

- (2) there was no conflict of interest between the auditor and the managers of public institutions or that such conflict of interest was declared;
- (3) there were no irregularities in the financial statements and information that was submitted for verification; and that the financial statements and information that were submitted for the purpose of the audit are free from anomalies;
- (4) effectively designed internal controls were, during the period under review, constantly applied and monitored to help identify and reduce risks such as: theft and fraudulent activities that could impact negatively on the audit outcomes;
- (5) Generally Accepted Accounting Practice (GAAP) principles were adhered to during the period under review to achieve a balanced presentation of the financial statements;
- (6) there is no conflicting evidence to the one that is submitted by the auditee for the purpose of the audit;
- (7) the auditor acts independently when examining financial data and expressing an audit opinion; and
- (8) the auditor is not biased when expressing an audit opinion and presenting the findings.

This auditing role is performed on all the organs of the state, namely, (1) all national and provincial state departments and administrations, (2) all constitutional institutions, (3) all administrations of Parliament and each provincial legislature, (4) all municipalities and municipal entities and (5) any other institution or accounting entity that has been established in terms of national or provincial legislation. After having conducted the audit process, the Auditor-General must report on the findings of the auditing process to the relevant legislatures and to any other organ of state with a direct interest in the matter, in terms of Section 20 (2) and (3) of the Public Audit Act. The Auditor-General must express an audit opinion or outcome on mandatory audits, namely the auditees' annual financial statements, performance against predetermined objectives and compliance with laws and regulations.

2.3.2.1 Independence of the Auditor-General

Further to the constitutional functions of the Auditor-General, legislation and in particular Section 181 of the Constitution of the Republic of South Africa grants the Auditor-General the authority to exercise its functions independently. The authority to exercise the functions independently is a feature that differentiates the Auditor-General from that which operated during the apartheid era and complements its status as a Supreme Audit Institution (SAI) of South Africa (ISSAI, 2013 (a):9). This feature is crucial to defining the role of the Auditor-General in a democracy and may be used as a standard against which the reliability and effectiveness with which the Auditor-General performs the constitutional functions can be assessed (Khumalo, 2007:28). The Auditor-General is, in terms of this requirement, only subject to the Constitution and the law and exercises its functions impartially, without fear, favour and prejudice (AGSA, 2014 (b):2) and is free from interference by the managers of public institutions (Guthrie & English, 1997:12). This feature requires that employees that are appointed by the Auditor-General perform their functions objectively and that they refrain from subjecting themselves to influences by senior managers, political office-bearers and members of political parties.

Although the Auditor-General functions independently, its office often collaborates with nationally and internationally recognised institutions (AGSA, 2013 (a)) such as INTOSAI⁴. The Auditor-General is a member of INTOSAI committees, sub-committees and working groups and it chairs INTOSAI's Working Group on the Value and Benefits of Supreme Audit Institutions (WGVBS). It has historically partnered with the Information System Audit and Control Association (ISACA⁵), South African Institute of Chartered Accountants (SAICA⁶), Association of Chartered Certified Accountants (ACCA⁷), and Southern African Institute of Government Auditors (SAIGA⁸).

⁴ INTOSAI is an independent, professional and apolitical institution that provides an institutional framework for Supreme Audit Institutions (SAIs) to deal with the constantly increasing demands of government audit.

⁵ ISACA was founded in 1969 as an independent non-profit institution and an international leader in providing knowledge, certification, community advocacy and education on information system assurance and security, enterprise governance and management of Information Technology and information technology related risk and compliance.

⁶ SAICA is an internationally recognized accountancy institute that operates in South Africa.

2.3.3 Types of audits that are performed by the Auditor-General

The Auditor-General performs mandatory (or regulatory) and discretionary audits AGSA (2014 (b):3). Due to an increasing number of cases of economic crime and their negative consequence on the functioning of public institutions, forensic audits were included into the list of audits that are performed by the Auditor-General in 1997 (Fakie, 1999:2).

2.3.3.1 Mandatory audits

Mandatory audits refer to audits that are compulsory in nature. These audits may be divided into three categories, namely financial audits, compliance audits and the audits of reporting on predetermined objectives, each of which are discussed briefly in subsequent sections.

Financial audit

An audit of financial statements or a financial audit is one of the assurance functions that are performed by the Auditor-General to determine the financial state of a public institution. These audits are mandatory and are used to examine accounting records, internal controls policies, transactions and other sensitive financial information such as internal tax records and official tax returns. They are used to determine whether the public institutions' overall financial statements are tabled in accordance with the generally accepted accounting practices (GAAP) (ISSAI, 2013 (a):5; Arens & Loebbecke, 2000:16; Harris & Pushkin, 2011:124). Financial audits do not only evaluate financial accounts and performance, but economy, efficiency and effectiveness (Suzuki, 2004:40). Financial audits helps to keep the accounting system in order and to discourage internal fraud and theft. Non-compliance to generally accepted accounting practices may lead to a public institution obtaining a financially qualified audit opinion.

⁷ ACCA is a universal institution that trains professional accountants and that offers business-related qualifications.

⁸ SAIGA was established in 1988 and registered as a non-profit organisation in terms of the Non-profit Organisations Act 71 of 1997 with the Department of Social Development. The South African Qualifications Authority (SAQA) recognises SAIGA as a professional body through the National Qualifications Framework Act 67 of 2008.

Compliance audit

Because public institutions are established in terms of the provisions of legislation, they are subject to legislation. Legislation lays down limits or restrictions on their activities. The role of the Auditor-General in this regard is to assess the extent to which they comply with the legislative requirements. The audit of compliance with legislation or compliance audits are used to determine whether or not public institutions have complied with the laws and regulations that govern them (ISSAI, 2010 (a):3). These audits are usually comprehensive in nature and are undertaken annually by the Auditor-General to enforce accountability. During compliance audits, the Auditor-General reviews amongst other facets of organisational operations, whether the decisions that are taken by managers, and activities that are performed by employees are in accordance with the requirements of the law.

Compliance audits may be instituted to assess whether financial transactions and the way in which information is managed (ISSAI, 2013 (c):3; ISSAI, 2013 (b):3) comply in all material respects with the requirements of the law. The Public Audit Act requires the Auditor-General to audit compliance with legislation applicable to financial matters, financial management and other related matters and to report material instances of non-compliance with legislation in the audit report (AGSA, 2014 (b):8).

The audit of reporting on predetermined objectives

Public institutions are established to achieve predetermined objectives. These objectives differ drastically and are sources from which public institutions derive their mandates. The mandate of the South African Police Service is to create a safe and secure environment and of municipalities is to render basic and community services, whilst a health clinic's mandate is to render health-care services. None of these can perform another's mandate. With the audit of reporting on predetermined objectives, the Auditor-General assesses whether the reported performance was consistent, not contradictory, to the predetermined objectives and whether it indeed contributed towards realising the anticipated goals.

2.3.3.2 Discretionary audits

Unlike mandatory audits, discretionary audits refer to those that the Auditor-General may perform voluntarily. In contrast to mandatory audits reporting on discretionary audit is based on facts and does not require the Auditor-General to express an audit opinion (Independent Regulatory Board for Auditors, 2012:22). Discretionary audits include performance audits and investigations.

Performance audit

Performance audits refer to non-recurring audits that are undertaken to examine whether public institutions' systems, methods and procedures, operations and activities function in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement (ISSAI, 2013 (d):2; Harris & Pushkin, 2011:124). The objective of conducting performance audits is to generate performance information which may be used to enrich decision-making (ISSAI, 2003:11). Decisions about developing performance standards may require performance audits to be undertaken, for example, to determine the waiting period after which an applicant will receive an identity document from a local home affairs department. In contrast to financial audits, performance audits may help to improve the day-to-day operations and efficiency with which public institutions respond to the needs of citizens (Johnsen, Meklin, Oulasvirta & Vakkuri, 2001:595).

Investigations

Section 5 (1) (d) of the Public Audit Act gives the Auditor-General discretionary powers to, if there is public interest, complaint or request, institute an investigation and to report its findings. Complaints or requests that may necessitate investigations by the Auditor-General may relate to gross financial transgressions, maladministration or to support an investigation of a serious economic crime (AGSA, 2014 (b):3; Fakie, 1999:2).

2.3.4 Types of audit opinions or outcomes

Section 20 of the Public Audit Act empowers the Auditor-General to express an audit opinion or outcome after having conducted mandatory audits (Guthrie & English

1997:13). This report must, in line with Section 20 (2) and 28 (1) of the Public Audit Act, reflect an audit opinion on the auditee' s financial statements, its financial position, operational outcomes and cash flow in accordance with financial framework and legislation. The following are the types of audit opinions or outcomes that the Auditor-General may express in the audit report.

2.3.4.1 Financially unqualified audit opinion with no findings

Sometimes referred to as 'clean audit', a financially unqualified audit opinion is expressed when financial statements are tabled in accordance with the general accepted accounting principles. This means that financial statements satisfy all the standard requirements, provide sufficient evidence and there are no circumstances that require additional information or modification of the wording of the report (Arens et al, 2008:49).

2.3.4.2 Financially unqualified audit opinion with findings

The Auditor-General expresses a financially unqualified audit opinion when the entire audit process took place with satisfactory results, financial statements presented impartially, but when auditing personnel considered it important that additional information or evidence be made available for further a review (Arens et al, 2008:49).

2.3.4.3 Qualified audit opinion

The auditee is found to have obtained a qualified audit opinion when the financial statements contain material misstatements in specific amounts, or when there is a lack of evidence for the Auditor-General to determine a specific amount in the financial statements (AGSA, 2014 (b):7).

2.3.4.4 Adverse audit opinion

The Auditor-General expresses an adverse audit opinion when there is misstatement, that is, "the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to

disclose the misleading or incomplete nature of the financial statements.” (Jackson & Stent, 2007:18/9).

2.3.4.5 Disclaimer of audit opinion

The Auditor-General expresses an adverse opinion when the auditee has submitted insufficient evidence to an extent to which the Auditor-General is unable to express an opinion (Jackson & Stent, 2010:18).

2.4 CONCLUSION

The objective of this chapter was to review the literature on internal controls and on the role of the Auditor-General in the South African public sector. The results of the literature survey reveal that there is limited research that is conducted on internal controls, especially how internal controls influence the audit outcomes of public institutions in the South African public sector. The dominant sources of internal controls literature are professional auditing institutions such as INTOSAI, COSO and Africa Boso, whilst the literature about the role of the Auditor-General is publicised in the form of reports by the Auditor-General itself. Because they were not rigorously debated, these types of literatures may not necessarily be for academic consumption. Nonetheless, a lesson that derives from this literature is that internal controls are integral to effectively functioning public institutions. The complementary role of the drivers of internal controls (leaders, managers and governance structures) are even more critical to strengthening internal controls. Inadequately developed and poorly monitored internal controls expose public institutions to risks and as a result adversely influence their audit outcomes, aggravating already depleting public trust. The role of the Auditor-General is important in helping public institutions to operate efficiently and effectively and to achieve their predetermined goals. Even though they are instituted internally, effectively designed internal controls help public institutions to satisfy the needs of the members of a society. Chapter 3 focuses on the research design and methodology used to explore controls in the chosen research unit.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The discussion in Chapter 2 was on the literature review of internal controls and the role of the Auditor-General in the South African public sector. It became evident from these discussions that internal controls, when adequately designed and implemented by competent drivers of internal controls (leaders, managers and governance structure) help public institutions to detect and prevent undesired events (fraud, corruption, loss or damage). Internal controls are integral to effectively functioning public institutions. The discussion of the role of the Auditor-General in the South African public sector highlights the constitutional functions of the Auditor-General, most importantly, the independent manner in which the Auditor-General performs the functions. By performing these functions, the Auditor-General helps to strengthen internal controls of public institutions and as a result, to improve their audit outcomes.

This chapter is about the research design and methodology. Before these are discussed, it is necessary to briefly introduce the study area at which the research activities were undertaken, the Roodepoort City Theatre. The key factors that are used to introduce the study area are its physical location, staff complement and most importantly, the manner in which internal controls are governed in the study area. The discussion of the research design reflects on three main areas, namely, the document population from which a representative sample was selected, the sampling procedure that was used to select the targeted documents and a list of documents that were analysed. The discussion of the research methodology introduces the research items on which data was gathered. The basis of outlining the research items in the research methodology in this chapter is to establish a structure on which the presentation of the findings in Chapter 4 will be based.

