

**EFFECTIVENESS OF INTERNAL CONTROL MECHANISMS  
IN MONITORING FINANCIAL RESOURCES AT THE  
GAUTENG DEPARTMENT OF EDUCATION**

**By**

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## **DECLARATION**

I declare that the mini-dissertation entitled “effectiveness of internal control mechanisms in monitoring financial resources at the Gauteng Department of Education” is my own work. This work is submitted in partial fulfilment of the Master of Arts degree in Development and Management to the North-West University, Vanderbijlpark. It has not been submitted before for any degree to any other university.

**KGABO EMMANUEL MAKGATHO**

**NOVEMBER 2013**

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## **ABSTRACT**

There is a need to strengthen the internal control systems and mechanisms in the public sector in order for public institutions to maintain clean financial reports. This study focused on the effectiveness of the implementation of internal control mechanisms in monitoring financial resources at Gauteng Department of Education.

The effectiveness of internal controls is characterised by the implementation of all the five components, namely Control Environment, Control Activities, Risk Assessment, Information and Communication, and Monitoring. Therefore, the questionnaires were designed in line with all these components. The reports of the Auditor-General and the Financial Management Report were scrutinised to check the state of affairs on the effectiveness of internal control mechanisms.

This study found that the government departments are expected to develop policies that will contribute towards the management of public funds. A set of fiscal policies exist within the department. Such policies are influenced by the PFMA. However, the study found that the implementation of the internal control policies was complex. The implementation is influenced by the factors such as the human capital or human resources, technological systems and participation of the key stakeholders.

Sound fiscal measures may promote efficient monitoring of the use of resources. The researcher of this study believes that the implementation of the internal control may be enhanced by continuous training, enforcement of financial regulations and feedback.

## **TABLE OF CONTENTS**

DECLARATION .....	ii
ACKNOWLEDGEMENTS .....	iii
ABSTRACT .....	iv
LIST OF TABLES .....	ix

### **CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT**

1.1 BACKGROUND .....	1
1.2 PROBLEM STATEMENT.....	5
1.3 HYPOTHESIS .....	7
1.4 RESEARCH QUESTIONS .....	7
1.5 RESEARCH OBJECTIVES .....	8
1.6 RESEARCH METHODOLOGY .....	8
1.6.1 Literature review.....	9
1.6.2 Empirical study.....	9
1.7 RESEARCH ETHICS.....	10
1.8 CHAPTERS LAYOUT.....	11

### **CHAPTER 2: THEORETICAL EXPOSITION OF THE CONCEPT OF INTERNAL CONTROL MECHANISMS**

2.1 INTRODUCTION .....	12
2.2 CONCEPT OF INTERNAL CONTROL .....	12
2.3 LEGAL FRAMEWORK ON INTERNAL CONTROL SYSTEMS .....	16
2.3.1 Constitution of the Republic of South Africa 1996.....	16
2.3.2 Public Finance Management Act of 1999 .....	16
2.3.3 Auditor-General Act 1995 (Act 12 of 1995).....	17

2.3.4 Treasury Regulations of 2000 and 2005.....	18
2.3.5 Public Audit Act (Act 25 of 2004) .....	19
2.4 OBJECTIVES OF INTERNAL CONTROL.....	20
2.5 COMPONENTS OF AN INTERNAL CONTROL SYSTEM .....	21
2.5.1 Control environment.....	21
2.5.2 Risk assessment .....	22
2.5.3 Control activities.....	23
2.5.4 Information and communication .....	23
2.5.5 Monitoring .....	24
2.6 CHARACTERISTICS OF INTERNAL CONTROL.....	24
2.7 OPERATIONAL MEANS OF INTERNAL CONTROL .....	27
2.8 POSSIBLE PROBLEMS OF AN INTERNAL CONTROL SYSTEM.....	29
2.9 ROLE PLAYERS IN INTERNAL CONTROL.....	31
2.9.1 Management.....	31
2.9.2 Other responsible officials.....	32
2.9.3 Internal control section.....	32
2.9.4 Internal audit unit.....	33
2.9.5 The Audit committee.....	34
2.9.6 External auditors.....	36
2.9.7 National Treasury.....	36
2.10 CONCLUSION.....	37
<b>CHAPTER 3: THE PROCESSES AND SYSTEMS OF INTERNAL CONTROL AT GAUTENG DEPARTMENT OF EDUCATION</b>	
3.1 INTRODUCTION .....	38

3.2 CHIEF DIRECTORATE: RISK AND COMPLIANCE.....	38
3.2.1 Directorate: Internal Control .....	39
3.2.2 Directorate: Enterprise Risk Management (DERM).....	39
3.2.3 Directorate: Compliance Inspectorate .....	40
3.3 FINANCIAL MANAGEMENT SERVICES BRANCH: CHIEF FINANCIAL OFFICER (CFO).....	40
3.3.1 Chief Directorate: Corporate Finance .....	41
3.3.2 Chief Directorate: Supply Chain Management .....	44
3.4 STANDARD INTERNAL CONTROL PROCESS .....	45
3.5 DESIGN AND EVALUATION OF INTERNAL CONTROL SYSTEM.....	51
3.5.1 Identification and assessment of potential risks .....	52
3.6 LIMITATIONS OF INTERNAL CONTROLS .....	53
3.7 CONCLUSION.....	54

**CHAPTER 4: EMPIRICAL STUDY: THE IMPACT OF INTERNAL CONTROL AND ITS IMPLEMENTATION ON SERVICE DELIVERY AT GAUTENG DEPARTMENT OF EDUCATION**

4.1 INTRODUCTION .....	55
4.2 RESEARCH METHODOLOGY .....	55
4.2.1 Quantitative methodology .....	55
4.2.2 Qualitative methodology .....	56
4.3 RESEARCH INSTRUMENTS .....	59
4.3.1 Validity .....	59
4.3.2 Reliability .....	60
4.4 DATA COLLECTION .....	61

4.4.1 Questionnaire .....	62
4.4.2 Interviews .....	63
4.4.3 Sampling .....	64
4.5 DATA ANALYSIS.....	65
4.6 CONCLUSION.....	86
<b>CHAPTER 5: FINDINGS, RECOMMENDATIONS AND CONCLUSION</b>	
5.1 INTRODUCTION .....	88
5.2 SUMMARY OF CHAPTERS .....	88
5.3 REALISATION OF THE RESEARCH OBJECTIVES .....	89
5.4 TESTING OF THE HYPOTHESIS .....	90
5.5 FINDINGS .....	91
5.6 RECOMMENDATIONS.....	95
5.7 CONCLUSION.....	97
BIBLIOGRAPHY .....	98
Annexure A .....	104
Annexure B .....	111

## LIST OF TABLES

Table A1: Age of the respondents.....	66
Table A2: Highest academic and professional qualification .....	67
Table A3: Period of service at the Department of Education .....	68
Table A4: Period engaged in implementing internal control.....	69
Table B1: Level of confidence on internal control function.....	70
Table B2: Extent to which training on internal control was received .....	70
Table B3: Numbers of times on which responsible managers play the roles of supervision and leadership on internal control matters.....	71
Table B4: Understanding of internal control function.....	72
Table B5: Effectiveness of processes and systems of internal control at Gauteng Department of Education .....	72
Table B6: Challenges experienced in the implementation of internal control functions .....	73
Table B7: Your personal view on the implementation of internal control by GDE	74
Table C1.1: Policies and procedures of GDE are reviewed on an annual basis by the Management team .....	75
Table C1.2: The internal control systems are effectively implemented to avoid incurring irregular, fruitless and wasteful expenditure.....	76
Table C2.1: Programme Managers conduct a risk assessment when the Department is planning and approving new projects in the internal control directorate.....	77
Table C2.2: Risk Assessment is performed periodically on each project before it can be undertaken by the Department.....	78
Table C3.1: Different Directorates which are delegated to perform an internal control function on finances develop appropriate reports on a monthly basis .....	79

Table C3.2: Employees of the Gauteng Department of Education understand the importance of internal control, including division of responsibility .....	80
Table C3.3: GDE communicates any delay on payments to different service providers and other stakeholders on time .....	81
Table C3.4: The Auditor-General is frequently invited to meet with the internal control section for dialogue and support.....	82
Table C4.1: GDE has a reliable system to verify compliance with the leave requirements before approval can be granted to employees for leave application..	83
Table C4.2: GDE has a system in place to verify the employees’ leave information before any payment or deduction can be made.....	84
Table C5.1: The Audit Committee of the Department monitors the implementation of internal control effectively.....	85
Table C5.2: Senior Managers in different directorates monitor compliance by ensuring that the Chief Financial Officer receives certified payroll certificates on time.....	86

## **CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT**

### **1.1 BACKGROUND AND RATIONALE FOR THE STUDY**

The incidence of non-compliance to legislation, especially in the public service, is a cause for concern among the general public and in the government. Such is the crux of this study that examines internal control mechanisms as an intended panacea to curbing issues of fruitless, irregular and wasteful expenditure at the Gauteng Department of Education (GDE). In this research chapter, a brief outline for the internal control mechanisms is presented, as they relate to the public service and particularly for the Gauteng Department of Education. The problem statement, research questions and objectives, and the hypothesis are described. Further, the research methodology, the guiding principles of ethics and the chapter outline for this study are described.

This study is contextualised on the framework of public financial management and reviews at the role of internal control mechanisms as applied for monitoring financial resources at the Gauteng Department of Education. The study has been triggered by the Auditor-General's Reports and the Final Management Report for the financial years 2009/2010, 2010/2011 and 2011/2012 respectively. The Final Management Report (2012) indicates that non-compliance with the laws and regulations could have been prevented had compliance been properly reviewed and monitored (GDE, 2012: 15).

Studies of a similar nature have been conducted on financial management. A search at the library database shows studies by Gana (2005) on the financial management system at Bankuna High School and another by Manning (2009) on

financial policy and internal controls in the Motheo Education District in the Free State. The literature review also revealed studies conducted by Mosala (2006) and Naidoo (2007) of NWU on budgeting in school financial management. A study was also conducted by Mabala (2006) of University of Pretoria on an overview of public financial management systems from 1994 to 2004. Thus, apart from Manning's study, which somewhat has some similarities with this study, but in the Free State, there is no such study on internal controls of the Gauteng Department of Education. This is the gap that this study would help to fill.

Based on the instances of non-compliance mentioned above, it is evident that service delivery is compromised; a situation that prompts the view that internal control is not effectively implemented. This is supported by an interview that was conducted by the researcher with Mr Chris Tshisudi (Chief Director: Financial Planning and Auditing) on the 5<sup>th</sup> October 2012. The interview discussions indicated that it is required by law that internal control is exercised on a monthly basis so that where there is non-compliance, intervention can be made on time. It is expected that internal auditors or the so-called departmental public accounts committee should ensure the execution of internal control on a monthly basis. Such reports are presented to the head of department (HOD) or any other senior official if delegated to do so" (Tshisudi, 2012).