3.2 STUDY AREA

As explained in Chapter 1, the Roodepoort City Theatre (hereinafter referred to using the acronym 'RCT') trading as Joburg Promusica, was selected as the study area. Roodepoort City Theatre is located in Region C, one of the seven regions of the City of Johannesburg Metropolitan Local Municipality (herein after referred to as 'City of Johannesburg'). As illustrated by the map in Figure 3.1, the RCT operates from Roodepoort, one of the busiest areas of the City of Johannesburg. It is accessible to diverse groups of audiences from the nearby suburban areas and Soweto townships. The theatre is physically located at 100 Christiaan de Wet Road, Florida Park, in Roodepoort.

Figure 3.1: A map of regions of the City of Johannesburg



Sources: Mashaba, 2012:26 and Makwarela, 2016:14

As described in RCT annual reports (2009/10-2012/13), RCT was established as a Section 21 company in 1981 by the City of Roodepoort and was incorporated into the City of Johannesburg as an independent municipal entity during the financial year 2004/5. It was originally sponsored by the Roodepoort City Council (Joburg City Theatres, n.d:1) before its incorporation into the City of Johannesburg. As a municipal entity, the RCT is exclusively owned by the City of Johannesburg (RCT, 2009/10). RCT operates out of a 320 seater auditorium and an 80 seater intimate basement theatre and its primary role is theatre entertainment and education in arts and culture. Roodepoort City Theatre's main income is derived from the subsidies by the City of Johannesburg, private sponsors and donations, including the ticket and program sales (RCT, 2009/10-2012/13). Roodepoort City Theatre is part of a merger with two other theatres, namely Joburg City and Soweto theaters. The reason for merging these theatres, as explained by De Beer (2013), was to save costs and to eliminate duplication of the administrative structures. The merged theatres are managed by a single Board of Directors (hereinafter referred to as the Board) that consists of an audit and risk committee and a social and ethics committee. As opposed to the pre-merger period, the theatres are managed by one Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Company Secretary. Even though these theatres were merged to foster unity and consistency, each maintains a separate identity and public profile (RCT, 2012/13, Madywabe, 2013).

3.2.1 Staff complement of the Roodepoort City Theatre

At the time of conducting the research, the RCT had merged with Soweto theatre in 2013 and consisted of a staff complement of sixty five (65) employees that were distributed in different occupational levels and categories (RCT, 2012/13:43). As illustrated in Table 3.1, the staff complement of the merged RCT and Soweto theatre consisted of five senior managers, namely, the CEO and four senior managers of different departments, namely, finance, corporate services, marketing and community development.

Table 3.1: Staff complement of the Roodepoort City Theatre

Occupational level	Total
Top management	1
Senior management	4
Middle management	3
Junior management	4
Semi-skilled employees	8
Unskilled employees	7
Foyer employees	28
Tutors	10
Total employees	65
Total permanent employees	25
Total temporary employees	30
Total part-time employees	10

Source: (RCT, 2013)

In addition to senior managers, there were also three (3) middle managers that are professionally qualified in their respective areas of functioning and four (4) junior managers. The staff complement also consisted of eight (8) semi-skilled, seven (7) unskilled employees as well as twenty eight (28) foyer employees and ten tutors.

3.2.2 Drivers of internal controls at the Roodepoort City Theatre

With a background insight from the discussions of the literature review in Chapter 2, internal controls are implemented by leaders, managers and governance structures in public institutions. Although the roles that are performed by each of these drivers of internal controls are unique, they co-exist. Collectively, these functions include developing, overseeing, monitoring and supervising to ensure that internal controls are applied and that they in general help the public institution to achieve their pre-determined objectives⁹.

⁹ In terms of the RCT annual report (2012/13:5), pre-determined objectives include for example taking advantage of facilities, creative knowledge, skills and production brands and using them as a bridging device amongst South Africa's vastly diverse cultures; targeting poverty stricken areas, introducing, promoting and developing the performing arts in disadvantaged communities and creating partnerships with other institutions.

They ensure that there is in general compliance with the laws and regulations that govern the internal controls, for example making sure that there is effective and efficient operations (e.g. instrumental, vocal and dance tuition programmes including theatre entertainment) and that there is reliable financial reporting (AGSA, 2014 (a):49). As provided for in the legislation that was discussed in Chapter 2, some of the roles of the drivers of internal controls are to ensure that financial matters are properly administered, reliable financial reports are submitted, internal controls weaknesses are corrected, instituting disciplinary or corrective action for transgressions and neglect, filling vacancies in key positions and identifying the root causes of poor audit outcomes. In general these roles have to provide reasonable assurance to guarantee that assets are adequately protected against material loss, organisational structure, working conditions, internal controls policies and procedures as well as the code of ethics help to achieve predetermined goals.

Roodepoort City Theatre's annual financial statements are tabled in accordance with the standards of the generally recognised accounting principles (GRAP) as well as the interpretations, guidelines and directives of the accounting standards board (RCT, 2011/2012). In order to adhere to the legislative requirements and as explained in the RCT annual report (2012/2013), managers in the RCT keep a risk register and apply internal controls to detect, prevent and monitor risks. The drivers of internal controls in the RCT, as explained in the RCT (2009/10 to 2012/13), adhere to good corporate governance practices. Table 3.2 below illustrates how the drivers of internal controls at the RCT are constituted.

Table 3.2: Drivers of internal controls at the Roodepoort City Theatre

Professional level	Executive director	Non-executive director	Independent member	Internal employee
Board of directors	1	9	0	0
Audit and risk committee	0	2	2	0
Human resource and Operations committee	0	4	0	0
Senior managers of departments (finance, corporate services, marketing and community development)	0	0	0	4
Internal audit function (section)	0	0	Outsourced to private audit institution	0
Total	1	11	2	4

Source: (RCT, 2013)

3.2.2.1 Board of directors

As illustrated in Table 3.2 (cf. RCT, 2012/13), at the time of conducting research activities, the Board consisted of ten (10) experts or highly qualified leaders whose responsibility was to guide the RCT in various areas of its operation. It consisted of nine (9) non-executive directors and one (1) executive director, the CEO. The CEO accounted to the board and was therefore the only executive director that participated in board activities. The CEO was also part of the executive management of the RCT and discharged administrative duties, part of which is to enforce compliance to internal controls.

As one of the drivers of internal controls at RCT, the Board's responsibility was to provide leadership to ensure that corporate governance practices are complied with, senior managers and employees choose to abide by legislation and that good shareholder relations are maintained. The Board approves as part of its fiduciary duties the processes that are instituted for financial reporting and internal controls. As a resource to the Board, the Company Secretary advises the Board and its committees on matters of compliance with RCT rules, procedures, statutory regulations and best corporate practices. Prior to the 2011/12 financial year, the functions of the Company Secretary were performed by the senior managers of the RCT.

3.2.2.2 Senior managers, managers and employees

With reference to the discussion of the literature review of internal controls in Chapter 2, senior managers, as drivers of internal controls, also play a significant role in strengthening internal controls. The roles of the CEO, the directors of Finance (CFO), Corporate Services, Marketing and Community Development departments in as far as internal controls are concerned, are briefly discussed.

3.2.2.2.1 Role of Chief Executive Officer

The roles of the CEO as the accounting officer, which he/she may delegate to other senior managers in the RCT includes the management of finances, assets and liability, revenue and expenditure.

Financial management

The role of the CEO is to oversee that effective financial management practices are instituted within the RCT. This role entails ensuring that resources are used efficiently, effectively and economically to prevent theft, fraud, unauthorised, irregular or fruitless and wasteful expenditure. The responsibility of the CEO is to oversee that financial records are kept in accordance with the norms and standards for financial management and that an efficient, effective and transparent system of internal controls and of financial and risk management is maintained.

Asset and liability management

The CEO also oversees that assets and liabilities are effectively managed, safeguarded and maintained. He/she is required to maintain an effective accounting and information system, an inventory and an assets and liabilities register. Overall the CEO has to institute internal controls to ensure that assets and liabilities are kept in accordance with requirements of the GRAP.

Revenue management

In addition to the management of finances, assets and liabilities, the CEO oversees that revenue collection (subsidies from City of Johannesburg, private sponsors and

donations and revenue derived from ticket and program sales) is aligned with the requirements of Section 95 of the Municipal Systems Act and credit control and debt collection policies. This role entails making sure that the revenue that is due to the RCT is calculated periodically and that tax accounts and financial charges are paid timeously. Other revenue management functions that the CEO accounts for include maintaining a management, accounting and information system which recognises revenue, accounts for debtors and receipts of revenue; ensuring that the revenue that has been received is reconciled timeously. The CEO is required to take all reasonable steps to ensure that RCT has and implements an effective revenue collection system to give effect to its budget.

Expenditure management

The CEO also oversees that the RCT has and maintains a system of expenditure control, procedures for the approval, authorisation, withdrawal and payment of funds. Whilst discharging his/her expenditure management role, the CEO ensures that the RCT has and maintains internal controls that records transactions and creates credit accounts. His/her role is also to ensure that any person or institution that RCT owes money is paid within 30 days of receiving the invoice. Whilst overseeing that the RCT's expenditure is managed, the CEO has to ensure that there is compliance with the tax, levy, duty, pension, medical aid, audit fees and other statutory commitments, and that the RCT's capital is managed effectively and economically as prescribed by the cash management and investment frameworks. The CEO must furthermore ensure that the supply chain management policy is implemented fairly, transparently, competitively and cost-effectively. The CEO furthermore enforces accountability by managers and employees to, within their areas of functioning and capacities, obey internal controls policies that relate to the management of finances, assets and liabilities and revenue and expenditure.

3.2.2.2.2 Roles of other directors, managers and employees

Even though the Public Finance Management Act places emphasis on the role of the CEO, in terms of the chain of accountability, all directors, managers and employees of

the RCT perform equally important roles in the management of finances, assets and liabilities, revenue and expenditure. They have to, within their areas of functioning and capacities ensure that all these resources are managed efficiently and effectively. The directors of departments have the responsibility to enforce compliance by employees to internal controls policies and procedures. Through the use of, for example performance management systems, they must monitor whether managers and employees in their departments perform their duties in terms of the set performance standards. In cases where there are deviations from internal controls policies, they have the responsibility to institute corrective measures and where there are gross transgressions of internal controls policies and procedures, they have to institute appropriate disciplinary sanctions (Malefane, 2016:30).

The CFO as the director of the department of finance develops, administers and implements the budget. The CFO advises the CEO on the RCT's bank accounts and the budget and advises other directors, managers and employees on how to exercise the financial management duties that are assigned to them. The director of the Corporate Services department is responsible to ensure that there is compliance with good corporate governance practices. Similar to the CFO, he/she has to ensure that employees adhere to internal controls that relate to all the corporate services functions. All other managers and employees in the RCT must observe internal controls that are instituted within their areas of functioning.

In their capacities, they must ensure that resources are used efficiently, effectively, economically and transparently; and that unauthorised, irregular or fruitless and wasteful expenditure and losses are prevented. In support of the CEO, they must ensure that all information that the CEO requires for accounting purposes is submitted to him/her on time. On a quarterly basis, senior managers must report on the types of risks that the RCT may be faced with. They also have to ensure that internal controls policies and procedures are continuously reviewed to keep up with the changes within the RCT and those in the external environment. As illustrated in Table 3.2, senior managers, managers and employees of the RCT perform their duties under the strict

oversight role of committees that have been instituted to maintain effective governance, namely the audit and risk committee and the outsourced internal audit function.

3.2.2.3 Governance structure

Consistent with the discussion of the literature review of internal controls in Chapter 2, the governance structure of the RCT consists of the audit and risk committee, human resource committee and internal audit section or function. Like the Board of directors and senior managers, managers and employees who undertake co-existing roles, the audit and risk committee and internal audit function, as drivers of internal controls, perform an equally important role in the strengthening of internal controls in the RCT.

3.2.2.3.1 Audit and risk committee

As illustrated in Table 3.2, the audit and risk committee as one of the drivers of internal controls, consists of two non-executive directors and two independent members. The role of the audit and risk committee is governed by the audit and risk committee Charter that is approved by the Board and that entails the key performance areas of the audit and risk committee. As an independent advisory body, the audit and risk committee of the RCT advises the Board, political office-bearers (e.g. members of the mayoral committee who sits in the meetings of the Board) and the CEO on matters such as internal financial controls and internal audits, risk management, accounting policies, adequacy, reliability and accuracy of financial reporting and information, performance management, effectiveness of governance, compliance with the Municipal Financial Management Act, Division of Revenue Act and any other legislation or key performance area that is listed in the audit and risk committee Charter.

The audit and risk committee reviews, in terms of the requirements of the Municipal Finance Management Act, the annual financial statements of the RCT and reports its findings to the Board. The audit and risk committee also gives advice on issues that are raised by the Auditor-General in the audit report. Whilst performing its functions, the audit and risk committee has unlimited access to the financial records and other relevant information about the institution and liaises with the internal audit section of the

RCT as well as the person designated by the Auditor-General to audit the financial statements of the RCT.

3.2.2.3.2 Human resource committee

As illustrated in Table 3.2, the human resource committee as one of the Board's committees and consists of four non-executive directors. Human resource management is one of the key areas performed by the Board. The role of the human resource committee is to provide guidance on the RCT human resource matters such as to approve the human resources policies and strategies; monitor compliance with the Employment Equity Act 55 of 1998; replacement and remuneration of directors and senior management; monitor organizational culture and ethical conduct of RCT, its managers and employees as well as making recommendations to the Board on the appointment and replacement of directors and senior managers.

3.2.2.3.3 Internal audit function

As illustrated in Table 3.2, the internal audit function was during the 2008/09 to 2011/12 financial years outsourced¹⁰ in accordance with Section 165 (3) of the Municipal Finance Management Act to SizweNtsalubaGobodo Chartered Accountants of South Africa (hereinafter referred to as SizweNtsalubaGobodo) and during the financial year 2012/13 to Johannesburg Risk and Audit Services (JRAS). The decision to outsource the internal audit function was approved by the Board as viable and cost-effective to develop RCT's internal audit capacity for the future. The mandate of the internal audit function is to assess the competence and efficacy of RCT's internal controls, accounting records and to report the findings to the senior managers of RCT and the audit and risk committee.

Internal auditors assess the functionality of the internal controls, monitor and review the proficiency of the internal control structures and processes and determine whether internal controls comply with the requirements of the legislation. The internal audit

¹⁰ MFMA stipulates that the internal audit function may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the Board of the entity has determined that this is feasible or cost-effective.

function assesses whether operations are efficient and effective, evaluate whether the internal controls help to reduce risks, maintain internal controls that are acceptable to management and report the findings periodically.

The internal audit function also prepares a risk-based audit plan and an internal audit program for the RCT and advises the CEO and reports to the Risk and Audit Committee on the implementation of the internal audit plan on matters that relate to the internal audit, the internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the Municipal Finance Management Act, Division of Revenue Act and any other applicable legislation. These duties are conducted under the leadership of the CEO of the RCT.

3.3 RESEARCH DESIGN

As explained in Chapter 1, this study used a qualitative research method and in particular an in-depth analysis of documents (document analysis) that contains official reports about the status and implementation of internal controls in the RCT.

3.3.1 Document population

Because of its historical existence since 1981, there was an abundance of types of documents (for example strategic plans, audit and risk committee reports, internal audit reports and annual reports) that could be analysed to determine the strength of internal controls in the RCT and from which a representative sample could be drawn. Document population in this study therefore refers to the total number of documents that report on internal controls between 2008 and 2013, a period of five (5) years. A representative sample of documents from which insights about the strength of internal controls in the RCT could be made was therefore selected using sampling procedures that are explained below.

3.3.2 Document sampling procedure

Purposive and convenience sampling procedures, in which all the documents had a probability of being selected as targeted documents, were used. However, the

documents were selected using a selection checklist criterion (see Appendix E) that required them to be (1) timely, (2) relevant, (3) authentic and (4) credible. The documents were further subjected to and assessed against the criterion of a document selection template that consisted of nine (9) items (refer to Appendix F).

3.3.2.1 Timeliness

Whilst checking whether the documents were timely, they had to have been created, approved or publicised between the financial years 2008/09 and 2012/13. This meant that the documents that were not published during this prolonged time-frame (either before or after) were not selected as targeted documents.

3.3.2.2 Relevance

The documents had to contain information about the internal controls of RCT in order to be considered relevant. Three main criteria from the document selection template, namely type of document, intended audience and purpose of the document were used to assess whether the documents are relevant or not. The documents that reported on any other subject than internal controls, were therefore regarded as irrelevant.

3.3.2.3 Authenticity

Additionally, the uniqueness of the document, type of target audience for which the document was created and the name of author of the document (whether private or public) were used as the criteria to assess whether the documents were authentic or not.

3.3.2.4 Credibility

In order to ensure that the documents were credible, they were assessed against the three criteria that are contained in the document selection template in appendix F, namely: context in which the document was written, significance of the document and the main points that are expressed in the document in relation to the internal controls. All the documents that satisfied the requirements of the criteria that are contained in the document selection template were eventually selected as targeted documents.

3.3.3 Targeted documents

From the document population that has been explained in Section 3.3.1 and after using the document sampling procedures that have been referred to in Section 3.3.2, the targeted documents that were eventually considered for analysis could be grouped into three types, namely, (1) general reports of the audit outcomes of the Gauteng Province local government (2) RCT's annual reports and (3) RCT's internal audit function reports. For the purpose of quantifying these documents in relation to the prolonged period of time that is covered in this study, in total thirty (30) documents were targeted for analysis.

- a) The formula that was used to determine the quantity of the documents is as follows:

Quantity = total units produced in each financial year X number of financial years

From using this formula, it meant that in total, five (5) general reports of audit outcomes of the Gauteng Province local government, five (5) RCT's annual reports and 20 of the RCT's internal audit function reports would be analysed. Internal audit function reports are created on a quarterly basis and therefore in total, four (4) internal audit reports that are created annually were multiplied by the number of five (5) financial years.

3.4 RESEARCH METHODOLOGY

As explained in Chapter 1, a non-empirical research method is used in this study. In particular, this study makes use of document analysis that is guided by three main types of templates (see Appendices G, H and I). As referred to in the description of the targeted documents, the general reports of the audit outcomes of the Gauteng Province local government, RCT's annual reports and internal audit reports were targeted for analysis.

3.4.1 Document analysis

The items that guided the analysis of the general reports of audit outcomes of the Gauteng Province local government are highlighted in the next subsection (see Appendix G).

3.4.1.1 Analysis of the general reports of audit outcomes of the Gauteng Province local government

A document analysis template that is contained in Appendix G was used to guide the analysis of the general reports of the audit outcomes of the Gauteng Province local government. The template enquired on nine main items that are highlighted below:

- (1) whether the documents are public or private documents;
- (2) the uniqueness of the documents (whether the documents are annual reports, audit reports, internal audit reports or legislation);
- (3) dates the documents were created/ approved/ commenced;
- (4) author of the documents and the position of the author;
- (5) intended audiences of the documents;
- (6) purpose of the documents;
- (7) context in which the documents were written;
- (8) significance of the documents to this study; and
- (9) main points that are expressed by the documents in relation to internal controls.

As shown in Appendix G, the four main points that are expressed in the general reports of audit outcomes of the Gauteng Province local government are about the:

- a) assessment of the strength of RCT's internal controls;
- b) assessment of the effectiveness of RCT's drivers of internal controls;
- c) RCT's audit trajectory and audit findings; and
- d) root causes of the audit findings on the internal controls;

3.4.1.2 Analysis of the Roodepoort City Theatre's annual reports

An analysis of the five (5) RCT's annual reports was guided by the template in Appendix H. Similar to the analysis of the general reports of audit outcomes of the Gauteng

Province local government, the template that guided the analysis of RCT's annual reports also consisted of nine (9) main items (see Appendix H). In contrast to the analysis of the general reports of audit outcomes of the Gauteng Province local government, the annual reports expresses themselves in two main points that are about the:

- a) assessment of the strength of internal controls; and
- b) drivers of internal controls.

3.4.1.3 Analysis of the Roodepoort City Theatre's internal audit function reports

Similar to both the analyses of the general reports of audit outcomes of the Gauteng Province local government and RCT's annual reports, the template that guided the analysis of the internal audit function reports consisted of nine items as well (see Appendix I). The four main points that are expressed in the internal audit function reports are about the:

- a) assessment of the effectiveness of internal controls and risk rating;
- b) deviations from the internal controls;
- c) root causes from the deviations on the internal controls; and
- d) implementation status of the corrective measures put in place.

3.5 LIMITATIONS OF THE STUDY

Some of the limitations of this study were briefly explained in Chapter 1. In addition to the scope of this study being limited to the RCT and a prolonged period of between the 2008/09 and 2012/13 financial years, a few more limiting factors were experienced, especially during the stage at which the data was gathered. Due to changes in management, especially before the merger, it became difficult to trace the 2008/09 annual report and the internal audit function reports for the 2008/09, 2009/10, 2010/11 and 2012/13 financial years (see Appendix D). In total 16 internal audit function reports could not be accessed.

In order to substitute these 16 missing internal audit function reports, alternative reports that were created by the internal audit function were utilised, that is, one (1) internal audit function follow-up report (13 August 2012), four (4) performance information review reports (21 November 2011, 27 February 2012, 10 May 2012 and 13 August 2012), two (2) progress reports to the audit and risk committee (4 May and 13 August 2012) as well as one (1) internal audit report to the audit and risk committee (15 March 2012).

These documents were relevant in that they reported about the 2009/10 and 2010/11 financial years' internal controls review findings and the comparison of findings on the auditable areas for 2010/11 and 2011/12 financial years. In total, 12 of the 16 missing internal audit reports were substituted and as a result, 25 of the 30 documents that were targeted were analysed.

There were challenges that resulted from the merger of the Soweto and Roodepoort theatres which ultimately became limiting factors. The limiting factors that resulted from the merger were significant in operational changes and changes in the composition of the internal drivers of internal controls. Resignations by senior managers had obvious negative implications on the strength of internal controls of the RCT.

3.6 ADHERENCE TO ETHICAL REQUIREMENTS

The ethical requirements to which this study adhered were also briefly explained in Chapter 1. In addition to requesting permission from the RCT, which was ultimately granted by the general manager, strict procedures that are spelt out in the University of South Africa's Policy on Research Ethics (2012) were observed.

3.6.1 University of South Africa's Policy on Research Ethics

The Policy on Research Ethics of the University of South Africa (UNISA) protects the rights to dignity and privacy of humans in as far as research activities are concerned and as such, its requirements were observed. Although this study did not gather data from humans, it used the documents that were directly authored by humans in their

personal capacities or as committees constituted to perform them. Therefore, measures were undertaken to protect their identities or the capacities in which they performed those functions.

3.6.1.1 Confidentiality

Because some documents were not readily available in the public domain, but requested formally through a written application, information contained in them was kept confidential. Information about weaknesses of the internal controls of the RCT was also not shared with any third party. This information is reported following strict research guidelines in order to strive for maximum objectivity and in no way used to incite any form of corrupt activities or propaganda.

3.6.1.2 Accuracy, reliability and validity

As explained in Chapter 1, measures were also undertaken to ensure that bias in the collection, analysis and reporting information are minimised. Information contained in the documents that were analysed was interpreted accurately, reliably and rationally. The findings that are made available in this study suggest ways through which internal controls can be strengthened and are in no way intended to incite public violence.

3.6.1.3 Disclosure to interested party

During the interactions with managers of the RCT at the initial stages, they have expressed interest in the findings of this study and as such, an electronic copy of the findings will be made available to them. In addition, a copy of this study will be kept in the UNISA library to make it available to any other person (e.g. students and researchers).

3.7 CONCLUSION

The purpose of the discussions in this chapter was to discuss the research design and methodology. However, it became necessary to introduce the study area (RCT) to enhance the understanding of certain aspects of the research design. A lesson that derives from the discussion of the drivers of internal controls of RCT is that they are

constituted in accordance with the requirements of the legislation that was discussed in Chapter 2. Each of the drivers of internal controls of the RCT performs a unique role. However, even though their roles are different, they are complementary. Collectively, these roles help managers to improve on transparency and accountability. Except for the Board of Directors as the accounting authority of the RCT, senior managers, especially the CEO as the accounting officer, perform a critical role in ensuring that internal controls are effectively designed, implemented and that they are regularly monitored.

Even though the CEO may in terms of legislation delegate internal controls functions to other senior managers, e.g. CFO, he or she may not delegate accountability. In order to be effective in instituting internal controls, the CEO not only relies on the support of senior managers, but governance committees that are constituted in accordance with the requirements of the legislation that was also discussed in Chapter 2, i.e. audit and risk committee and internal audit function. These committees, as discussed in this chapter, perform critical advisory roles to ensure that internal controls policies and procedures are adhered to. In addition to the discussion of the research design in which the population of documents, document sampling procedure and targeted documents are explained, this chapter also introduced as part of the research methodology, the templates that guided the analysis of the documents. The limiting factors that were experienced during the data collection and document analysis stages and the ethical requirements that were adhered to were also discussed in this chapter. Chapter 4 presents the findings of the study.