The Public Finance Management Act (PFMA) 1 of 1999 (as amended Act 29 of 1999) has a philosophy on internal control. It allows managers flexibility in the strict procedures and regulations that were enforced in the previous Exchequer Act. In terms of Section 38(a)(i) of the PFMA, the Heads of Departments (accounting officers) are held responsible for the effective, efficient and transparent systems of

financial management, risk management and internal control. It simply means that the accounting officers must ensure that the funds of their respective departments are managed properly to avoid fruitless and wasteful expenditure (Matsiliza, 2012: 450).

The Public Finance Management Act defines wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised. The head of department together with the senior officials that comprise the management team provide the leadership and direction necessary in achieving the goals derived from the legislative process and an institution's mandate (Visser & Erasmus, 2009: 278).

Internal control in the public sector is a tool implemented by management and other stakeholders (South Africa, 2000). It is designed to achieve the following:

- ❖ Objectives of the institution by complying with the applicable regulations and laws; and
- ❖ Reliable financial reporting (South Africa, 2000).

Internal control is also seen as an institutional instrument of monitoring the quality of improved financial management (Visser & Erasmus, 2009: 277). It involves internal checks, an internal audit, the custody of assets, and accuracy of records (Visser, 2006: 86). These are the financial resources for maintaining control on the system. The implementation of internal control in the public sector is intended to reduce the organisational risks experienced in the management of financial resources. It is clearly pointed out in the South Africa (1999) that the accounting officers (whom in this case are referred to as Heads of Departments) should ensure

that financial control systems are appropriate for their specific circumstances and, most importantly, are operating as intended (Pauw et al., 2009: 193).

As outlined by Pauw et al. (2009: 194), the design of internal controls must be in such a way that they provide reasonable assurance that the:

- ❖ set goals and objectives are met with efficient and economic use of resources;
- ❖ operational and financial information is reliable and can be used;
- ❖ all the assets are accounted for and protected from losses; and
- ❖ compliance with procedures, laws, policies and regulations is ensured (South Africa, 1999; Fourie & Reutener, 2012: 82).

It is crucial to exercise internal control measures especially in a rapidly changing environment. Every public institution is required to ensure that every new employee appointed in the organisation is inducted on issues of internal control. This practice will actually acquaint new employees with the risks that should be avoided (South Africa, 2000: 12).

According to Visser and Erasmus (2009: 280-281), there are six functions that are included in the evaluation, improvement and feedback on the systems of internal control. These include organising, which is meant to determine and assign responsibilities to a delegated person who should ensure that efficient evaluation, improvement and reporting on internal control is done. Furthermore, the assigned person should be given the responsibilities for internal reporting, documentation, personnel supervision, and scheduling of the evaluation process, which includes vulnerability assessments and internal control reviews.

It is necessary to conduct an internal control review that defines an event cycle (Visser & Erasmus, 2009: 281). This cycle consists of a series of actions to be taken in order to carry out a specific activity or function. An example is the administrative function, which can involve payroll issues, supplies, and the handling of correspondences. Furthermore, the programme managers must ensure that reports on internal control are prepared and submitted to the accounting officers. The reports should provide details of the description of system weaknesses and ways to rectify these as well as recommendations in terms of economy and efficiency.

Other aspects of internal control to be dealt with in these reports include:

- ❖ The overall extent to which the systems are efficient in providing the framework necessary for an effective control function.
- ❖ The areas where internal controls are non-existent and those where they are planned.
- ❖ The areas in which internal control and policy or procedural requirements are excessive and creating inefficiencies.

## **1.2 PROBLEM STATEMENT**

The Gauteng Department of Education comprises various structures that are liable for internal control. As stated in the background and rationale to the study, these include finances, supply chain, assets records and personnel. The Directorates responsible for internal control are Enterprise Risk Management; Compliance Inspectorate; Internal Control; Financial Administration; Financial Planning and

Budgeting; and Procurement and School Funding Management. Indeed, all sectional heads are responsible for effecting internal controls.

The Final Management Report of the GDE (2012) identified instances of non-compliance at the Gauteng Department of Education, which are as follows:

- ❖ The Department incurred irregular, fruitless and wasteful expenditure.
- ❖ Money owing by the Department was not always paid within 30 days of receiving an invoice or statement.
- ❖ Payroll certificates were not always returned to the Chief Financial Officer within 10 days of being certified.
- ❖ Leave policy requirements were not always met.
- ❖ Acting periods and allowance payment requirements were not always honoured.

This research has never been conducted before at the Gauteng Department of Education. In this study, the researcher will investigate the framework of internal control as outlined in the Treasury Regulations and make an assessment in terms of whether the Department of Education has been complying or not. The challenges experienced by the Department of Education will be considered and possible solutions will be suggested. In fact, the proposed study is necessary because the Final Management Report of 2012 shows that there are indicators of non-compliance that require immediate attention. The findings on this study will be shared with the Department of Education and will, to a certain extent, apply ethics with recommendations on how internal control should be administered to ensure effective use of resources for enhanced delivery of services.

### **1.3 HYPOTHESIS**

Bless and Higson-Smith (in Brynard & Hanekom, 2006: 21) define a hypothesis as “a suggested, preliminary, yet specific answer to a problem, which has to be tested empirically before it can be accepted as a concrete answer and incorporated into a theory”. The hypothesis for this study is stated as follows:

- ❖ Effective implementation of internal control mechanisms by officials of the Gauteng Department of Education is likely to promote efficient monitoring of use of resources, which, at present, seems to be lacking.

### **1.4 RESEARCH QUESTIONS**

The study will attempt to find answers to the following questions:

- ❖ What is meant by internal control mechanisms?
- ❖ How effective are the processes and systems of internal control at the Gauteng Department of Education?
- ❖ What are the challenges that the Gauteng Department of Education experienced in the implementation of internal control mechanisms?
- ❖ What recommendations can be offered to improve the implementation of internal control mechanisms at the Gauteng Department of Education?

## **1.5 RESEARCH OBJECTIVES**

Research objectives are based on the questions of research outlined in the foregoing section. They include the following:

- ❖ To give a theoretical exposition of the concept of internal control mechanisms.
- ❖ To describe the processes and systems of internal control at Gauteng Department of Education.
- ❖ To conduct research into the effectiveness of internal control mechanisms at Gauteng Department of Education.
- ❖ To provide recommendations that may assist Gauteng Department of Education in strengthening the implementation of internal control for effective service delivery.

## **1.6 RESEARCH METHODOLOGY**

According to Babbie and Mouton (2002: 234), “this methodology is concerned with research process and the decisions that have to be taken by the researcher to execute the project”. In this study, a qualitative research design was applied, though, the analysis was quantitative. Qualitative methodology is defined as a research approach that produces descriptive data – generally, the participant’s own written or spoken words pertaining to his/her experience or perception (Cresswell, 1994: 42). The numbers are not assigned to the observations made by the participants. Observations, however, were presented quantitatively through tables.

Qualitative and quantitative approaches are appropriate ways to test the hypothesis in this case. This is because the information contained in the Auditor-General's Reports and Final Management Reports for the 2009/2010, 2010/2011 and 2011/2012 financial years will be analysed. Those reports outlined how the officials of the Gauteng Department of Education from the Internal Control unit have been performing. An assessment was made through the use of a structured questionnaire to check whether they were compliant with the PFMA, Treasury Regulations and the Accepted Internal control systems.

### **1.6.1 Literature review**

As mentioned above, the research methodology applied in this study is qualitative, though, responses were analysed by means of narrative analysis and percentages. Information was gathered from different sources, namely books, journals, Auditor-General's Reports, Financial Management Reports, and publications. Further consultations were made on theses and dissertations, internet sources and government policies on public finance. The researcher designed questionnaires for an empirical study; these questionnaires were distributed to the officials of the Department of Education from all the Directorates mentioned in section 1.2. Interviews were also conducted with the same officials.

### **1.6.2 Empirical study**

The Gauteng Department of Education comprises 15 districts throughout the province. Only officials who are based at the head office in Johannesburg were interviewed. The random sample population interviewed was 45. These involved

the internal auditors; state accountants; audit committees; chief financial officer; directors and chief directors from the directorates of Financial Planning and Accounting as well as Risk Management.

The head office of the Gauteng Department of Education has a total control over the budgets that are allocated to different districts. It does the budget split and allocates each district an equitable share in accordance with an appropriate formula, which is dependent on the size of the district. Officials from the head office monitor the use of those allocated budgets and keep the district directors accountable on expenditure against the service delivery plans of the Department.

## **1.7 RESEARCH ETHICS**

Du Toit et al. (2002: 110) refer to ethics “as general application of systems of moral principles”. They are related to what is right and wrong when research is conducted (Brynard & Hanekom, 2006: 84). The researcher is committed to the code of ethics and demonstrated an acceptable behaviour throughout the research process. The information gathered from both the Department of Education and its officials will be kept confidential at all times. In order to reaffirm the commitment to ethical conduct, the researcher will ensure that the following processes unfold:

- ❖ Permission will be obtained from the HOD of Gauteng Department of Education to conduct the research.
- ❖ A specimen questionnaire will be submitted to the Ethics Committee for evaluation.
- ❖ Respondents will be assured of anonymity.

## **1.8 CHAPTER LAYOUT**

**Chapter 1:** Introduction and problem statement

**Chapter 2:** Theoretical exposition of the concept of internal control mechanisms

**Chapter 3:** The process and systems of internal control at Gauteng Department of Education

**Chapter 4:** Research Methods and Research Design

**Chapter 5:** Findings, Recommendations and Conclusion

## **CHAPTER 2: THEORETICAL EXPOSITION OF THE CONCEPT OF INTERNAL CONTROL MECHANISMS**

### **2.1 INTRODUCTION**

The 2012/13 Auditor-General's Report shows that the spheres of government in South Africa are struggling to monitor public financial resources. Some employees take advantage of poor internal control systems to commit fraud and corruption by misusing public funds that are budgeted for service delivery. Many government departments are unable to receive clean audit outcomes. The lack of internal control in all these departments results in irregular, fruitless, unauthorised and wasteful expenditure of public funds.

This chapter examines the concept of internal control. The concept is clearly defined, and it is followed by a brief description of other aspects such as the legal framework; objectives of internal control; components; characteristics; operational means; possible problems; and role players in the system of internal control. The scope of internal control is wide, but for the purposes of this study, it will only be limited to the aspects mentioned above.