CHAPTER 4

DATA ANALYSIS AND FINDINGS OF THE STUDY

4.1 INTRODUCTION

Chapter 3 discussed the research design and methodology. It became necessary, before engaging in the discussions of the research design and methodology, to introduce the study area (RCT). Amongst others factors that were used to introduce the study area, the most critical was of the complementary roles of the drivers of internal controls in strengthening the internal controls of the RCT. Even though the roles that are performed by the drivers of internal controls are distinctive, they co-exist in that they enhance efficient and effective operations, help to achieve predetermined objectives and assist public institutions to comply with legislation. When they are effectively instituted, implemented by employees with the required skills and abilities and in a controlled environment in which employees strive to be ethical at all times, internal controls help public institutions to ultimately obtain clean audit outcomes.

The purpose of the discussions in this chapter is to present the findings of the study. As described in the research objectives in Chapter 1, the objective of Chapter 5 is to interpret the findings to deepen the understanding of strength of internal controls of the RCT. The findings that are presented in this chapter derive from an analysis of the targeted documents that were reflected upon in Chapter 3 (cf. Appendices G, H and I), namely, the general reports of the audit outcomes of the Gauteng Province local government, the RCT's annual reports and internal audit function reports. The targeted documents that were collected for the purpose of an analysis, as explained in Chapter 3, covered a prolonged period of five financial years, 2008/09 to 2012/13.

4.2 FINDINGS OF THE STUDY

The findings that are presented in the following section are derived from the general reports of the audit outcomes of the Gauteng Province local government. Similar to the other eight provinces in South Africa, the local government services in the Gauteng Province are carried out by municipalities.

4.2.1 FINDINGS FROM AN ANALYSIS OF THE GENERAL REPORTS OF THE AUDIT OUTCOMES OF THE GAUTENG PROVINCE LOCAL GOVERNMENT

As explained in the research design in Chapter 3, 100% (5:5) of the general reports of the audit outcomes of the Gauteng Province local government that were published between the 2008/09 and 2012/13 financial years, were analysed. An analysis of these reports was carried out using the items that are contained in Appendix G as a guideline.

4.2.1.1 Types of documents and author of the general reports of audit outcomes of the Gauteng Province local government

The general reports of the audit outcomes of the Gauteng Province local government are public documents that were created by the Auditor-General in his capacity as the Supreme Audit Institution of the Republic of South Africa. The Auditor-General reports on the Gauteng Province's local government audit outcomes in compliance with the requirements that are contained in the Constitution of the Republic of South Africa (1996) and the Public Audit Act (25 of 2004).

4.2.1.2 The uniqueness and purpose of the general reports of audit outcomes of the Gauteng Province local government

The general reports of audit outcomes of the Gauteng Province local government are comparatively unique to annual reports and internal audit function reports in that they are 'consolidated', that is, they report on the audit outcomes of more than one auditee and distinguish between the audit outcomes that have been obtained by different auditees.

4.2.1.3 Dates during which the general reports of audit outcomes of the Gauteng Province local government were created

The period within which these reports were published is consistent with the prolonged period of time that is covered in this study. As such, the total number of the general reports of audit outcomes of the Gauteng Province local government that were collected for analysis was five, each being published between the 2008/09 and 2012/13 financial years.

4.2.1.4 Intended audiences of the general reports of audit outcomes of the Gauteng Province local government

The intended audiences of the general reports of audit outcomes of the Gauteng Province local government are in general the organs of state, constitutional institutions, international agencies and investors, national and provincial treasuries, the Parliament of the Republic of South Africa and provincial legislatures, political parties, economic and financial analysts and citizens.

4.2.1.5 The purpose and context of the general reports of audit outcomes of the Gauteng Province local government

The purpose of the general reports of audit outcomes of the Gauteng Province local government is to consolidate the annual audit outcomes of all the municipalities of the Gauteng Province. These reports also consolidate the audit outcomes of municipal entities such as the RCT and are written in the context of flagship publications that are published by the Auditor-General to empower municipal leaders and oversight structures such as the municipal public accounts committees (MPACs).

4.2.1.6 The significance of the general reports of audit outcomes of the Gauteng Province local government

The general reports of audit outcomes of the Gauteng Province local government were considered significant in that, amongst other auditees, they reported on the strength of the internal controls of the RCT. The findings from an analysis of the main points that are expressed by the general reports of audit outcomes of the Gauteng Province local government are discussed in the next section.

4.2.1.7 Main points expressed by the reports of audit outcomes of the Gauteng Province local government in relation to internal controls

As explained in the research methodology in Chapter 3 (cf. Appendix G), the four main points that are expressed by the general reports of audit outcomes of the Gauteng Province local government are about the assessments of (1) the RCT's internal controls and (2) RCT's drivers of internal controls, (3) the RCT's overall audit trajectory and audit

findings and (4) the root causes of findings on internal controls. The findings on these four main points are discussed in the following subsections.

4.2.1.7.1 Assessment of the strength of the RCT's internal controls

The Auditor-General assesses the auditees' internal controls in accordance with his/her Constitutional functions that were described in Chapter 2. The assessment of internal controls by the Auditor-General is the first main point that is expressed by all the general reports of audit outcomes of the Gauteng Province local government. In this regard, the Auditor-General assists the auditees (the Gauteng Province local municipalities and municipal entities), and in particular the RCT, to institute internal controls and assesses whether these internal controls are adequate to detect and prevent undesired events. After assessing the internal controls on a quarterly basis, the Auditor-General reports the findings to the auditees' drivers of internal controls.

Depending on the strength of internal controls, the drivers of internal controls are required to commit to action plans that they will implement to improve the strength of the internal controls. The Auditor-General monitors the progress that is made by the drivers of internal controls in implementing the action plans on a quarterly basis and helps them to institute corrective measures where internal controls deficiencies have been identified. Therefore, in terms of the findings from the general reports of audit outcomes of the Gauteng Province local government, the function of the Auditor-General is to assess the strength of internal controls and thereafter, to propose ways through which the internal controls can be improved in cases where there are weaknesses, deficiencies or inaccuracies.

4.2.1.7.2 Assessment of the effectiveness of the drivers of internal controls

The general reports of audit outcomes of the Gauteng Province local government also reported on the effectiveness of the RCT's drivers of internal controls. The assessment of the effectiveness of the drivers of internal controls is necessary because it helps to strengthen internal controls and ultimately it enables public institutions to improve their audit outcomes. Whilst analysing the five (5) general reports of audit outcomes of the

Gauteng Province local government, two observations were made. The first observation was that prior to the 2009/10 financial year, the Auditor-General did not have the mandate to assess the effectiveness of the drivers of internal controls and as a result, the general report of audit outcomes of the Gauteng Province local government did not express any findings on the effectiveness of the drivers of internal controls for the 2008/09 financial year. The second observation was that because the RCT had obtained a financially unqualified (clean) audit opinion for the 2009/10 financial year, the drivers of internal controls were found to be effective for that financial year.

Therefore, the findings that are presented in this part are based on the general reports of audit outcomes of the 2009/10 to 2012/13 financial years. Three distinct findings of the effectiveness of the drivers of internal controls of the RCT, namely, the Board of directors, managers and governance committees are presented in this part. The performance of the drivers of internal controls is based on three categories, financial (F), performance (P) and compliance(C) over the period of four financial years (2009/10 to 2012/13). Whilst presenting these findings, the level of interaction and the nature and scope of the tasks that are performed by each driver of internal controls are taken into consideration. Furthermore, the findings of the effectiveness of the drivers of internal controls are interpreted as *good* (G) when internal controls operate as intended; *in progress* (IP) when internal controls require to be improved and as *intervention required* (IR) when internal controls need to be designed (from scratch) and implemented.

Assessment of the key leadership areas of the Board

As explained in the discussion of the study area in Chapter 3, the Board of directors comprised board committees that provide leadership on various key areas of the operation of RCT. The key areas of leadership on which the effectiveness of the Board of the RCT was assessed are leadership culture, oversight, human resource management, policies and procedures, action plans and the governance of information technology (IT). The findings of the key areas against which the effectiveness of the Board was assessed are illustrated in Table 4.1.

Table 4.1: Assessment of the key leadership areas of the Board of directors

Key leadership areas of the Board of directors	Financial year	Assessment outcomes		
Leadership culture		F	P	C
	2009/10	G	G	G
	2010/11	G	IP	IP
	2011/12	G	G	G
	2012/13	IP	IP	IP
Oversight				
	2009/10	G	G	G
	2010/11	G	IP	IP
	2011/12	IR	IR	IR
	2012/13	G	G	IP
Human resource management				
	2009/10	G	G	G
	2010/11	IP	IP	IP
	2011/12	IP	IP	IP
	2012/13	G	G	G
Policies and procedures				
	2009/10	G	G	G
	2010/11	G	G	G
	2011/12	IP	IP	IP
	2012/13	IP	IP	IP
Action plans				
	2009/10	G	G	G
	2010/11	G	G	G
	2011/12	IP	IP	IP
	2012/13	IP	IP	IP
Information Technology governance				
	2009/10	G	G	G
	2010/11	IP	IP	IP
	2011/12	IR	IR	IR
	2012/13	G	G	G

Between the financial years 2009/10 and 2012/13, the performance of the Board on internal controls that relate to the key leadership areas was not stable. As illustrated in Table 4.1, the performance of the Board of RCT was effective in all the six key leadership areas during the financial year 2009/10. The internal controls that were

instituted by the Board were adequate in all the three internal controls categories, namely financial management, performance management and compliance with legislation. Although the Board sustained its (good) performance on two key leadership areas, that is, policies and procedures and action plans, during the financial year 2010/11, its performance on other four key areas of leadership, namely, leadership culture, oversight, human resource management and governance of IT was ineffective.

During the financial year 2011/12, the performance of the Board of the RCT was effective in instilling good leadership culture alone and its performance on five other key leadership areas was ineffective. During the financial year 2012/13, the performance of the Board of the RCT was effective in three key leadership areas, that is, oversight, human resource management and the governance of internal controls. Within the same financial year, the internal controls that relate to leadership culture, policies and procedures as well as to action plans required to be improved (IP). The findings from an analysis of the key areas of managers are presented in the next section.

Assessment of the key areas of managers

In addition to assessing the effectiveness of the Board, the effectiveness of managers in implementing internal controls was also assessed and reported about in the general reports of audit outcomes of the Gauteng Province local government (2009/10 to 2012/13). Unlike the Board, the effectiveness of managers was assessed against five key areas, namely, record keeping, processing and reconciling controls, reporting, compliance and information technology systems. As illustrated in Table 4.2, the performance of managers in implementing internal controls that related to record keeping and processing and reconciling was between the financial years 2009/10 to 2012/13 effective.

Table 4.2: Assessment of key areas of managers

Key areas of managers	Financial year	Assessment outcomes		
		F	P	C
Proper record keeping	2009/10	G	G	G
	2010/11	G	G	G
	2011/12	G	G	G
	2012/13	IP	IP	IP
Processing and reconciling controls	2009/10	G	G	G
	2010/11	G	G	G
	2011/12	G	G	G
	2012/13	IP	IP	IP
Reporting	2009/10	G	G	G
	2010/11	IP	IP	IP
	2011/12	IP	IP	IP
	2012/13	IP	G	G
Compliance	2009/10	G	G	G
	2010/11	IP	G	IP
	2011/12	IP	IP	IP
	2012/13	G	G	IP
Information Technology systems	2009/10	G	G	G
	2010/11	IP	IP	IP
	2011/12	IP	IP	IP
	2012/13	G	G	G

However, the performance of managers on the same key areas regressed to a status of IP during the 2012/13 financial year. Even though the performance of managers in implementing internal controls that related to reporting, compliance and information technology systems remained relatively effective during the financial year 2009/10, it regressed to an IP status during the financial years 2010/11 and 2011/12. Although not spontaneous, the performance of managers on implementing internal controls that related to reporting, compliance and information technology systems improved relatively fairly during the 2012/13 financial year.

Assessment of the key areas of the governance committees

Both in the literature review of internal controls in Chapter 2 and introduction of the study area in Chapter 3, the roles of the audit and risk committee and internal audit function were acknowledged as contributing meaningfully to the effectiveness of internal controls. During the financial years 2009/10 to 2012/13, the audit and risk committee was constituted into two separate committees. As such, the effectiveness of the key areas of governance was assessed against the three key areas, that is, risk management, internal audit and audit committees. As illustrated in Table 4.3, the assessment of the effectiveness of these committees was based on their advisory role to other drivers of internal controls (Board and managers respectively) in instituting and implementing internal controls that related to financial management (F), performance management (P) and compliance with legislation (C).

Table 4.3: Assessment of the key areas of governance

Key areas of governance	Financial year	Assessment outcomes		
Risk management		F	P	C
	2009/10	G	G	G
	2010/11	G	IP	G
	2011/12	IP	IP	IP
	2012/13	IP	IP	IP
Internal audit				
	2009/10	G	G	G
	2010/11	G	IP	G
	2011/12	G	G	G
	2012/13	IP	IP	IP
Audit committee				
	2009/10	G	G	G
	2010/11	G	G	G
	2011/12	G	G	G
	2012/13	G	G	G

The findings of an analysis of the key areas of governance as illustrated in Table 4.3 reveal that although the risk management committee functioned well and performed its advisory role effectively during the 2009/10 financial year, its performance regressed steadily between the 2010/11 – 2012/13 financial years. The internal audit function,

which was at that time outsourced, performed its advisory function effectively during the 2009/10 financial year and similar to the risk management committee, its performance regressed during the 2010/11 financial year. The performance of the audit committee remained effective between the 2009/10 – 2012/13 financial years.

4.2.1.7.3 Audit trajectory and audit outcomes

As explained in the research methodology section in Chapter 3, the general reports of audit outcomes of the Gauteng Province local government also report on the overall audit trajectory and audit findings of auditees. Table 4.4 below shows the audit outcomes that the RCT had obtained between the financial years 2008/9 and 2012/13. In particular, it illustrates the influence that the deficiencies in internal controls have had over the audit outcomes of the RCT' as indicated in Table 4.1, and that the 2009/10 financial year was comparatively exceptional in that the RCT had obtained a financially unqualified (clean) audit opinion.

Table 4.4: Audit outcomes of the Roodepoort City Theatre

Financial year	Audit opinion	Internal controls finding	
		Compliance	Predetermined objectives
2008/09	Financially unqualified with findings	Non-compliance with laws and regulations not affecting the financial statements and misstatements related to allocation errors and disclosure notes	
2009/10	Financially unqualified with no findings	No findings	
2010/11	Financially unqualified with findings	Non-compliance with procurement and contract management as well as expenditure management	Reported information was not useful and reliable
2011/12	Financially unqualified with findings	Non-compliance with procurement and contract management as well as Human Resource Management and compensation	Reported information was not useful and reliable
2012/13	Financially unqualified with findings	Non-compliance with procurement and contract management	

Its achievement of a clean audit was illustrative of an improvement from the 2008/9 financial year, during which the RCT had obtained a financially unqualified audit opinion with findings on non-compliance to legislation. However, after obtaining a clean audit

opinion in the 2009/10 financial year, the audit outcomes of the RCT regressed steadily. During the financial years 2010/11 and 2011/12, the RCT had obtained financially unqualified audit opinions with findings on both compliance and predetermined objectives. During these financial years, the issues that the Auditor-General had raised were about non-compliance with procurement and contract management, human resource management and compensation and the reliability of information that is reported by managers. As illustrated in Table 4.4, the RCT once more obtained a financially unqualified audit opinion with findings on non-compliance with procurement and contract management in the 2012/13 financial year.

4.2.1.7.4 Root causes of the audit outcomes on internal controls

Table 4.4 highlights the root causes of the unfavourable audit outcomes that the RCT had obtained during the financial years 2008/9 to 2012/12. These root causes are briefly explained in the section below.

4.2.1.7.4.1 Ineffective and inefficient operations

An internal controls deficiency that is highlighted in the audit outcomes of the RCT for the 2011/12 financial year was its non-compliance with human resource management policies, which correlates to ineffective and inefficient operations. Ineffective and inefficient operations resulted from vacant positions that were not filled, targets that were not specific and time-bound, and from indicators that were not clearly defined. The attainment of similar adverse audit outcomes in four subsequent financial years (2008/9, 2010/11, 2011/12 and 2012/13) is also indicative of poor oversight, inability, incompetency or negligence to develop appropriate action plans to correct identified internal controls deficiencies and the inability to institute appropriate disciplinary sanctions for poor performance and policy transgressions.

4.2.1.7.4.2 Unreliable financial and performance reporting

In addition to ineffective and inefficient operations, another root cause that negatively influenced the audit outcomes of the RCT in two subsequent financial years (2010/11 and 2011/12) was the reporting of unreliable financial and performance information. As

expressed in the general reports of audit outcomes of the Gauteng Province local government, pervasive material misstatements that relate to allocation errors, disclosure notes, irregular, fruitless and wasteful expenditure as well as to indefinite compensation practices were evident in the RCT's financial statements.

4.2.1.7.4.3 Non-compliance with laws and regulations

Another persistent root cause that adversely influenced the audit outcomes of the RCT was non-compliance with laws and regulations. Non-compliance with laws and regulations was persistent in that it was reported in four of the five financial years that are covered in this study. The dominant source of non-compliance with laws and regulations, as illustrated in Table 4.4, was non-compliance with procurement and contract management. In this case, the supply chain management regulations that require a competitive bidding process were not complied with. The findings from an analysis of the RCT's annual reports are presented in the next section.

4.2.2 FINDINGS FROM AN ANALYSIS OF THE ROODEPOORT CITY THEATRE ANNUAL REPORTS

In addition to the general reports of audit outcomes of the Gauteng Province local government, the annual reports of the RCT were also analysed using Appendix H as a guideline. The first eight items (see Appendix H) on which the findings of the annual reports of the RCT are presented are similar to those of the general reports of audit outcomes of the Gauteng Province local government (see Appendix G). In total, four out of five (80%) of the RCT's annual reports are further analysed.

4.2.2.1 Type of documents and author of the annual reports

The annual reports of the RCT are like the general reports of audit outcomes of the Gauteng Province local government, public documents. As discussed in Chapter 3, the annual reports are published in terms of the GRAP and interpretations, guidelines and directives of the accounting standards board. The annual reports are published in accordance with Section 21 of the Municipal Finance Management Act and Section 46 of the Local government: Municipal Systems Act. Unlike the general reports of audit

outcomes of the Gauteng Province local government that are created by the Auditor-General, the annual reports of the RCT are created by the drivers of internal controls of the RCT.

4.2.2.2 The uniqueness and purpose of the annual reports

The annual reports of the RCT are unique in that they report specifically about the decisions that are made and activities that are performed by employees of the RCT during each financial year. The purpose of the RCT's annual reports is to promote accountability and transparency to the local community of Roodepoort.

4.2.2.3 Dates during which the annual reports were created

The annual reports that were targeted for analysis were published between prolonged periods of financial years (2008/09-20012/13).

4.2.2.4 Intended audiences of the annual reports

The audiences of the RCT's annual reports go beyond the municipal jurisdiction of Roodepoort and consist of both internal and external audiences. Internal audiences include the shareholder or parent municipality (City of Johannesburg), employees of the RCT, members of MPAC, whilst external audiences may include donors and funders, national and provincial legislatures, political parties, local non-government organisations (NGOs) and members of the community of Roodepoort and the general public.

4.2.2.5 The context and significance of the annual reports

The context around which RCT is required to publish its annual reports is similar to that of all South African municipal entities. The Roodepoort City Theatre publishes its annual reports to comply with the requirements of the GRAP and the interpretations, guidelines and directives of the accounting standards board and the legislation. Section 21 of the Municipal Finance Management Act and Section 46 of the Local Government: Municipal Systems Act requires that the RCT publishes its annual reports after each financial year. The annual reports are significant to this study in that they report on the strength of

internal controls of the RCT and the role of the drivers of internal controls in designing and maintaining effective internal controls.

4.2.2.6 Main points that are expressed by the Roodepoort City Theatre's annual reports in relation to internal controls

The two main points that are expressed by the RCT's annual reports are the strength of internal controls and the drivers of internal controls at the RCT, whose findings are presented in the next subsections.

4.2.2.6.1 Strength of internal controls

The findings in this subsection focus on the strength of the RCT's internal controls between the financial years 2009/10 and 2012/13. The strength of internal controls on three categories (efficient and effective operations, reliable financial reporting and compliance with laws and regulations) were 25% effective and provided reasonable assurance that they were operating as intended. Seventy five percent (75%) of the internal controls were partially effective and contained deficiencies and as a result, they did not provide reasonable assurance that they were effective. The Roodepoort City Theatre's internal controls were adequate during the financial year 2009/10, the financial year during which RCT obtained a clean audit opinion. However they were reported as either ineffective or partly effective during the 2011/12 and 2013 financial years.

4.2.2.6.2 Drivers of the internal controls

Despite reporting on the strength of internal controls, the annual reports also reported on the drivers of internal controls of the RCT. Retaining skilled and experienced drivers of internal controls is critical in that it helps to ensure that there is consistency in the operations of the RCT. As described in Chapter 3, the drivers of internal controls are responsible for designing, implementing and maintaining internal controls in the RCT. Hence, frequent changes in the composition of the drivers of internal controls may render public institutions unstable and inconsistent.

Changes in the composition of the drivers of internal controls

From an analysis of the annual reports of the aforementioned financial years, the findings reveal that the RCT has between the financial years 2009/10 and 2012/13, experienced frequent changes in the composition of the Board, senior managers, audit and risk committee and the internal audit function.

Board of directors

During the 2009/10 financial year, the Board consisted of seven (7) directors; chairperson, five non-executive directors and the CEO. As a result of the resignation by the CEO, the acting CEO became a new member of the Board. At the annual general meeting (AGM) of the Board held on the 24th of April 2012, a new Board consisting of nine (9); one chairperson and eight (8) non-executive directors was appointed. The outgoing Board facilitated the hand-over process to enable the new Board to resolve critical concerns. During the 2012/13 financial year, a resolution was taken to merge Joburg, Roodepoort and Soweto theatres into a single municipal entity (Joburg City Theatres) which was to be governed by a single Board. From an analysis of the annual reports, changes over the 2008/09 and 2012/13 financial years were also evident in the composition of senior managers.

Senior managers

The findings of the analysis of the annual reports reveal that during the 2009/10 financial year, the positions of the COO, programming manager and marketing manager were vacant. The CEO resigned from the service of the RCT in December of 2010. During the 2010/11 financial year, the marketing manager and programming manager positions were filled except that of the CEO. The COO was appointed to act as the CEO from 01 January to 30 June 2011. During August of 2011, the CEO was seconded from the City of Johannesburg to replace then acting CEO and thereafter, the COO who was before the secondment acting as the CEO, resigned at the end of October 2011. This therefore essentially meant that RCT had lost the CEO, COO, administrator, senior secretary and CFO between 2010 and 2011. It is not clear from the documents why there were such resignations.

Consequently, this meant that 80% of the managers of the RCT had resigned during the period October 2010 to November 2011 and four senior members of management team worked for less than 10 months during the 2011/12 financial year. In January 2012, the finance manager was appointed. After being appointed, the both the CFO and the acting CEO that was seconded for the City of Johannesburg, never went through any formal induction programme as there was no one to perform this function. The findings of the analysis of the annual reports also reveal that the CEO that was seconded from the City of Johannesburg did not even sign the performance agreement and the documents do not indicate the reasons behind it. The position of the CEO was finally filled on 01 July 2013. Due to frequent changes of managers, most employees had to take the responsibility to perform additional duties. As a result of these changes, the merged municipal entity was managed by newly appointed, acting or overstrained managers.

Audit and risk committee

Like in the case of senior managers, changes in the composition of the audit and risk committee were also evident. The analysis of the annual reports reveal that during 2009/10 financial year, the chairperson of the audit and risk committee stepped-down to assume the position of an ordinary member. A new chairperson of the audit and risk committee was appointed at the AGM that was held on the 24th of April 2012.

Internal audit function

As explained in the discussions of the study area in Chapter 3, the analysis of the annual audit reports confirmed that the RCT had outsourced its internal audit function to private service providers during the financial years 2008/09 and 2012/13. SizweNtsalubaGobodo performed the services of the internal audit function during the 2007/08 financial year and was replaced during the 2012/13 financial year by the Johannesburg Risk and Audit.

Inconsistencies within the annual reports

During an analysis of the RCT's annual reports, a number of inconsistencies, which may also be regarded as limiting factors, were experienced.

Quality assurance

Non-financial information, such as the information reported by the audit and risk committee, was not consistently reported and there was evidence in the annual reports that quality assurance was not done before they were published.

Unreliable information

The stepping-down of the chairperson of the audit and risk committee to assume the position of an ordinary member was reported in the annual reports of the 2009/10 and 2011/12 financial years. Yet it only happened in one financial year not both

Poor interpretation of audit outcomes

There is mention in the annual report of the 2010/11 financial year that even though the position of the CEO was vacant, internal controls were maintained, hence the RCT was able to obtain a clean audit in the same financial year. In a context of auditing, a clean audit is obtained only when the auditee obtains a financially unqualified audit with no findings. During this financial year (2010/11), RCT was found to have transgressed procurement and contract management and expenditure management regulations (see Table 4.4). Once more, RCT managers were reported to have reported information which according to the Auditor-General was unreliable, thereby leading to a finding on predetermined objectives.