### **2.2 CONCEPT OF INTERNAL CONTROL**

The Department of State Expenditure (in Visser, 2011: 84) defines internal control "as a system of controls established by senior management, in order to perform the activities of a government institution". It is through the tightened internal control systems that assets of government can be safeguarded and secured. Puttick and

Van Esch (in Visser, 2011: 84) also defined internal control “as the policies and procedures employed by executives of an institution to realise their set objectives”. The responsibility of control systems is to identify, mitigate, assess and manage risks that may hamper achievement of the institution’s objective to effectively, efficiently and economically manage its financial and related resources. According to Cahill (2006), the systems of internal control involve the financial and administrative checks and balances that are designed and supported to ensure that the goals, objectives and responsibilities of the institution are realised. It can be classified as preventative (detect risks before they occur), detective (detect risks as they occur) and/or corrective (take corrective measures with risks after they have taken place).

Jackson and Stent (in Committee of Sponsoring Organisations of the Treadway Commission (COSO), 2007) provide a non-exhaustive list of internal control measures, which include staff competency; delegation of duties; isolation of responsibility; access and authorisation; comparisons; reconciliations; and source document design. Various elements should be examined closely in order to understand a system of internal control accordingly (Visser, 2011: 84). These elements, namely policies, management, reasonable assurance and control objectives are called four pillars of the control system. They are the basic assumptions upon which all systems of internal control are designed. They can be unpacked as follows:

**Policies:** They are formalised directives and procedures issued to employees by the management of a public institution that describe in detail how certain activities

must be performed. These policies are mainly in the form of a written document or manual and serve as the basis for internal control.

**Management:** The management of a public institution should be given the responsibility to develop, design and implement systems of internal control although they often delegate this responsibility to a responsible official who must report to them, since they are ultimately accountable for internal control.

**Reasonable assurance:** The definition endeavours to indicate that there are various elements that impede the effective implementation of an internal control system, and therefore, the assumption that, where internal control is applied, no fraud and errors could occur is a myth. The system only makes provision for assurance that fraud, damage, theft or errors will be prevented. These inherent limitations on internal control that only permit reasonable assurance includes human error (mistakes), misunderstanding, and management override, intentional errors and fraud as well as the cost-benefit aspects of specific internal controls.

**Control objectives:** These are objectives that management envisages to achieve through the implementation of an effective internal control system. These objectives are as follows:

- ❖ Reliable accounting and financial information to be provided.
- ❖ Validity of all transactions to be ensured.
- ❖ Accuracy of the recording of transactions to be maintained.
- ❖ Completeness of the recording of transactions to be ensured.
- ❖ Assets of the institution to be safeguarded.
- ❖ Promotion of efficiency.

- ❖ Adherence to directives and internal policies to be encouraged.
- ❖ Compliance with procedures, laws, policies and regulations to be ensured.

Department of State Expenditure (in Visser & Erasmus, 2008: 277) refers to the system of internal control “as a measure undertaken by the institution to combat maladministration and improve the quality of leadership and management”. COSO (2013) defines a system of internal control as “an initiated process put in place by the management of an institution to provide assurance that is reasonable with regard to the attainment of the set objectives which is related to compliance, operations and reporting”. Certain fundamental concepts are reflected in this definition. According to COSO (2013) a framework of internal control is:

- ❖ aimed at the attainment of goals in different categories: reporting, compliance and operations;
- ❖ an on-going process of activities and tasks;
- ❖ executed by people – and not only procedure and policy documents;
- ❖ has the ability to provide absolute assurance to the management of an institution; and
- ❖ has the ability to adapt to the structure of an institution (COSO, 2013).

It operates as the most valuable tool used to manage financial activities of any department. The responsibility of internal control is to identify, mitigate and manage control risks that may hamper achievement of the Department’s objectives to effectively, efficiently and economically manage financial and related resources. The main functions performed by internal control cover the following areas (COSO, 2013):

- ❖ Manage effective, efficient and transparent financial (internal) control measures.
- ❖ Manage loss control.
- ❖ Manage financial and financial-related systems.
- ❖ Support with the management of fraud prevention.
- ❖ Maintain financial information and knowledge management.
- ❖ Maintain governance frameworks.
- ❖ Facilitate and participate in committees, forums and oversight bodies.

## **2.3 LEGAL FRAMEWORK ON INTERNAL CONTROL SYSTEMS**

The legal framework that guides the practice of internal control is discussed below.

### **2.3.1 Constitution of the Republic of South Africa of 1996**

According to section 216(1) of the Constitution of the Republic of South Africa 1996, national legislation is required to establish a national treasury and prescribe measures to ensure transparency and expenditure control in each sphere of government (South Africa, 1996). This must be done by introducing generally recognised accounting practices, uniform expenditure classification, and uniform treasury norms and standards.

### **2.3.2 Public Finance Management Act of 1999**

The philosophy of the PFMA is to allow managers to manage while loosening the strict procedures and regulations that were entailed in the previous Exchequer Act. At the same time, accounting officers are held responsible for the effective,

efficient and transparent systems of financial management, risk management and internal control as outlined in the PFMA, section 38(a) (i) (South Africa, 1999). The PFMA assigns the responsibility for reporting on financial management matters and overseeing of all financial management activities to the accounting officer.

The Public Finance Management Act is based on the principle that managers in the public service should be allowed to manage finances within an agreed framework whilst being held accountable (Madue, 2007: 308). There are four responsibilities that this Act confers on accounting officers, namely:

- ❖ The implementation of basic systems of financial management and internal controls in departments.
- ❖ To put systems in place to avoid overspending by the departments.
- ❖ The submission of annual financial statements two months after the end of a financial year.
- ❖ The publication of annual reports by using a prescribed format.

### **2.3.3 Auditor-General Act of 1995 (Act 12 of 1995)**

This Act determines functions and conditions of service of the Auditor-General (Visser & Erasmus, 2008: 39). The Act stipulates that the Auditor-General is responsible for the investigation of the accounts of any public institution and the reporting thereon to Parliament (South Africa, 1995). In performing his or her auditing function, the Auditor-General shall in terms of section (4)(a) to (4)(d) of the Act satisfy himself or herself that:

- ❖ precautions have been taken to safeguard the proper collection of money to which an audit in terms of which this Act relates, and that the laws and instructions relating thereto have been duly observed;
- ❖ precautions have been taken in connection with the receipt, custody and issue of and accounting for property, money, trust property and other assets;
- ❖ payments, receipts and other transactions are made in accordance with the applicable laws and instructions and are supported by adequate vouchers; and
- ❖ management measures have been taken to ensure that resources are procured economically and utilised efficiently and effectively.

### **2.3.4 Treasury Regulations of 2005**

Treasury Regulations regulate internal control through audit committees and internal audits as stipulated in the PFMA. The PFMA provides guidance according to which heads of public institutions must deal with certain financial management issues. The implementation of internal control by all relevant stakeholders, including the audit committees, enhances good governance and management of risks in the public service. Treasury Regulation 3.1.10 of 2005 states that the audit committee must review the effectiveness of internal control systems and also review the institution's compliance with legal and regulatory provisions (Treasury Regulations, 2005: 8).

Similarly, in terms of section 38(i), the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity, or constitutional institution has and maintains effective, efficient and transparent

systems of financial and risk management and internal control (South Africa, 1999: 45). The above provision supports the governance philosophy, especially on risk management and internal controls.

The relationship between an accounting officer and an audit committee is very crucial, especially on the basis of the sharing of valuable and credible information on organisational systems. Furthermore, the relationship between the two is also at the accountability level, because an audit committee is accountable to a council officer. Additionally, an accounting officer can also work together with the chief financial officer (CFO) on the basis of Treasury Regulation 27.3.2 of 2005 that an accounting officer may delegate specific responsibilities to the CFO (Treasury Regulation, 2005: 82). However, the accounting officer remains accountable for the delegated responsibilities such as financial management, because accountability cannot be delegated.

### **2.3.5 Public Audit Act of 2004 (Act 25 of 2004)**

The Public Audit Act 2004 was established to

- ❖ provide for the auditing of institutions in the public sector;
- ❖ make provision for accountability arrangements of the Auditor-General to put an official end to certain legislation that is no longer used; and
- ❖ make provision for matters connected therewith (South Africa, 2004).

## **2.4 OBJECTIVES OF INTERNAL CONTROL**

According to COSO (2007), the objectives of internal control are aimed at ensuring that:

### **❖ Laws and regulations are complied with**

The laws and regulations are made to regulate the institution. It is essential to enforce them in order to maintain standards of conduct that the institution incorporates into its compliance objectives (COSO, 2007).

### **❖ Directions and instructions given by management are implemented**

Instructions and directions from executive management define and explain the employers' expectations from employees as well the scope of work to be done. There must be a clear communication of all these laws and regulations to the employees. The set objectives of the institution must be fairly allocated to each employee. A clear guidance on the implementation of activities must be provided (COSO, 2007).

### **❖ The internal processes of an institution are properly functioning, and assets are protected**

The monitoring indicators and standard principles must be established in order for all processes to function correctly. Management must be vigilant and proactive to avoid fraud and theft of assets (COSO, 2007).

### ❖ **Financial information is reliable**

According to COSO (2007) faithful recording can enhance reliable financial information. It is necessary that departments maintain and improve quality on the systems of internal control. There are three ways into which quality on control systems can be improved, namely:

- a) Separation of duties between record retention, operational duties and recording duties.
- b) Descriptions of different functions, which should enable the user to identify the recipients of the information as well as the origin of the produced information.
- c) General and specific instructions must be followed in maintaining an accounting internal control system that is compliant with generally accepted accounting principles (GAAP).

## **2.5 COMPONENTS OF AN INTERNAL CONTROL SYSTEM**

COSO (2013) highlighted the integrated components of internal control, namely communication and monitoring. Those five integrated components are explained below.

### **2.5.1 Control environment**

It refers to a set of policies and procedures that must be followed in the implementation of internal controls within an institution. The environment creates a frame of mind within which an internal control system can function at all levels in the institution (COSO, 2013). This entails integrity, ethical values, and competence and direction of the accounting officer. The senior management

together with the accounting officer (head of department) establish the modus operandi with regard to the role of internal control.

### **2.5.2 Risk assessment**

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives (COSO, 2013). Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed. According to COSO (2013) a precondition to risk assessment is the establishment of objectives linked at different levels of the entity. Management specifies objectives with categories relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyse risks to those objectives. It also considers the suitability of the objectives for the entity (COSO, 20013).

Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control necessary. Risk assessments are compulsory and should be carried out by all accounting officers (National Treasury, 2001: 67). Assessment of risks is conducted to make risk management possible for the risk manager or any person delegated to perform that function. The elements of risk management include:

- ❖ Making an assessment of risks that are associated with the operations of the department.
- ❖ Making a decision on the acceptable level of loss or degree of failure.
- ❖ Making a decision on how risk can be managed and minimised.
- ❖ Evaluating, monitoring and reporting on a regular basis.

### **2.5.3 Control activities**

An internal control system contains certain control activities, including policies and procedures with regard to approval, authorisation, verification, reconciliation, review of operational activities, safeguarding of assets, and segregation of duties (Visser & Erasmus, 2008: 292). They are the actions established through policies and procedures that help ensure that management's directive to mitigate risks to the achievement of objectives are carried out. They are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorisations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

### **2.5.4 Information and communication**

They are the most effective tools to be used to execute all the responsibilities of internal control. Different sources provide management with information to guide other components. An ongoing communication provides necessary information and

gives direction of what is to be done. Institutions use intrinsic communication to share information to all employees within their entity while extrinsic communication meets the expectations of external stakeholders by giving them information.

### **2.5.5 Monitoring**

All issues pertaining to internal controls must be evaluated and followed up. There must be a continuous monitoring of procedures and systems. It is through the monitoring process that assessment is made on the quality of a system's performance. The process of monitoring entails on-going supervision, including other actions undertaken by personnel in the performance of their duties. Frequency and scope of evaluation are dependent on risk assessment and procedures of monitoring. Once challenges in the control system have been identified, they should be brought to the attention of the senior personnel (COSO, 2005: 2). The scope of evaluation that is periodically conducted will vary and depend on the risks that have been assessed.

## **2.6 CHARACTERISTICS OF INTERNAL CONTROL**

According to Kroon (in Visser & Erasmus, 2008: 293-294), internal control systems possess certain characteristics contributing to their uniqueness. These characteristics are as follows:

- ❖ **Timelines:** An internal control system should detect potential or actual deviations early enough, ensuring that management takes corrective action

timeously and limits unnecessary costs (Kroon, in Visser & Erasmus, 2008: 293-294).

- ❖ **Economy:** Systems of control must be executed in such a way that the benefit is more than the implementation cost (Visser, 2011: 86). Although a system of control must give surety on the achievement of an institution's objectives, this should ensure minimum cost and the least undesirable side effects possible.
- ❖ **Accountability:** An internal control should ensure that staff is held accountable for its assigned responsibilities and tasks. This is achieved by applying prescribed procedures.
- ❖ **Placement of records:** The internal control system should be implemented clearly at all times. The records must be placed safely so that they can be accessed in the future.
- ❖ **Flexibility of controls:** Changing work environments are inevitable, particularly as politics dominate the approach to service delivery in the public sector. Internal controls are preferably designed to accommodate changes without themselves requiring change, since control changes that match administrative and operational changes tend to create additional confusion and, thus making management of change more difficult (Visser & Erasmus, 2008: 294).
- ❖ **Cause identification and corrective action:** Internal controls should be able to identify the challenge in order for managers to take appropriate action. Management can prepare responses in advance and implement them when an internal control points to the cause of an event (Visser & Erasmus, 2008: 294).

- ❖ **Appropriateness and strategic focus of control:** The design of an internal control must be in such a way that it complements the management style, the size of the public institution and the level of expertise of the employees. At the same time, it should be appropriate to ensure the achievement of the results and objectives of management. As such, managers cannot control everything and, it is therefore, important that a system of internal control focuses on strategic control points (Crous, 1990: 490).
- ❖ **Accuracy:** It is vital that internal control systems produce accurate information to ensure that proper and appropriate corrective action can be taken. Without an accurate internal control system, reliable and relevant information will not be available in order to make decisions.
- ❖ **Integration of planning and controlling:** Integrated planning process and standards that are implemented and not related to the objectives of management indicate an effective internal control system (Crous, 1990: 489).
- ❖ **Adaptability of the system:** According to Crous (1990: 489), different control techniques or stages of control should be utilised by the control system depending on the different situations and processes that prevail at a given point in time. Different control techniques or procedures should, therefore, be used during the pre-control, steering control or post-control stage.
- ❖ **Comprehensibility:** Internal control systems that are difficult to understand lead to avoidance of control, frustrated workers and unnecessary errors. Managers and employees involved in the system of internal control should, therefore, understand the system; otherwise, such a system will have a questionable value (Crous, 1990: 489).

- ❖ **Acceptability:** The internal control system should be understandable in order for it to contribute to the improvement of individual and institutional performance. It should also stimulate increased productivity and growth as well as lead to greater independence and responsibility amongst management and subordinates (Crous, 1990: 489).
- ❖ **Objectivity:** It should be the main aim of any designer to ensure that an objective control system is maintained (Crous, 1990: 490). Although objective standards are important, managers and employees should not only look at the quantifiability thereof.

## **2.7 OPERATIONAL MEANS OF INTERNAL CONTROL**

There are certain means that exist according to which public managers can ensure that internal control is applied (Visser & Erasmus, 2008: 289). According to Sawyer (in Visser & Erasmus, 2008: 288), these means of internal control include organisational structure; existing policies; administrative and operational procedures; personnel matters; accounting; budgeting; reporting; internal review; and strategic planning as well as internal auditing.

### **❖ Organisational structure**

In the context of a public institution, an organisational structure refers to the planned structuring of the roles and responsibilities assigned to different functionaries on different levels, which are supposed to contribute to and ensure that internal controls are implemented and maintained within the institution. The South African Government requires that the organisational structure for every government department must first be approved before it can be implemented

(Visser & Erasmus, 2008: 289). The organisational structure indicates and demonstrates the accountability levels and hierarchies within a public institution as well as the reporting lines.

### ❖ **Policies**

All public institutions must have policies in place to regulate their functions and also to give guidance in terms of implementation. These policies can be in the form of legislation, regulations, or directives as well as White Papers. They provide the statutory framework within which public officials and managers execute their responsibilities and duties. Some of these refer specifically to the implementation of internal controls in the institutions. Visser and Erasmus (2008: 289) cited that public policies legally require that officials carry out these duties while being aware that if they do not adhere to legislative policies, corrective measures will be taken against them.

### ❖ **Procedures**

Procedures are referred to as ways used to perform certain functions in conformity with regulations. Visser and Erasmus (2008: 289) suggested that these procedures must be followed correctly in terms of their implementation so as to avoid possible irregularities. Procedures must first be outlined to the officials before any activity can be implemented, so that they are able to follow step by step as they action the task given to them.

### ❖ **Personnel**

Personnel should be hired or assigned according to the skills, competencies, experience and qualifications that they possess to do a certain job. According to

Visser and Erasmus (2008: 289) it is necessary that a high standard of supervision is exercised to ensure that personnel do perform according to set standards.

#### ❖ **Accounting**

Accounting is considered to be one of the most important financial controls over activities and resources, and if followed as set out, financial information derived can be analysed and variances can be utilised as a form of internal control in establishing its cause (Visser & Erasmus, 2008: 289). It provides an organisational framework for transactions and is the backbone of a public institution's operational activities.

#### ❖ **Budgeting**

Budgets are statements of expected results expressed in numerical terms. The budget of a public institution and the allocations made in terms of such a budget provides management with a monetary framework within which money may be spent (Visser & Erasmus, 2008: 289).

## **2.8 POSSIBLE PROBLEMS OF AN INTERNAL CONTROL SYSTEM**

Although a system of internal control has benefits, there are some shortcomings that can be encountered (Visser, 2011: 89). These shortcomings are as follows:

#### ❖ **Cost of control**

Visser (2011: 89) cited that an internal control may keep a function or activity on course, but it may happen at a price, both of monetary and human nature.

### ❖ **Excessive, redundant and obsolete controls**

These may cause confusion and frustration amongst employees and lead to the avoidance of the application of those controls. Controls should, therefore, be monitored for continued relevance in order to ensure that they respond to a specific need and do not become counterproductive (Visser, 2011: 89).

### ❖ **Provision of information**

The information that an internal control provides may not be understood, or it can be transmitted to the wrong person. In certain cases, the information can be so detailed that it is actually useless (Visser, 2011: 89).

### ❖ **Increased controls**

As controls increase, they reach a point where their effectiveness may actually decrease. They may therefore cost more than the exposure that they are designed to guard against (Visser, 2011: 89).

### ❖ **Overemphasis on controls**

Officials may work to satisfy procedural controls and lose sight of the operational objectives that must be met (Visser, 2011: 89). As such, internal controls can produce mental rigidity and reduce flexibility. They can also create a slavish adherence to procedures that may substitute the application of reason and common sense.

### ❖ **Resistance to controls**

People generally resist controls, especially if they were not involved in the development of the controls or do not understand the objective that must be

achieved. Controls that are perceived as unreasonable can, in fact, stifle creativity and initiative. Except for those cases where controls become a basis for rewards and punishment, controls may take on undue importance in the eyes of those affected.

### ❖ **Influence of behavioural aspects**

Behaviour must be taken into account when internal controls are designed and enforced. It can be done through communication to employees or by involving affected employees in the design of the controls (Visser, 2011: 89). If people accept controls willingly, they will understand what will be achieved with the application of the controls. Several perfectly reasonable internal control systems have failed in the past because behavioural aspects were not taken into account.

## **2.9 ROLE PLAYERS IN INTERNAL CONTROL**

According to DSE (in Visser, 2011: 86), several role players can be identified that are involved in ensuring that appropriate internal controls as well as an internal control system operate properly within a public institution. The respective roles of the structure are discussed below.

### **2.9.1 Management**

It is the responsibility of management to establish a system of internal control in order to control and safeguard the resources of a public institution. This responsibility of management is included in the overall management process that entails planning, organising, directing and controlling. Although these management functions can be clearly identified, they cannot be separated from one another.

Management's responsibility and involvement in internal control can, therefore, not be overemphasised since the whole management process revolves around it.

### **2.9.2 Other responsible officials**

Every official that works according to certain procedures, instructions or directives must also contribute to the functioning thereof by adhering to the controls that are in place. Those officials to whom certain responsibilities were delegated to by the accounting officer in terms of section 44 of the PFMA should ensure that the system of financial management and internal control was carried out within the area of the official's responsibilities, in terms of the provisions of section 45(a) (South Africa, 1999).

### **2.9.3 Internal control section**

Internal control section operates within each financial division, and its main functions are the following:

- ❖ To verify the correctness of financial data entry forms and transactions by checking that these forms were filled in accordance with the prescribed procedures.
- ❖ To verify that all transactions were authorised by an official delegated to do so.
- ❖ To verify whether the expenditure and income are correctly reflected in the financial records of a public institution.
- ❖ To determine whether the various sections and offices that generate payments and collect income follow the correct procedures and instructions, which is called compliance checking.

- ❖ To assist the responsible section, since they cannot check every transaction for correctness. As such, the internal control section does the daily checking of transactions, which is known as continuous checking. Auditors, on the other hand, perform periodic checking.