Unreliable and uncertain information

There is uncertainty in the 2010/11 annual report about the exact date at which the CEO resigned from the RCT. Under the director's report, the 2010/11 annual report indicates that the CEO resigned from the RCT on the 31st of December 2010 and within the same report there is mention that the position of the CEO remained vacant as of December

2009. However, it is maintained in this study that the correct date at which the CEO resigned from the RCT is 31 December 2010.

There was an additional uncertainty about the number of meetings that were convened by the audit and risk committee in the annual reports of the 2011/12 financial year. This annual report reported that the audit and risk committee held six meetings, and contrarily under the report of the audit and risk committee in the same report, it mentioned that the audit and risk committee convened five meetings during the same financial year.

The findings from an analysis of the RCT's internal audit function reports are presented in the next section.

4.2.3 FINDINGS FROM AN ANALYSIS OF THE ROODEPOORT CITY THEATRE'S INTERNAL AUDIT FUNCTION REPORTS

In addition to analysing both the reports of audit outcomes of the Gauteng Province local government and the RCT's annual reports, sixteen (16) of the targeted twenty (80%) internal audit function reports were also analysed. The findings from an analysis of each of the items that are contained in Appendix H follow in the next subsections.

4.2.3.1 Type of document type and author of internal audit function reports

Even though legislation makes provision for a public institution to outsource its internal audit function, there is uncertainty over declaring internal audit reports that are created by an external service provider as internal audit reports. A private service provider does not account 'publicly' and it may be difficult for senior managers of RCT to take full responsibility and accountability for the reports that are authored by a private service provider. Unlike the reports of the audit outcomes of the Gauteng local government and the RCT's annual reports, the internal audit function reports are internal unpublished documents that are created for internal use by managers in public institutions. The internal audit function reports were created by private service providers, SizweNtsalubaGobodo between the financial years 2008/09 and 2011/12 and Johannesburg Risk and Audit Services as from the 2012/13 financial year.

4.2.3.2 The uniqueness and purpose of the internal audit function reports

Internal audit function reports are unique because they report on activities that are performed in the RCT alone. They report on the progress that has been made with the implementation of the internal audit action plan. All the reports concur that the purpose of the internal audit function reports is to give assurance to senior managers of the RCT that internal controls are adequate, that is, detect, prevent and helps to correct undesired events.

4.2.3.3 Dates during which the internal audit function reports were created

All the internal audit function reports and internal audit progress reports that were used to replace missing internal audit reports were created between the 2008/09 and 20012/13 financial years. As in the case of the general reports of audit outcomes of the Gauteng Province local government and the RCT's annual reports, internal audit function reports and internal audit progress reports that were created before or after this prolonged period of time, were not used.

4.2.3.4 Intended audience of the internal audit function reports

Unlike the reports of the audit outcomes of the Gauteng local government and the RCT's annual reports, the internal audit function reports and internal audit progress reports are used internally within public institutions. Their audiences are therefore the drivers of internal controls and employees in general. Employees have the responsibility to ensure that they abide by the guidelines and procedures that are spelt out in internal audit function reports and internal audit progress reports.

4.2.3.5 The context and significance of the internal audit function reports

Like the RCT's annual reports, the internal audit function reports are created within the context of complying with the requirements of legislation that was discussed in Chapter 2. These reports are significant because they report on the strength of internal controls and the roles that are performed by the drivers of internal controls in the RCT.

4.2.3.6 Main points that are expressed by the internal audit function reports and internal audit progress reports

As shown in Appendix I, four main points are expressed in the internal audit function reports and internal audit progress reports. The findings of each are explained next.

4.2.3.6.1 Assessment of the adequacy and effectiveness of internal controls and risk rating

It is important to understand the descriptions of the criterion against which the adequacy and effectiveness of internal controls were assessed and the criterion against which risks were rated since they are analysed to determine the strength of the RCT's internal controls between the 2008/9 and 2012/13 financial years. The internal audit function of the RCT consistently used the six criteria that are described in Table 4.5 as a standard practice to assess the adequacy and effectiveness of internal controls between the financial years 2008/9 and 2012/13. These criteria are measures against which the adequacy and effectiveness of internal controls are assessed.

Table 4.5: Criteria used to assess the effectiveness of internal controls

No.	Criterion	Description
1.	Adequate	Existing internal controls adequately provide reasonable assurance that the operations are efficient and effective and that predetermined objectives will be achieved (risks that could have adverse impact on the operations and the achievement of predetermined objectives are unlikely to occur).
2	Partially adequate	Existing internal controls partially assure senior managers that operations are efficient and effective and that the predetermined objectives may be achieved (risks that could have adverse impact on operations and achievement of objectives are likely to occur).
3.	Inadequate	Existing internal controls are inadequate and do not provide reasonable assurance that operations are efficient and effective and that the objectives will be achieved.
4.	Effective	Existing internal controls are effective; i.e. they provide reasonable assurance that the operations are efficient and effective and that the objectives will be achieved (risks that could have adverse impact on the operations and achievement of predetermined objectives are unlikely to occur).
5.	Partially effective	Existing internal controls are partially effective; i.e. they partially provide reasonable assurance that the operations are efficient and effective and that the predetermined objectives will be achieved (risks that could have adverse impact on the operations and achievement of predetermined objectives are likely to occur).
6.	Ineffective	Existing internal controls are ineffective; i.e. they do not provide reasonable assurance that the operations are efficient and effective and that predetermined objectives will be achieved.

In addition to the criterion against which the adequacy and effectiveness of internal controls could be assessed, Table 4.6 shows the criteria against which the risks could be rated.

Table 4.6: Risk rating criterion

Criterion.	Rating	Description
1.	Unacceptable	The findings are serious and require <i>immediate intervention</i> by managers. Risks of this nature pose serious threat to the RCT and should be addressed by means of instituting appropriate internal controls.
2	Cautionary	The risks of this nature should be addressed by means of instituting internal controls of appropriate strength. If these risks are not appreciated (realized), the RCT may endure significant harm.
3.	Acceptable	The risks of this nature pose little threat to the RCT, however, should be addressed by means of instituting internal controls to create a mature and well managed control environment.

The descriptions that are contained in Tables 4.5 and 4.6 are used to interpret and analyse the adequacy and effectiveness of the RCT's internal controls and the amount of risks that were attributed to each of the nine areas that were reviewed.

Table 4.7: Assessment of the adequacy and effectiveness of RCT's internal controls and risk rating

Areas under review	Number of findings	Internal control assessment						
		Internal controls risk rating			Internal controls effectiveness			
		Unacceptable	Cautionary	Acceptable	Partially adequate	Inadequate	Partially effective	Ineffective
Accounts payable	3	1	0	2	0	0	1	2
Accounts reconciliation	2	0	2	0	1	0	1	0
Community development	1	0	1	0	1	0	0	0
Human resources and payroll	4	1	3	0	0	1	0	3
Marketing	3	0	3	0	0	2	0	1
Performance information	2	0	2	0	-	-	-	-
Regulatory compliance, risk management and corporate governance	4	0	3	1	1	2	1	0
Revenue and donor funding	3	1	1	1	0	0	0	3
Sustainability and infrastructure	1	0	1	0	0	1	0	0
Total findings	23	3	16	4	3	6	3	9

As noted in the discussion of the audit outcomes, the RCT had obtained a clean audit outcome during the financial year 2009/10 and therefore, it is assumed that the concerns that may have been raised by the internal audit function had been adequately addressed. Even though there is a high concentration of risks that are of a cautionary nature (70%), financial management, in respect of areas such as accounts payable, human resource payroll and revenue and donor funding, was exposed to risks of a serious nature. An analysis of the internal audit reports shows finds that the amount of risk to which these areas are exposed was rated as unacceptable. Most (43%) internal controls were ineffective and a further 29% of them were inadequate.

4.2.3.6.2 Deviations from the internal controls

From an analysis of the internal audit reports of three successive financial years (2009/10, 2010/11 and 2011/12), the findings reveal that most deviations could be attributed to the 2010/11 and 2011/12 financial years respectively. This finding is consistent with the findings on the audit outcomes that were discussed earlier in this chapter.

Table 4.8: Deviations from internal controls

Area under review	Number of findings due to the deviations		
	2009/10	2010/11	2011/12
Accounts payable	NO FINDINGS	2	3
Accounts reconciliation		4	2
Community development		2	1
Human resources and payroll		0	4
Marketing		1	3
Performance information		2	2
Regulatory compliance, risk management and corporate governance		0	4
Revenue and donor funding		0	3
Sustainability and infrastructure		1	1
Total findings		12	23

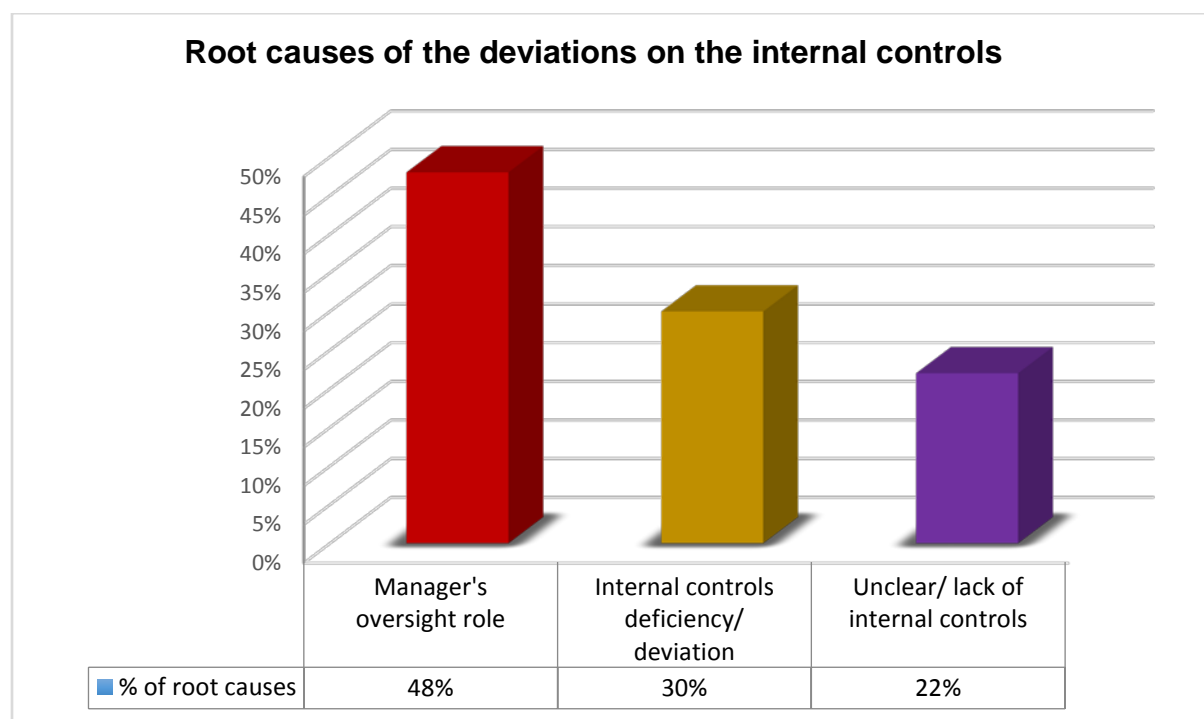
These two respective financial years (2010/11 and 2011/12) are the same financial years during which the audit outcomes of the RCT regressed gradually after obtaining a clean audit for the 2009/10 financial year. As shown in Table 4.8, the total number of deviations doubled from the 2010/11 to 2011/12 financial year.

4.2.3.6.3 Root causes of the deviations on the internal controls

Indicators of the root causes of deviations or deficiencies on internal controls are evident in the findings that were discussed earlier in this chapter. As illustrated by Figure 4.1, the root causes of the deviations from internal controls could be grouped into three categories, i.e. root causes arising from (1) lack of oversight by senior managers, (2) deviations from or deficiencies in internal controls and (3) vague/lack of internal controls. The root causes that arise from the lack of oversight by managers relate to the functions that are inherently performed by senior managers and which they may delegate to other employees.

Although most of the functions of the RCT's senior managers were discussed as part of the drivers of internal controls in Chapter 3, these functions include overseeing, supervising, monitoring and mentoring other employees on how internal controls should be implemented. Internal controls deficiencies/deviations include root causes arising from deficiencies or internal controls themselves being effective. Vague /lack of internal controls refer to those that are ambiguous or not clear and arising the absence of or limitation on internal controls. Figure 4.1 below shows the root causes of the deviations from internal controls.