#### **2.9.4 Internal audit unit**

An internal audit unit must not depend on any financial division, and it should report to the accounting officer and the audit committee. Section 38(1)(a) of the PFMA of 1999 as well as chapter 3, paragraph 3.2 of the Treasury Regulations of May 2000 states that internal audit is a compulsory function (South Africa, 1999); as such, its main functions are the following:

- ❖ Provide an investigative service to the accounting officer by determining whether the institution's resources are employed efficiently, effectively and economically.
- ❖ Monitoring, assessing and reporting on internal control procedures at a public institution.
- ❖ Monitoring, assessing and reporting on the various risks of a public institution, which includes the total system of internal control.
- ❖ Investigate and report on the compliance of the systems with the relevant legislation, regulations, instructions and directives.
- ❖ Follow a comprehensive approach to auditing that includes compliance and performance auditing as well as computer and forensic auditing.
- ❖ Management uses internal audits as a tool to execute its duties. The Institute of Internal Auditors is a regulatory body which sets standards for internal

auditors in carrying out their responsibilities. The unit responsible for internal audit must prepare the following in consultation with and for approval by the audit committee:

- ❖ An operational plan that contains inputs from management.
- ❖ A short-term audit plan which will run for three years and which will be based on risk assessment of key areas.
- ❖ A first-year plan clearly outlining the scope of each audit.
- ❖ A consolidated performance report to the audit committee on a quarterly basis.

### **2.9.5 The Audit committee**

It fulfils both monitoring and advisory functions for the accounting officer. At the same time, it is a compulsory function prescribed by the PFMA. According to section 77 of the Public Finance Management Act, audit committees must be established in every department. The audit committee must be made up of only three persons, while in the private sector, the number may be raised up to five members. One of the members must be from outside the public service, and the chairperson may not be employed by the department. The objective of the audit committee is to help the institution in performing its responsibilities and maintaining controls and systems. Furthermore, the committee has the responsibility to safeguard assets and prepare financial statements on an annual basis (National Treasury, 2001: 68). The committee performs these by:

- ❖ Building confidence between internal and external auditors as well as management, so that both the auditors and institution can benefit.

- ❖ Increasing accountability by scrutinising the performance of internal and external auditors.
- ❖ Reducing the opportunity for fraud by facilitating the imposition of control and discipline.
- ❖ Improving the credibility and objectivity of financial reporting (National Treasury, 2001: 68).

The members of the audit committee should understand all the complexities involved in the audit process. They should also have a better understanding of all activities of the department. It is necessary that some members within the committee have expertise in auditing and finances in order to advise the committee in the execution of its responsibilities. On a regular basis, members should be rotated in order to share knowledge and experiences.

National Treasury (2001: 68) outlines the following duties for the audit committee:

- ❖ Support appointment and retention of auditors with recommendations.
- ❖ Discuss and review the scope of the audit.
- ❖ Ensure that the audit plan addresses the critical risk areas in the institution.
- ❖ Conduct review process of the institution's control systems.
- ❖ Monitor management's response to reported weaknesses in controls (particularly those raised as audit queries), deficiencies in systems and recommendations for improvement.
- ❖ Allow differences of opinions between auditors and management.
- ❖ Conduct monitoring and evaluation of the performance of management and auditors.

- ❖ Determine the quality of information produced.
- ❖ Financial statements are reviewed before approval is granted by an accounting officer.
- ❖ Consult with all the stakeholders regarding audit activities.

The committee must meet before the external audit is conducted. It must consider the audit fee to be paid in that financial year, the scope and appropriate time for audit to be conducted. Risk assessment must be facilitated by the committee and the accounting officer in order to determine the possible risks. The committee must also be able to evaluate the strategy to manage the risks that might be encountered.

### **2.9.6 External auditors**

The external auditors are mainly from the office of the Auditor-General. They are responsible for all the government departments – on a national and international level – and other institutions that receive public funds. Auditor-General Act 12 of 1995 refers to the Office of the Auditor-General as an independent institution which reports its findings directly to Parliament and Provincial Legislature. The main functions of the Auditor-General are to conduct regularity audits as well as performance audits. The Act determines the functions and conditions of service of the Auditor-General (Visser & Erasmus, 2008: 39).

### **2.9.7 National Treasury or Provincial Treasuries**

According to section 6(2)(e) and 18(2)(f) of the PFMA of 1999, the National Treasury as well as the nine provincial treasuries in South Africa have the power to investigate any management of finances or system of internal control in any public entity, department or constitutional institution. They also have the authority to

intervene if necessary to ensure that such systems are functioning optimally. Audit committees are allowed to communicate any concerns that they have with regard to internal audit and internal control to the relevant treasury (National Treasury, 2001).

## **2.10 CONCLUSION**

The definition of the concept of internal control was summarised. The legal framework that guides the internal control function was outlined in detail. The reasons for implementation (objectives) and components of internal control were treated in detail. Other aspects on internal control were also discussed. These included characteristics, operational means, possible problems and role players in internal control. In the next chapter, the process and systems of internal control at Gauteng Department of Education will be discussed.

## **CHAPTER 3: THE PROCESSES AND SYSTEMS OF INTERNAL CONTROL AT GAUTENG DEPARTMENT OF EDUCATION**

### **3.1 INTRODUCTION**

The preceding chapter gave a theoretical exposition of the concept of internal control mechanisms. In this chapter, an outline of the structure of Gauteng Department of Education will be provided. This will be provided by discussing the purpose and functions of the chief directorates and directorates that are directly responsible for internal controls in line with the approved 2013 realigned structure of the Department. Moreover, there is also a discussion on the standard internal control process with its eight key steps as contained in some published and unpublished sources. The chapter is completed by a brief description of the design and evaluation as well as limitations of internal controls.

### **3.2 CHIEF DIRECTORATE: RISK AND COMPLIANCE**

This chief directorate ensures the effective implementation of systems and compliance with all the relevant legislation and policies. This facilitates alignment between policies and plans in the Department (GDE, 2013). The directorate also develops and maintains an effective system of internal controls and fraud prevention. Forensic investigations are conducted by liaising with the relevant stakeholders. There are three directorates under this chief directorate. They are discussed in the subsections that follow.

### **3.2.1 Directorate: Internal Control**

This directorate performs the following functions:

- ❖ Develops, implements and maintains an effective fraud prevention strategy.
- ❖ Deals with investigations and tracking of actions.
- ❖ Provides internal audit services and liaises with the Auditor-General, Gauteng Audit Services and Provincial Treasury and other stakeholders.
- ❖ Manages, supports and coordinates loss control.
- ❖ Manages the programme called “Operation Clean Audit”.
- ❖ Conducts work investigations and develops and maintains effective systems of internal control.
- ❖ Monitors financial compliance (GDE, 2013).
- ❖ Maintains donation a register of the Department.

### **3.2.2 Directorate: Enterprise Risk Management (DERM)**

DERM facilitates alignment between policies and plans and manages risk in the Department. It develops Enterprise Risk Management Strategy and submits it to the DERM committee. This directorate drives the facilitation of risk identification and assessment, and the identification of control mitigating risks and control improvements. Other functions that are performed by the DERM include the following:

- ❖ Submits reports to the GDE Audit Committee.
- ❖ Develops and implements relevant policies such as GDE Code of Conduct.

- ❖ Reports to the Executive Management on ethics and integrity-related matters.
- ❖ Coordinates and implements risk management policies, guidelines and frameworks that are executed in more than one unit within the Department.
- ❖ Facilitates the implementation of risk management best practice in the Department (GDE, 2013).

### **3.2.3 Directorate: Compliance Inspectorate**

This directorate focuses on the following:

- ❖ Conducts forensic investigations.
- ❖ Promotes good governance.
- ❖ Protects information and persons who provide information.
- ❖ Liaises with all relevant stakeholders.
- ❖ Conducts initial verifications.
- ❖ Conducts financial forensic investigations.

### **3.3 FINANCIAL MANAGEMENT SERVICES BRANCH: CHIEF FINANCIAL OFFICER (CFO)**

The Financial Management Services branch assists the accounting officer in discharging the duties prescribed in chapter 5 of the PFMA and the Annual Division of Revenue Act. Those functions are to ensure sound management accounting, financial accounting and administration services.

Other functions that are performed include:

- ❖ Rendering sound management accounting and financial accounting services.
- ❖ Rendering overall procurement services for the GDE.
- ❖ Ensuring effective and efficient management of physical infrastructure delivery services.
- ❖ Preparing monthly and annual financial statements and management reports as required by PFMA and Treasury Regulation (GDE, 2013).

### **3.3.1 Chief Directorate: Corporate Finance**

According to GDE (2013), the purpose of this chief directorate is to ensure sound financial administration, financial accounting and management accounting services. The function of this directorate is to render financial accounting services and ensure that sound school funding management services are maintained. It also serves as a centre for financial planning and manages the assets of the GDE as required by the PFMA. This chief directorate consists of four directorates, namely financial administration, school funding management, financial planning and budgeting, and assets management. The purpose and functions of each directorate are outlined below.

#### **a) Directorate: Financial Administration**

The purpose of this directorate is to maintain a system of accurate financial records and accounts of the Department according to legal requirements. It has two functions to perform, namely:

- ❖ Maintains proper accounts and records systems.

- ❖ Produces monthly and annual statements of finances on all payments.

This directorate consists of three sub-directorates, namely payment processing, revenue management, and salaries and bookkeeping. All these three sub-directorates complement one another other but perform different functions as follows:

- ❖ **Payment processing:** All payments are processed in this sub-directorate. The sub-directorate is also responsible for tracking all the processed payments and progress reports on a daily basis. It compiles the sundry payments and does an analysis of accruals.
- ❖ **Revenue management:** This unit receives cash and ensures its effective and efficient administration. It ensures effective administration of petty cash and consolidates its statements for reporting. The sub-directorate is also responsible for debtors reconciliations and supporting documents.
- ❖ **Salaries and bookkeeping:** This sub-directorate is responsible for the authorisation of appointments and salaries of the employees. It manages all the payroll control. It also completes payroll control reports on a monthly basis.

#### **b) Directorate: School Funding Management**

The GDE (2013) outlines that the purpose of this directorate is to ensure sound school funding management services. It ensures sound financial governance and monitoring at schools and adherence with relevant pieces of legislation.

The directorate consists of two sub-directorates, namely:

- ❖ **School Financial Governance and Monitoring:** The main function of this sub-directorate is to monitor payments made by schools. It is also responsible for accounting and procurement of goods and services for section 20 schools as well as tracking their budget expenditure variants.
- ❖ **School Financial Management:** This sub-directorate includes funding and subsidy payments as part of its functions. It analyses an institution's financial statements and does the monthly expenditure tracking. It also coordinates school financial management and develops the criteria and guidelines for exemption from school fees and learner financial aid. The other responsibility of this sub-directorate is to calculate and maintain subsidies for ordinary, independent, special, early childhood development (ECD) and further education and training (FET) institutions.