Figure 4.1: Root causes of the deviations on the internal controls



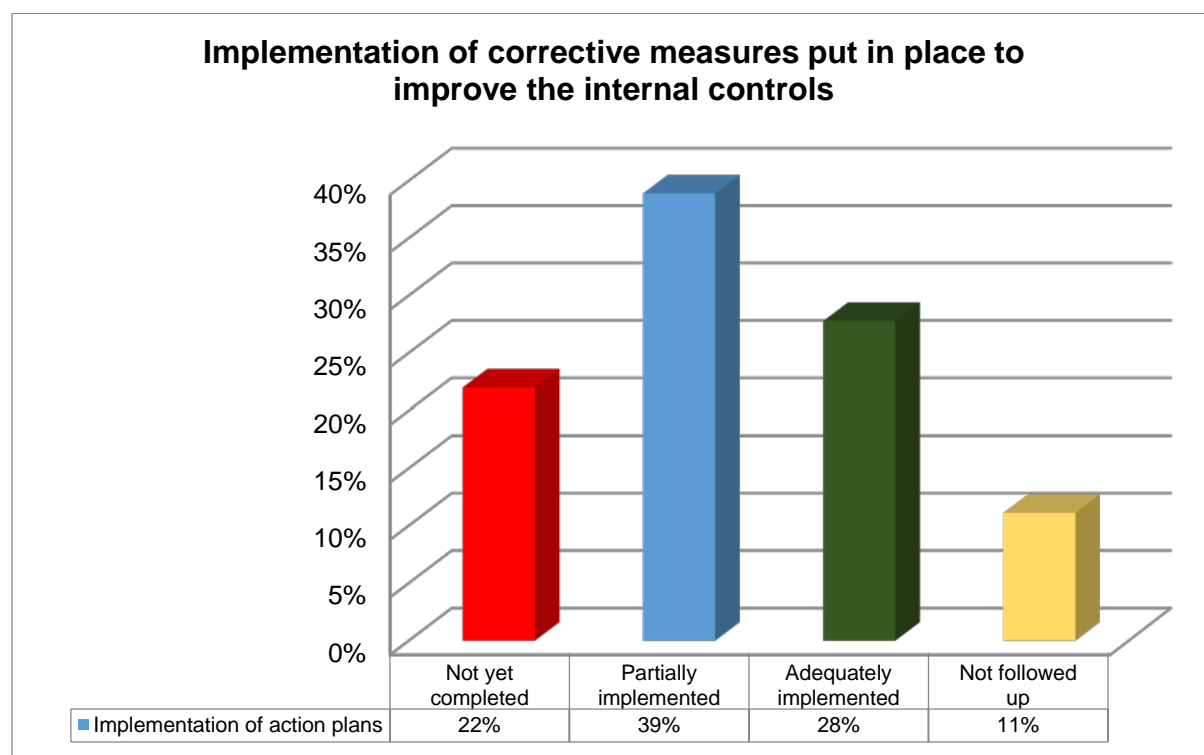
As shown in Table 4.1, most of the root causes (48%) were as a result of ineffective oversight by managers whilst (30%) of them were as a result of deficiencies/deviations from internal controls. Twenty two percent (22%) of the root causes of deviations from internal controls result from vague/limitations on internal controls. Because the role of senior managers is to design, implement and monitor internal controls, the existence of the other two categories into which the root causes of the deviations from internal controls were classified (i.e. deficiencies or deviations and vague or limitations on internal controls) can be blamed squarely on poor performance by or incompetence of senior managers.

4.2.3.6.4 Implementation status of the corrective measures

The role of the internal audit function, as described in Chapter 3, is to advise senior managers on how internal controls can be strengthened. From time to time, the internal audit function would propose corrective measures that must be instituted to improve the audit trajectory. If corrective measures are not implemented, the status quo remains and if they are implemented the audit outcomes improve. The internal audit function reports

that were analysed did not report on whether the corrective measures for marketing and performance information were implemented or not. Hence, the findings in this part focus on eighteen (18) areas on which corrective measures were proposed and an internal audit progress report made available.

Figure 4.2: Implementation of the corrective measures put in place to improve the internal controls



As illustrated in Figure 4.2, 22% of the agreed internal audit plans were not yet completed, 39% of the corrective measures were partially implemented and 11% were not followed up by managers because they related to the recruitment process. Only 28% of the corrective measures were adequately implemented.

4.3 CONCLUSION

The main purpose of the discussions in this chapter was to present the findings of the study. The presentation of these findings was guided by Appendices G, H and I that each enquired on nine items. Conclusions that are drawn from the findings are that all

the targeted documents that were analysed gave meaningful insight about the strength of internal controls of the RCT. Even though some internal audit function reports could not be accessed, the data that was reported in the internal audit progress reports was equally relevant. Despite the targeted documents being authored by different stakeholders, targeting different audiences, aimed at achieving different purposes and created under different contexts, they are all aimed at achieving common goals: to assist public institutions to improve on the efficiency and effectiveness of their operations, achieve their predetermined objectives and to comply with regulations and the law.

The findings from an analysis of the documents reveal critical areas on which corrective measures must be instituted to improve the RCT's audit trajectory. However, the most significant area on which emphasis should be made is the role of senior managers as part of the drivers of internal controls. Reasons that justify the need for such an emphasis are that, senior managers are empowered by legislation to develop and maintain effective internal controls. They are entrusted with legislative powers and resources to establish governance structures and to appoint suitably qualified and experienced candidates to fill vacant positions in those structures. They are decision makers and therefore the dominant role players in the internal controls process. In terms of the powers that they enjoy from the legislation, they have the powers to institute appropriate disciplinary sanctions in cases where internal controls policies have been transgressed. Chapter 5 presents the concluding remarks and proposes the recommendations that can be implemented to strengthen the RCT's internal controls.

CHAPTER 5

CONCLUDING REMARKS AND RECOMMENDATIONS

5.1 INTRODUCTION

The main objective of the discussions in Chapter 4 was to present the findings of the study. As explained in the concluding remarks of Chapter 4, these findings were presented using appendices G, H and I as guidelines. Even though emphasis was placed on the role of senior managers in the concluding remarks of Chapter 4, the findings revealed deficiencies that are a result of the ineffectiveness of roles that are carried out by the other drivers of internal controls. By overlooking the roles of other drivers of internal controls and employees in general, achieving internal controls objectives becomes impossible. Therefore, it is necessary that both the internal and external stakeholders co-operate to achieve a conducive control environment in which the operations of public institutions are efficient and effective.

The discussions in this chapter are linked to the last research objective that was described in Chapter 1, namely, to conclude and recommend ways through which the effectiveness of the internal controls of the RCT can be improved. The concluding remarks presented in this chapter are drawn from the discussions in previous chapters and the recommendations that are proposed flow from the findings that were presented in Chapter 4. The recommendations that are proposed in this chapter aim to propose ways through which the strength of internal controls of RCT can be improved, and thus its audit outcomes.

5.2 CONCLUDING REMARKS

The main objective of this study as explained in Chapter 1 was to explore and comprehend the influence of internal controls on the audit outcomes of RCT. This objective was formulated in response to the problem that was experienced at the RCT. As explained in the problem statement, during the 2009/10 financial year, the RCT had obtained one clean audit opinion and its audit outcomes had regressed steadily for the preceding three financial years (2010/11, 2011/12 and 2012/13). In order to achieve this

objective, four research questions, each being linked to a research objective were formulated. These research questions and the objectives were the basis of the discussions of the literature review of internal controls and the role of the Auditor-General in the South African public sector.

The results of a literature search on internal controls and the role of the Auditor-General in the South African public sector in Chapter 2 revealed that there is limited research that is conducted on internal controls, particularly how internal controls influence the audit outcomes of public institutions in the South African public sector. As explained in Chapter 2, the dominant sources of internal controls literature are professional auditing institutions (e.g. INTOSAI, COSO and Africa Boso) whilst literature about the role of the Auditor-General exists in the form of reports that are published by the Auditor-General himself. Even though this literature is limited, it gives insight into the meaning of internal controls, categories into which internal controls are classified, components of internal controls and the drivers of internal controls. Insights that can be drawn from the literature review of the role of the Auditor-General in the South African public sector include that the Auditor-General as the Supreme Audit Institution is subject to the Constitution, the law and the Public Audit Act. As the Supreme Audit Institution, this legislation grants the Auditor-General the authority to exercise its functions independently. By performing both the mandatory and discretionary audits, the Auditor-General assists public institutions to improve on the efficiency and effectiveness of their operations, achieve their predetermined objectives and to comply with laws and regulations.

Chapter 3 explained the research design and methodology. These discussions were preceded by the introduction of the RCT in which amongst other concerns, the staff complement and the drivers of internal controls were dealt with. Even though there are frequent changes in the composition of the drivers of internal controls, RCT's drivers of internal controls are constituted in accordance with the requirements of the legislation. The roles that the RCT's drivers of internal controls perform are consistent with those that are contained in the legislation as well. The section on the research design

explained the document population from which targeted documents were selected using both purposive and convenience sampling procedures, whilst the discussion of the research methodology introduced the three document templates that were used to guide the analysis of the targeted documents. It is also in this chapter where the limitations of the study and the ethical requirements that were adhered to are explained.

Chapter 4 presented the findings of the study. These findings were reported using the three document analysis templates and as such could be classified into the findings from an analysis of the (1) general reports of audit outcomes of the Gauteng Province local government, (2) RCT's annual reports and (3) internal audit function reports. The findings from an analysis of the main points that are expressed in the general reports of audit outcomes of the Gauteng Province local government reveal that the Auditor-General has played a significant role of assisting managers in the RCT to strengthen internal controls. With regard to the assessment of the effectiveness of the drivers of internal controls, the findings reveal that the performance of the Board of RCT was during the 2009/10 and 2012/13 financial years not stable. Its performance on six predetermined key leadership areas was during the 2009/10 financial year effective, but regressed steadily in three successive financial years (2010/11, 2011/12 and 2012/13).

Like in the case of the Board, the performance of the senior managers of the RCT on five key areas of management was effective during the financial year 2009/10. However, it regressed steadily in three successive financial years. The audit committee was the only governance committee that was effective during the four successive financial years. The performance of the risk management committee was effective during the 2009/10 financial year, but also regressed in the successive financial years. The performance of the internal audit function, as in the case of the Board, was not stable. Despite its performance being effective in two financial years (2009/10 and 2011/12), in between these financial years (2010/11 and 2012/13) its performance deteriorated. The findings on the audit outcomes and audit trajectory of the RCT were consistent with the findings of the assessment of the effectiveness of the drivers of internal controls. During the 2009/10 financial year, the RCT had obtained a clean audit

opinion, a condition which can be correlated to the effectiveness of the drivers of internal controls during the same financial year. The root causes of the regress of the RCT's audit outcomes in successive financial years (2010/11, 2011/12 and 2012/13) was as a consequence of ineffective and inefficient operations, unreliable financial and performance reporting and non-compliance with laws and regulations.

The findings from an analysis of the main points that are expressed in the RCT's annual reports reveal that changes in the composition of the drivers of internal controls of the RCT had significant negative implications over internal controls. Another correlation that derives from the findings of RCT's annual reports is that during the financial years in which there was uncertainty about the filling of key positions (CEO, marketing managers, programming manager, COO and CFO), internal controls were ineffectively administered and as a result the RCT's audit outcomes regressed. Because the internal audit function was outsourced to a private service provider, its performance was not steady. From the findings, problems that could be associated with an arrangement in which the internal audit function is outsourced are poor supervision of internal controls, poor records management, the lack of oversight on internal controls, supervision or monitoring progress with regard to deviations on internal controls, root causes of deviations and the implementation of corrective measures. Hence there were problems with accessing most of the internal audit function reports, poor quality of non-financial information and inconsistent reporting of information in the annual reports of certain financial years. A mere change in which the chairperson of the audit and risk committee stepped down to assume the position of an ordinary member was immaterial because it had no effect over the effectiveness of the audit and risk committee.

The findings from an analysis of the main points that are expressed in the RCT's internal audit function reports reveal that, amidst poor records management and except for the 2009/10 financial year, the RCT's internal controls were exposed to risks of a cautionary nature. The results of the internal controls assessment of financial years for which internal audit reports were available shows that the RCT's internal controls could either be classified as inadequate or ineffective. Most deviations from internal controls

could be attributed to the 2010/11 and 2011/12 financial years, the same financial years during which the RCT's audit outcomes regressed. Most of the root causes of deviations from internal controls were a result of the lack of oversight by senior managers and deficiencies or deviations from internal controls. These findings also reveal that, because of the lack of oversight by senior managers, most of the corrective measures were not completely implemented.