### **c) Directorate: Financial Planning and Budgeting**

This directorate renders financial planning and management accounting services. It performs the following functions:

- ❖ Analyses operational plans for financial implications and determines associated costs.
- ❖ Prepares cost forecasts or projections.
- ❖ Prepares the budgets of the Department.
- ❖ Manages the budgeting process.
- ❖ Tracks budget expenditure variances and reports thereon.
- ❖ Prepares and effects budget adjustments.
- ❖ Applies expenditure controls.

- ❖ Provides financial information to assist management decision-making.
- ❖ Maintains the standard chart of accounts (GDE, 2013).

### **3.3.2 Chief Directorate: Supply Chain Management**

This chief directorate consists of a procurement directorate, which is relevant to the internal control function. The procurement directorate is further discussed below.

#### **❖ Directorate: Procurement**

The purpose of this directorate is to manage an efficient procurement function for Gauteng Department of Education. It has two main functions to perform, namely:

- a) Manage the procurement of learning and teaching support materials (LTSM), and develop and implement school-based procurement systems (GDE, 2013).
- b) Render contract administration services.

This directorate consists of three sub-directorates that perform different functions, namely:

**Goods and Services:** This sub-directorate is responsible for buying goods and services for the Department, manage service level agreements and policy development. It also serves as a secretariat for the Departmental Acquisition Committee (DAC).

**LTSM Procurement:** It manages tenders and procurement deliveries of LTSM and processes purchase orders. It also reports on LTSM delivery progress.

**Contract Administration Services:** It has three functions to perform, which are contract administration, financial payment administration, and budget monitoring (GDE, 2013).

### **3.4 STANDARD INTERNAL CONTROL PROCESS**

According to Atkison et al. (in Visser, 2011: 92-93), the standard internal control process has eight key steps, which are discussed below.

#### **❖ Development of objectives**

The first step in the process is to determine the objectives that the institution must achieve as part of a strategic management planning exercise and plan.

#### **❖ Set standards**

After the objectives of an institution have been determined, quantifiable standards must be set during the planning process that can be used as criteria for the assessment of the achievement of the objectives.

#### **❖ Measurement of actual performance**

Once the standards have been set, internal controls can be implemented. Thereafter, the control process must provide the actual measures of current performance against the set standards to establish whether progress is made towards the accomplishment of the institutional objectives.

### ❖ **Compare actual performance with standard and objectives**

During this stage, the actual performance of the activities of an institution must be compared with the set standards for the achievement of the objectives. This step will make the identification of differences – frequently referred to as variance – possible. This comparison can be both for the current time periods and for longer, cumulative periods. Although the comparison is a specific step in the control process, it is in practice often combined with the reporting of actual results and performance. As such, these comparisons depend on the actual performance and the set standards that were anticipated when the objectives were determined.

### ❖ **Analysis of the cause of deviations**

The next step in the control process is to determine the causes for the differences reported. In essence, it is the probing to identify the various casual factors as well as the efforts to measure the effect of each. With that said, it involves the collection of more detailed information about the various operational activities. At the same time, there must be an effort to determine both the immediate as well as the more basic causes. There should also be a judgmental evaluation of the importance of individual factors as causes for deviations. As a whole, this is an essential step in utilising the results portrayed in the two preceding steps. Such an analysis should be done by the relevant manager in conjunction with the internal auditor. It may sometimes happen that the actual performance measured against the set standards does not indicate any deviations and, therefore, does not require any corrective action.

### ❖ **Determination of appropriate managerial action**

The analysis of the causes of differences blends unavoidably to some extent with the determination of appropriate managerial action. In most cases, the responsible manager assisted by the internal auditor will make recommendations for management action. That being so, it is important that the available alternatives must be evaluated and a decision be made as to what extent specific action should be taken.

### ❖ **Taking action**

During this phase, the decision on the action that should be taken to correct the deviation for the set standards must be implemented. For that reason, instructions must be issued in such a manner that they give consideration to the required urgency, the level of the personnel being dealt with, and the complexity of the actions that must be taken. The corrective action that must be taken can sometimes be accomplished very quickly, such as by correcting an error, or it may extend over a long period, which may even include modifying a complex system. In all these cases, however, there should be a follow-up or feedback to satisfy the responsible manager that the action has been taken as was requested. Sometimes the proper action to take may be to do nothing at all, especially if there is knowledge of future developments that will be adequate to correct the current deviations. It may also happen that the cost of corrective action outweighs the risk, which makes it not feasible to implement the corrective action. It must, however, be recognised that taking no action is in itself a decision and, therefore, a kind of responsive action.

### ❖ **Continuous reappraisal**

The final step in the control process is the appraisal of the results after the aforementioned actions have been carried out. This is in effect a further check on the soundness of the earlier determination of needed action and the manner in which the actions were usually taken. Consequently, this final step provides the necessary linkage of the original control cycle to the next cycle. This continuing appraisal, therefore, blends in with the next analysis of the measurement of progress and determination of further managerial action. Indeed, post appraisal is a continuing action reflected in the input of changing conditions, more experience, and greater knowledge of all factors. However, McKinney (in Visser & Erasmus, 2008: 280) highlighted six steps that could be included in the process of evaluating, improving and reporting on an internal control system. These are as follows:

#### **a) Organisation**

This is the first step in which the responsibilities should be determined and assigned to ensure efficient evaluation, improvement and reporting on internal control. Responsibility should also be assigned for internal reporting, documentation, personnel supervision and scheduling of an evaluation process, which includes vulnerability assessments and internal control reviews.

#### **b) Divide the institution into various areas for assessment**

The institution should first be divided into components, programmes and administrative functions in order to facilitate evaluation of internal controls and execution of a vulnerability assessment. An assessment should be conducted in different units. The assessable units should be identified by considering factors

such as existing organisational structure, operating, number, special, and sub-programmes; administrative functions; uniqueness of operating systems; extent of centralisation or decentralisation; budget allocations; and number of personnel.

**c) Conduct vulnerability assessments**

Criteria and guidelines must be developed to determine programmes susceptible to waste, loss and unauthorised use or misappropriation. The potential existence of lack of compliance of costs and obligations with applicable policies and lack of adequate safeguarding of funds, property and assets must be assessed. Furthermore, exposure of assets to waste, loss or unauthorised use and lack of property recorded and accounted for revenues and expenditure generating unreliable financial reports and accountability for assets must be assessed.

**d) Develop plans for subsequent action**

The results of a vulnerability assessment should be analysed to determine necessary actions. The aim is to strengthen the system, whereby a more cost-effective result can be achieved. Programmes and functions should be classified according to vulnerability exposure, thereby ensuring timely achievement of improved outcomes and enhancement of the system. A corrective action can be taken by scheduling and implementing internal control reviews. Recommendations for an audit can be made wherein improved monitoring procedures are set. Training programmes should be developed and used to train staff in order for the staff to acquire the necessary knowledge and skills. A more comprehensive intervention can be made by issuing clearly stated instructions and modifying existing procedures and documents.

### **e) Conduct internal control reviews**

In the process of conducting internal control reviews, the event cycle should clearly be defined. The cycle consists of a series of actions to be taken in order to carry out a specific activity or function. An example is the administrative function, which can involve payroll issues, supplies, and the handling of correspondences. The general internal control environment should be analysed. The analysis includes the attitude of management; organisational structure; personnel; the extent and type of delegation of authority; policies and procedures; budgeting and reporting; and the extent, type and quality of organisational checks and balances.

Documenting of the event cycle involves preparation of a narrative explanation or flow chart that provides details in order to determine the adequacy of the system and requires a review of individuals in the event cycle as well as the observation and documentation of events. In the long-term, this provides an understanding of how activities, events or functions operate. When an evaluation of internal controls is conducted, the event cycle should be assessed to determine to what extent control objectives are pursued and to what extent the potential for waste, loss, unauthorised use, and misappropriation are minimised. It should be determined from written documentation whether the system provides adequate assurance that cost, commitments and obligations are in compliance with statutory provisions. The evaluation should, therefore, indicate whether the system makes provision for ensuring that an institution's funds, property, assets, and revenue are protected by putting the necessary safeguards in place. Secondly, it should ensure that expenditure is recorded in order to make the preparation of accounts and financial statements possible.

Internal controls must be tested continuously to minimise risks. The controls can be tested by using various sampling techniques, including observations and the review of documentation. The review should identify problems existing in control techniques that are not functioning as planned, and will indicate whether the objectives are being pursued as planned.

#### **f) Prepare reports on internal controls**

Two types of reports are prepared; the first, in which corrective actions are suggested, is submitted to programme managers; the second goes to heads of departments (directors-general). These reports include detailed descriptions of system weaknesses and ways to rectify these as well as recommendations in terms of economy and efficiency. Other aspects of internal control to be dealt with in these reports are the overall extent to which the system is efficient in providing the framework necessary for effective control functioning as well as the areas where internal controls are non-existent and those where they are planned. The areas in which internal controls and policies or procedural requirements are excessive and creating inefficiencies should also be dealt with in the reports.

### **3.5 DESIGN AND EVALUATION OF INTERNAL CONTROL SYSTEM**

According to Ratliff et al. (in Visser, 2011: 93), the design of control system is greatly influenced by specific objectives that management is striving to achieve. This revolves around the selection of the particular operational aspects that must be controlled, the determination of the extent to which these aspects must be controlled and a choice of the way in which control actions will be carried out. In this regard, Visser (2011: 93-94) considers the following factors:

- a) The degree of involvement of management.
- b) The integrity and efficiency of the personnel operating the system.
- c) The cost/benefit decisions when considering the design of the system.

### **3.5.1 Identification and assessment of potential risks**

In both public and private sectors, management has an important part of developing and designing a system of internal controls. Therefore, the first step that must be taken by management in this process is to identify the specific risks that face an institution, programme, activity or project under consideration (Gauthier, in Visser, 2011: 94). The common implicit assertions that management might make in the process of designing an internal control system occur when financial reports are issued, and they include the following:

- a) All the assets and liabilities included in the report actually exist and all the transactions and events have really occurred (existence or occurrence).
- b) The reports contain all relevant facts (completeness).
- c) All the assets and liabilities included in the report are truly assets and liabilities of the government (rights and obligations).
- d) All items have been properly classified; all transactions and events reported took place within the accounting period; and all assets and liabilities were present as of the last day of the financial year (allocation).
- e) The display and disclosure in external financial reports conform to the requirements of generally accepted accounting principles (Visser, 2011: 94).

An assessment of internal control can either be done by an internal or external auditor. According to Hillison, Pacini and Sinason (in Visser, 2011: 960), the failure of controls could be detected due to the following: lack of delegation of powers, poor communication, and poor discussion about rules and consequences of rules and laws about fraud. Accounting officers should make sure that continuous assessment in their respective departments is conducted. This assessment is important and will enable them to check if the systems of internal control are still reasonably effective. If the internal control assessment is not conducted, that could lead to organisational ineffectiveness, poor performance and poor financial management.

### **3.6 LIMITATIONS OF INTERNAL CONTROLS**

International Organisation of Supreme Audit Institution (2009) provides an outline of some of the limitations of internal controls. Some of the limitations are as follows:

- a) Challenges experienced might lead to failure to achieve the intended objectives.
- b) Sometimes information received through the internal control system has flaws.
- c) There are constraints of resources in the design of a control system. Personnel must consequently consider benefits of controls in relation to jobs. The maintenance costs are far more than the benefits that can be derived.

### **3.7 CONCLUSION**

This chapter dealt mainly with the structure of the internal control process and systems and did not cover the implementation thereof. It only gave a detailed outline on the purpose and functions of directorates and chief directorates that are responsible for the internal controls, as reflected on the 2013 organogram or realigned structure of GDE. The researcher has also discussed the standard internal control process, design and evaluation, and the limitations of internal controls. The effectiveness of the internal control processes and systems in monitoring financial resources at GDE will be tested in the next chapter through the questionnaires and/or interviews that the researcher conducted.

## **CHAPTER 4: RESEARCH METHODS AND RESEARCH RESULTS**

### **4.1 INTRODUCTION**

The foregoing chapter discussed the processes and systems of internal control at Gauteng Department of Education. This chapter will explore the research methodology that was applied to give responses and/or answers to the research questions as outlined in the first chapter. Both quantitative and qualitative methodologies were employed in this research. The concepts that were used in the research are explained in detail. These include research techniques, population sampling, data collection and analysis of data.

### **4.2 RESEARCH METHODOLOGY**

Research methodology focuses on the process of research and decisions that the researcher has to take to execute the research project (Brynard & Hanekom, 2006: 36). The researcher used two methodologies or methods in conducting this research; thus, quantitative and qualitative design or methodological models were employed. A detailed description of these two methodologies is given below.

#### **4.2.1 Quantitative methodology**

According to Mouton (in Brynard & Hanekom, 2006: 37), quantitative methodology relates to “analytical research and intends to reach a universal statement”. Numbers are assigned to observations and data is produced by means of counting as well as measuring things or objects. The questionnaire is designed in such a way that the researcher is able to count the number of respondents with a

common answer to a specific question. The total number of respondents with a common answer to a particular question gives the researcher qualitative data.

Babbie and Mouton (in Notsi, 2012: 69) point out things to be considered when a quantitative approach is applied. These include the following:

- ❖ Constructs must be quantified.
- ❖ A related topic concerns the central role of variances in describing and analysing human behaviour. This has become known as analysis variables.
- ❖ The central role afforded to control sources of error in the research process. The nature of the control is either through experimental control (in experimental designs) or through statistical controls (in multivariate analyses). Critics of the quantitative approach would argue that this obsession with control is another sign positivist assumption that the social sciences should be modelled according to the natural sciences.

#### **4.2.2 Qualitative methodology**

Qualitative methodology refers to research that produces descriptive data – generally the participant’s own written or spoken words pertaining to their experience or perception (Brynard & Hanekom, 2006: 37). In most cases, there are no numbers or counts that are assigned to these observations. In this research, the researcher also used this method to interpret the quantitative data gathered. For example, if 90% of the participants have attended all the capacity building workshops on internal control, then the qualitative interpretation of that data could be that the personnel in the internal control unit have the required knowledge and

skills to perform their functions. Thus, the researcher used this method in each question to give the narrative interpretation of the quantitative data that was gathered through the questionnaire.

Ludidi (in Notsi, 2012: 68) outlined the seven sequences that qualitative method entails. These sequences are as follows:

- ❖ Qualitative approach and its assumptions.
- ❖ The required logic of selecting a site, a sample, the participants or any combination of these.
- ❖ Overall design and method of collecting data method are chosen.
- ❖ Intensive aspects of field work are acknowledged.
- ❖ Ethical issues containing private and confidential information are considered.
- ❖ The participants' necessary resources.
- ❖ Trustworthiness of a design that can be observed and replicated.

According to Struwig and Stead (in Jonas, 2011: 59), there are four characteristics of qualitative research method. They can be described as follows:

- ❖ The participant's and researcher's perspective: the perspective of participants forms an integral part of the research issues and it is the researcher's responsibility to analyse and interpret the research data in association with the participants.
- ❖ Contextualisation: detailed environmental analysis and description of research participants is indispensable as human behaviour does not occur in a vacuum. The various macro and micro contexts of the individual and the

interaction thereof with one another is a fundamental aspect to provide a holistic view that examines a social environment in its totality.

- ❖ Process research: interrelated events and the understanding of influence of prior events and the individuals' thoughts and behaviours are crucial in the research process and should be examined at an early stage of the research.
- ❖ Flexibility and the use of theories: qualitative researchers attempt to approach a research problem in an unstructured manner and with open-mindedness.

Mkumbeni (in Jonas, 2011: 59) highlighted the advantages of the qualitative research approach as follows:

- ❖ It is an approach that is bounded on context. The appraisal of attitudes and preferences of persons are contextualised.
- ❖ It occurs in a natural environment, in the field where the subject of research is found.
- ❖ The qualitative approach is concerned with the holistic experiences of humans. The external factors that can influence the situation are considered.
- ❖ Human beings are regarded as instruments meant to gather data by interacting with other people in the same set-up.
- ❖ The personal journal is used to record the ideas and feelings of the participants.
- ❖ It has a meaningful and realistic feature.
- ❖ Both the researcher and respondents determine the research setting.

## 4.3 RESEARCH INSTRUMENTS

### 4.3.1 Validity

Validity is defined as the ability of an instrument to measure what it is supposed to measure (Brynard & Hanekom, 2006: 47). The measurement made by an instrument gives an accurate reflection of the concept it is intended to measure (Notsi, 2012: 73). According to Bless and Higson-Smith (in Brynard & Hanekom, 2006: 48), there are five validity criteria that can be used to test the validity of a design or an instrument. These criteria are discussed below.

- ❖ **Content validity:** usually refers to the correctness and appropriateness of the questions included in a test or questionnaire. It is advisable to test the correctness, relevance and lucidity of the questions in a preliminary investigation. Duplication of questions can thus be avoided. The results of a preliminary investigation will also help determine whether or not the questions included are relevant to the research problem.
- ❖ **Criterion-related validity:** involves testing whether or not an instrument (A) selected for data collection measures what it is expected to measure and whether or not it can be compared to another instrument (B), which is known to be valid. If the data collected through both instruments closely match, then instrument (A) is also valid. The stipulation is that the two sets of data should be collected from the same group of subjects.
- ❖ **Construct validity:** refers to the degree to which a measurement technique uncovers the information which it was designed to uncover. For example, questions for a questionnaire should be specifically designed to obtain the desired information.

- ❖ **Face validity:** is concerned with the way an instrument appears to the participants. For example, do they view it as so simple, childish and boring that they experience it as an insult to their intellect, or does it appear so difficult that the participants give up even before starting? It is therefore based on the subjective judgment of the researcher and the respondents.
- ❖ **External validity:** refers to the applicability to similar problems of the conclusions drawn from the research, provided that the sample is representative and that the study is a simulation of the real world and real-life situations.

### **4.3.2 Reliability**

Reliability refers to consistency and correctness of measures taken (Brynard & Hanekom, 2006: 48). If the same instrument is used under the same conditions at a later stage, it must be able to produce the same data. The techniques that follow have been developed in order to ensure accuracy on reliability (Notsi, 2012: 72).

#### **❖ Reliability of research workers**

The researcher attempts to verify selected pieces of information. The researcher takes the initiative to call some of the respondents in order to check the reliability of the given information (Brynard & Hanekom, 2006: 48).

#### **❖ The split-hall method**

The researcher makes more than one measurement of any subtle or complex social concept such as prejudice, alienation, organisational culture or social class. This procedure lays the groundwork for another check on reliability.

#### ❖ **Test-retest method**

The same measurement is repeatedly made by the researcher.

#### ❖ **Using established measures**

The information is received from people by means of using measures that have proven their reliability in previous research.

### **4.4 DATA COLLECTION**

Different methods were used to collect data in this research and that include literature study of articles; journals; books; published and unpublished dissertations; Final Management Reports; Auditor-General's Reports; Treasury Regulations; PFMA; and Internal Control Framework. All these sources are supplemented by the use of two research techniques, which are questionnaires and interviews respectively. The data that has been collected has a direct response to the research questions, such that it clarifies the meaning of internal control and also outlines the extent to which the processes and systems of internal control mechanisms are effective at Gauteng Department of Education.

Furthermore, data collected reveals the challenges that the Gauteng Department of Education experiences in the implementation of internal control mechanisms. The researcher used two research techniques in this research, namely questionnaires and interviews. The detailed explanation of these two techniques is given in the subsections that follow.

#### **4.4.1 Questionnaire**

A questionnaire is a set of written questions and/or statements to which the research subjects are to respond to in order to provide data, which are relevant to a research topic (Ravhura, 2006: 32). The questionnaire was found to be the appropriate technique used in this study because the participants were given time to think and respond to the questionnaire (Brynard & Hanekom, 2006: 46). The researcher used the questionnaire to measure some characteristics or opinions of the respondents (May, in Nong, 2007: 48). Furthermore, this questionnaire helps the researcher to determine the biographical information, behaviour, perceptions, beliefs, views, attitudes and experiences of the departmental officials about the internal control mechanisms in monitoring financial resources at the Gauteng Department of Education.

According to O'Leary (2004: 154-155), the questionnaire has more advantages over other research techniques in the sense that its distribution is relatively cost-effective in terms of time, money and travelling. The researcher can send questionnaires to a wider geographical area such that the respondents can complete them when it is convenient for them. The use of the questionnaire affords participants the opportunity to respond anonymously and openly, particularly on controversial issues (Nong, 2007: 49).

Cummings (in Ravhura, 2006: 33) views a questionnaire as an efficient and effective way of data collection because it can be administered to large numbers of people at the same time. The responses given by the participants over the questionnaire could be easily summarised and quantified. It becomes easy for the

researcher to use large samples and obtain large volume of data when applying a questionnaire technique in his or her research.

In this research, there are three sections of the questionnaire that are used. The first section is based on biographical data collection, wherein the respondents are asked questions about their age, highest academic and professional qualifications, period of service at the Gauteng Department of Education, and period engaged in implementing internal controls. The second section tests the competency levels of respondents, and questions asked involve the confidence levels of respondents on internal control functions; the extent of training received; their supervision and leadership roles; the extent of their understanding of the function; and their views on the effectiveness of the internal control functions. Thirdly, the researcher asked questions that probe the lapses that the respondents feel exist in the internal control function and the recommendations they offer for redress.