5.3 RECOMMENDATIONS

The concluding remarks that have been discussed in the previous section reveal that the RCT's internal controls are ineffective. In particular, these concluding remarks highlight areas in which the RCT's internal controls need to be strengthened through appropriate corrective measures, which are proposed in subsequent discussions.

5.3.1 Drivers of internal controls

Generally, the performance of the RCT's drivers of internal controls was found to be ineffective. These results are revealed by both the findings from an analysis of the general reports of audit outcomes of the Gauteng Province local government and the RCT's annual audit reports.

5.3.1.1 Board of directors

As illustrated in Chapter 4, the Board's performance was found to have been only effective during the 2009/10 financial year, after which it performed poorly. As a way of ensuring that the Board performs effectively in its key leadership areas, the shareholder or parent municipality must institute appropriate measures to ensure that the Board is stable. The best way of achieving a stable Board is to introduce a retention strategy through which loyal and experienced Board members are capacitated to perform their duties effectively and to retain them. Additionally, market-related emoluments must be determined from time to time to compensate Board members for their contribution to the functioning of the RCT.

5.3.1.2 Managers

Like in the case of the Board, the performance of senior managers was found to have been predominantly ineffective. As a result of the inefficiency of senior managers, records management system was ineffective, deviations from internal controls increased, the root causes of deviations were not attended to, corrective measures that were proposed by the audit committee and internal audit function were not adequately implemented and in general there was non-compliance to the law and regulations. Although the ineffectiveness of senior managers can be blamed on vacant key positions, some of it can be directed to the Board in that it is the Board's responsibility to ensure that vacant senior managers' positions are filled. It therefore is recommended that a human resource management committee of the Board be mandated to fill vacant senior managers' positions as soon as they become vacant. After all the vacant senior management positions have been filled, this committee has to ensure that senior managers in key positions are trained in their respective areas of functioning and that they are also retained. The performance of senior managers in designing, implementing and monitoring of internal controls needs to be regularly monitored. Where possible, a key performance area against which the performance of senior managers' on internal controls will be assessed must be contained in the performance contracts and penalties enforced if there is failure. Opportunities for training senior managers on the design, implementation and monitoring and in general, developments in the field of internal controls, must continually be explored. As part of their roles, senior managers must create a favorable control environment in which employees' conduct is ethical.

5.3.1.3 Governance committees

For senior managers to be effective in maintaining effective internal controls, they rely on the audit and risk committee and the internal audit function. Although the audit and risk committee's performance between the 2009/10 and 2012/3 financial years was effective, the performance of the internal audit function was ineffective. Reasons that can be associated with the ineffectiveness of the internal audit function are that it was not internal per se, but outsourced to private service providers. As such, members of the outsourced internal audit function were not available on a daily basis to observe

whether internal controls policies are adhered to or advise senior managers on pertinent internal controls issues. Seemingly, a contractual agreement entered into between the parties did not make provision for the party that will be held liable for records management; hence most of the internal audit function reports could not be retrieved.

To be able to overcome the challenges that emanate from the ineffectiveness of the internal audit function, the CEO has to review the contractual agreement entered into with the private service provider. Part of this contractual review should be about skills transfer to build internal capacity to establish a properly constituted internal audit function. The contractual agreement into which the parties enter must specify the timeframe during which the transfer of skills will be concluded. Alternatively, the CEO must advertise these positions once the contract with the private service provider has expired. The RCT's internal audit function would best be positioned to continually attend to monitor deviations from internal controls and to assist managers to implement corrective measures.

As a way forward, Section 165 of the Municipal Finance Management Act, in terms of which the internal audit function can be outsourced to private service providers, needs to be reviewed. The result of this review must state whether a private service provider assumes public employment or not and whether it becomes an internal audit section of the municipal entity or not, otherwise an outsourced internal audit function will operate exactly like the audit and risk committee that consists of independent external auditors. These recommendations, if they are instituted, would improve the strength of the RCT's internal controls and therefore the efficiency and effectiveness of operations, reliability of financial reporting, compliance with the law and regulations and as a result the RCT's audit findings and audit trajectory

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APPENDICES

APPENDIX A

PERMISSION TO CONDUCT RESEARCH



Dear Portia Ngcobo,

We as the Roodepoort Theatre also known as Joburg Promusica Theatre hereby give authorization for you to use our theatre as your case to study for your masters dissertation.

We will await your proposal to be accepted and for you to provide a formal letter indicating how you propose to conduct your study.

Wishing you the best of luck,

A handwritten signature in black ink, appearing to be 'Loran Robertson'.

Mrs Loran Robertson
General Manager : Operations
Roodepoort Theatre
100 Christiaan de Wet Rd
Florida Park
1710

APPENDIX B

CONFIRMATION LETTER THAT THE PROPOSAL WAS SUBMITTED TO ROODEPOORT CITY THEATRE



Dear Portia Ngcobo,

Kindly considers this as confirmation of the receipt of the approved proposal.

Thank you for being in contact with us ; the ongoing engagement and constant phone calls have been a clear indication that you have been working hard as planned on your masters , we hope the information supplied to you from our office being business plans and annual reports from 2009-10-2012/13 excluding 2008/09 information has been helpful.

The timelines you have set out for yourself have been on schedule and we hope we have assisted you in the best way possible. We look forward to reading your complete thesis.

Wishing you the best of luck,

A handwritten signature in black ink, appearing to be 'Loran'.

Mrs Loran Robertson
General Manager : Operations
Roodepoort Theatre
100 Christiaan de Wet Rd
Florida Park
1710

APPENDIX C

LETTER REQUESTING ACCESS TO DOCUMENTS FROM ROODEPOORT CITY THEATRE

8729 Kgangwe Street
P O Protea Glen
Protea Glen ext 11
1804
17 April 2014

Dear Roodepoort City Theatre Management

REQUEST TO ACCESS REPORTS REGARDING INTERNAL CONTROL SYSTEMS AND OUTSOURCING OF INTERNAL AUDIT FUNCTION FOR MY MASTERS RESEARCH.

TITLE: THE AUDITING OF INTERNAL CONTROL SYSTEMS AT THE ROODEPOORT CITY THEATRE MUNICIPALITY (2009-2012)

Thank you very much for allowing me to use Roodepoort City Theatre as my case study for Master of Public Administration (MPA) research. To ensure that the findings of the study are representative, I request to permission to change the end period to 2013 (i.e. from 2008/9 to 2012/3: 5 years). I also request permission to access the reports on the internal control processes that govern Roodepoort City Theatre from 2008/9 to 2012/13, the role players in the auditing process (from designing to monitoring of internal controls) as well as the reports on the reasons behind outsourcing the Internal Audit function.

I am currently on chapter 3 and my research method is document analysis. I may be required to include interviews with internal control systems role players if the collected data is not enough to come to a concrete conclusion. I have attached proof of registration

Thanking you in advance.

Your's sincerely



Portia Ngcobo

UNISA Masters Student : 43284604

APPENDIX D

RESPONSE INDICATING UNAVAILABILITY OF SOME DOCUMENTS



Dear Portia,

Kindly note that all documentation pertaining to Roodepoort Theatre t/a Joburg Promusica that is relevant to your Master's Dissertation has been made available to you whether through soft or hard copy, however we as Roodepoort Theatre acknowledge some documentation ranging from 2008 – 2013 is not available, due to operational and administration changes.

Wishing you the best of luck,

A handwritten signature in black ink, appearing to be 'Loran Robertson'.

Mrs Loran Robertson
General Manager: Operations
011 674 1357/8
082 387 0145
Roodepoort Theatre
100 Christiaan de Wet Rd
Florida Park
1710

APPENDIX E

DOCUMENT SELECTION CHECKLIST

- ☐ Is the document within 2008/9 and 2012/13?
- ☐ Is the document relevant to the study?
- ☐ Is the document authentic?
- ☐ Is the document representative of the research problem?

APPENDIX F

DOCUMENT SELECTION TEMPLATE

1.	TYPE OF DOCUMENT <input type="radio"/> public document <input type="radio"/> private document <input type="radio"/> other if other, specify : _____
2.	UNIQUENESS OF THE DOCUMENT <input type="checkbox"/> annual report <input type="checkbox"/> audit report <input type="checkbox"/> internal audit report <input type="checkbox"/> legislation if other, specify : _____
3.	DATE THE DOCUMENT WAS CREATED/APPROVED
4.	AUTHOR OF THE DOCUMENT AND POSITION
5.	THE INTENDED AUDIENCES
6.	THE PURPOSE OF THE DOCUMENT Period:
7.	THE CONTEXT IN WHICH THE DOCUMENT WAS WRITTEN
8.	THE SIGNIFICANCE OF THE DOCUMENT TO THIS STUDY
9.	MAIN POINTS EXPRESSED BY THE DOCUMENT IN RELATION TO INTERNAL CONTROLS

APPENDIX G

DOCUMENT ANALYSIS TEMPLATE OF THE GENERAL REPORTS OF AUDIT OUTCOMES OF THE GAUTENG PROVINCE LOCAL GOVERNMENT

1.	TYPE OF DOCUMENT <input checked="" type="radio"/> public document <input type="radio"/> private document <input type="radio"/> other if other, specify : _____
2.	UNIQUENESS OF THE DOCUMENT <input type="checkbox"/> annual report <input checked="" type="checkbox"/> audit report <input type="checkbox"/> internal audit report <input type="checkbox"/> legislation if other, specify : _____
3.	DATE THE DOCUMENT WAS CREATED/APPROVED/COMMENCED
4.	AUTHOR OF THE DOCUMENT AND POSITION
5.	THE INTENDED AUDIENCES
6.	THE PURPOSE OF THE DOCUMENT Period: _____
7.	THE CONTEXT IN WHICH THE DOCUMENT WAS WRITTEN
8.	THE SIGNIFICANCE OF THE DOCUMENT TO THIS STUDY
9.	MAIN POINTS EXPRESSED BY THE DOCUMENT IN RELATION TO INTERNAL CONTROLS <ul style="list-style-type: none"> • assessment of the strength of RCT's internal controls; • assessment of the effectiveness of RCT's drivers of internal controls; • RCT overall audit trajectory and audit findings; and • root causes of the audit findings on the internal controls.

APPENDIX H

DOCUMENT ANALYSIS TEMPLATE OF THE ROODEPOORT CITY THEATRE'S ANNUAL REPORTS

1.	TYPE OF DOCUMENT <input checked="" type="radio"/> public document <input type="radio"/> private document <input type="radio"/> other if other, specify : _____
2.	UNIQUENESS OF THE DOCUMENT <input checked="" type="checkbox"/> annual report <input type="checkbox"/> audit report <input type="checkbox"/> internal audit report <input type="checkbox"/> legislation if other, specify : _____
3.	DATE THE DOCUMENT WAS CREATED/APPROVED/COMMENCED
4.	AUTHOR OF THE DOCUMENT AND POSITION
5.	THE INTENDED AUDIENCES
6.	THE PURPOSE OF THE DOCUMENT Period:
7.	THE CONTEXT IN WHICH THE DOCUMENT WAS WRITTEN
8.	THE SIGNIFICANCE OF THE DOCUMENT TO THIS STUDY
9.	MAIN POINTS EXPRESSED BY THE DOCUMENT IN RELATION TO INTERNAL CONTROLS <ul style="list-style-type: none">• assessment of the strength of internal controls; and• drivers of internal controls.

APPENDIX I

DOCUMENT ANALYSIS TEMPLATE OF THE ROODEPOORT CITY THEATRE'S INTERNAL AUDIT FUNCTION REPORTS

1.	TYPE OF DOCUMENT <input checked="" type="radio"/> public document <input type="radio"/> private document <input type="radio"/> other if other, specify : _____
2.	UNIQUENESS OF THE DOCUMENT <input type="checkbox"/> annual report <input type="checkbox"/> audit report <input checked="" type="checkbox"/> internal audit <input type="checkbox"/> report legislation if other, specify : _____
3.	DATE THE DOCUMENT WAS CREATED/APPROVED/COMMENCED
4.	AUTHOR OF THE DOCUMENT AND POSITION
5.	THE INTENDED AUDIENCES
6.	THE PURPOSE OF THE DOCUMENT Period:
7.	THE CONTEXT IN WHICH THE DOCUMENT WAS WRITTEN
8.	THE SIGNIFICANCE OF THE DOCUMENT TO THIS STUDY
9.	MAIN POINTS EXPRESSED BY THE DOCUMENT IN RELATION TO INTERNAL CONTROLS <ul style="list-style-type: none"> • assessment of the effectiveness of internal controls and risk rating; • deviations from the internal controls; • root causes from the deviations on the internal controls; and • implementation status of the corrective measures put in place.