#### **4.4.2 Interviews**

Interviews are a means of data collection that gives the researcher an opportunity to clarify questions for the respondents (Brynard & Hanekom, 2006: 40).

Huysamen (in Brynard & Hanekom, 2006: 44) has the following points which serve to eliminate bias in the interview process:

- ❖ The interviewer should avoid leading questions, i.e. questions in which a desired answer is implied.
- ❖ The interviewer should have a properly selected sample of interviewees.

- ❖ Some questions should be stated indirectly. For example, instead of asking a person how often he or she takes a meal, it could be put to the interviewee that a well-known doctor has said that too many meals a day is not conducive to good health. The interviewee can then be asked for his or her experience in this particular respect.
- ❖ Although conflicting stories may be put forward, talking to all the people involved in a specific administrative unit will lead to a fairly accurate and complete picture of what is actually happening in that unit.
- ❖ The interviewer should pose specific, detailed questions and check and recheck conflicting data.

#### **4.4.3 Sampling**

According to Brynard and Hanekom (2006: 54), sampling is “an approach used to select a particular sample with a view to determine the features of a large group”. It can also be referred to as a way of collecting data for generating theory, whereby analysts code and analyse the same data collectively (Babbie & Mouton, in Notsi, 2012: 75). Population refers to any group of individuals or objects that share common characteristics and represents the whole or sum total of cases involved in a study (Notsi, 2012: 75).

The researcher used the following approaches in order to gather all the data in this research:

- ❖ Forty-five employees were sampled from the Enterprise Risk Management; Internal Control; Compliance Inspectorate; Financial Administration; School Funding Management; Procurement as well as Financial Planning and

Budgeting. The sampled group of employees includes internal auditors, state accountants and audit committee members, deputy directors, directors, and chief directors.

- ❖ A sampled group of employees was gathered in the boardroom, and the researcher was afforded an opportunity to give the background of this research. In his remarks, the researcher assured the group about the confidentiality of their responses and reiterated that names are not necessary in this regard. As such, the group was encouraged to do justice to the process in terms of answering the questionnaire to the best of their abilities.
- ❖ The researcher has given every employee in the sampled group a questionnaire to complete.
- ❖ A total of 30 minutes was allocated as the duration for the sampled employees to complete all the three sections of the questionnaire.
- ❖ The researcher requested the respondents to return or submit the completed questionnaire with answers at the end of the session.

#### **4.5 DATA ANALYSIS**

At the end of 30 minutes session, all respondents submitted the completed questionnaire to the researcher. The researcher examined and analysed the data (answers from respondents) intensively in order to get to an informed conclusion. Furthermore, the researcher classified the collected data according to the commonality of responses per question.

## Section A: BIOGRAPHICAL DATA

Table A1: Age of the respondents

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Between 18 and 30 years	9	20	9	20
Between 31 and 40 years	22	48.9	31	68.9
Between 41 and 50 years	9	20	40	88.9
Between 51 and 60 years	5	11.1	45	100
61 years and above	0	0	0	0

Twenty per cent of the respondents are between the ages of 18 and 30 while 48.9% is between 31 and 40 years. Only 11.1% of the respondents are aged between 51 and 60. The age group of the respondents who are between 41 and 50 are also at 20%.

**Table A2: Highest academic and professional qualification**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Grade 12	0	0	0	0
Grade 12 plus 3 years Bachelor's degree/National Diploma	35	77.8	35	77.8
Honours Degree	7	15.6	42	93.5
Master's Degree	3	7.0	45	100
Doctorate (PhD)	0	0	0	0

The respondents' highest academic and professional qualification acquired is grade 12 plus a three-year bachelor's degree or national diploma. This means that 77.8% of them have actually managed to complete grade 12 and a three-year bachelor's degree or national diploma qualification. There is only 15.6% who acquired an honours degree and 7.0% employees having obtained a master's degree.

**Table A3: Period of service at the Department of Education**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Between 1 and 4 years	10	22.2	10	22.2
Between 5 and 10 years	17	37.8	27	60
Between 11 and 20 years	12	26.7	39	86.7
Between 21 and 30 years	6	13.3	45	100
31 years and above	0	0	0	0

The statistics in the table above indicate that 17 (37.8%) of the respondents have worked for Gauteng Department of Education for between five and ten years. Those who worked there for between 11 and 20 years are at 26.7%. Only 22.2% worked there for between one and four years. The respondents who have work experience of 21 and 30 years are at 13.3%.

**Table A4: Period engaged in implementing internal control**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
1-2 years	4	8.9	4	8.9
3-4 years	6	13.3	10	22.2
5-7 years	16	35.6	26	57.8
8-10 years	12	26.7	38	84.4
More than 10 years	7	15.6	45	100

The new employees who have between one and two years work experience in GDE are at 8.9% while those that have worked for three to four years are at 13.3%. The respondents who were engaged in the implementation of internal control for a period between five and seven years are at 35.6%, whereas those that were engaged for 8-10 years are at 26.7%. Employees who worked for more than 10 years at GDE performing the internal control function are at 15.6%.

## Section B: COMPETENCY LEVEL OF RESPONDENTS

**Table B1: Level of confidence on internal control function**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Lower level	0	0	0	0
Average level	25	55.6	25	55.6
Higher level	20	44.4	45	100

The statistics indicate that 25 (55.6%) of the respondents have an average level of confidence on the internal control function. Only 44.4% of the respondents have a high level of confidence on the internal control function.

**Table B2: Extent to which training on internal control was received**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
0-1 years	5	11.1	5	11.1
2-3 years	15	33.3	20	44.4
4 years and more	25	55.6	45	100

Twenty-five (55.6%) respondents indicated that employees of the Gauteng Department of Education receive internal control training that has a duration of more than three years. Only 5 (11.1%) of the respondents received training with a duration between zero and one year. The respondents who attended training on internal control for the duration between two and three years are at 33.3%.

**Table B3: Numbers of times on which responsible managers play the roles of supervision and leadership on internal control matters**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Weekly	10	22.2	10	22.2
Monthly	30	66.7	40	88.9
Quarterly	5	11.1	45	100

The managers play the roles of supervision and leadership on internal control on a monthly basis. This is indicated by 66.7% of the respondents. Only 11.1% of the respondents indicated that the supervision and leadership on internal control matters is done on a quarterly basis.

**Table B4: Understanding of internal control function**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Good	20	44.4	20	44.4
Very Good	15	34.3	25	55.6
Excellent	10	22.2	45	100
Minimal	0	0	0	0

Majority of the respondents, i.e. 20 (44%) have a good understanding of the internal control function. It was found that 15 (34.3%) of them have a very good understanding of the internal control function while 22.2% has an excellent understanding.

**Table B5: Effectiveness of processes and systems of internal control at Gauteng Department of Education**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Not effective	8	17.8	8	17.8
Partially effective	30	66.7	37	82.2
Very effective	7	15.6	45	100

The statistics indicate that 30 (66.7%) of the respondents regard the process and systems of internal control at Gauteng Department of Education as partially effective. Only eight (17.8 %) of the respondents regard the processes and systems of internal control at Gauteng Department of Education as not effective. It is only seven (15.6%) of the respondents who regard the processes and systems of GDE internal control as very effective.

**Table B6: Challenges experienced in the implementation of internal control functions**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
More	30	67.4	30	67.4
Less	15	33.3	45	100
None	0	0	0	0

Sixty-seven percent (67%) of the respondents acknowledged that there are more challenges that are experienced in the implementation of internal control functions. Only 33.3% of the respondents show that the challenges that are experienced in the implementation of the internal control are less.

**Table B7: Your personal view on the implementation of internal control by GDE**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
High level	6	13.3	6	13.3
Low level	10	22.2	16	35.9
Average	29	64.4	45	100

The statistics indicate that 29 (64.4%) of the respondents view the implementation of internal control as being at an average level. There are only six (13%) of the respondents who view the implementation of internal control by GDE at a high level. The last row shows that 10 (22.2%) of the respondents view the implementation of internal control at a low level.

## SECTION C: THE LAPSES THAT EXIST IN THE INTERNAL CONTROL FUNCTIONS AND RECOMMENDATIONS

### C1: CONTROL ENVIRONMENT

**Table C1.1: Policies and procedures of GDE are reviewed on an annual basis by the Management team**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	35	77.8	35	77.8
Agree	10	22.2	45	100
Disagree	0	0	0	0
Strongly Disagree	0	0	0	0

The majority of the respondents (77.8%) strongly agree that the policies and procedures of GDE are reviewed on an annual basis. Other respondents at 22.2% concur with the statement by agreeing that the management of the GDE review the policies and procedures as required.

**Table C1.2: The internal control systems are effectively implemented to avoid incurring irregular, fruitless and wasteful expenditure**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	0	0	0	0
Agree	5	11.1	5	11.1
Disagree	30	66.7	35	77.8
Strongly Disagree	10	22.2	45	100

The table above indicates that 66.7% of the respondents disagree with the statement that the internal control systems are effectively implemented to avoid irregular, fruitless and wasteful expenditure. The records above show that 22.2% strongly disagree with the statement while 11.1% agrees.

## C2: RISK ASSESSMENT

**Table C2.1: Programme Managers conduct a risk assessment when the Department is planning and approving new projects in the internal control directorate**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	11	24.4	11	24.4
Agree	11	24.4	22	48.9
Disagree	20	44.4	42	93.3
Strongly Disagree	3	6.7	45	100

The statistics indicate that 44.4% of the respondents disagree with the statement that programme managers conduct a risk assessment when the department plans and approves new projects in the internal control directorate. There is only 24.4% that both agrees and strongly agrees with the statement while 6.7% strongly disagrees.

**Table C2.2: Risk Assessment is performed periodically on each project before it can be undertaken by the Department**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	3	6.7	3	6.7
Agree	4	8.9	7	15.6
Disagree	17	37.8	24	53.3
Strongly Disagree	21	46.7	45	100

The records above indicate that risk assessment is not performed periodically on each project before the roll-out. This is shown by 46.7% of the respondents who strongly disagree with the statement that periodic risk assessment is performed. On the other hand, 37.8% of the respondents also disagree with the statement that risk assessment is periodically conducted. Only 8.9% of the respondents agree with the statement while 6.7% strongly agrees.

### C3: INFORMATION AND COMMUNICATION

**Table C3.1: Different Directorates which are delegated to perform an internal control function on finances develop appropriate reports on a monthly basis**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	21	46.7	21	46.7
Agree	24	53.3	45	100
Disagree	0	0	0	0
Strongly Disagree	0	0	0	0

Responses reveal that 53.3% of the respondents agree that reports are developed on a monthly basis while 46.7% of them strongly agreed with the statement.

**Table C3.2: Employees of the Gauteng Department of Education understand the importance of internal control, including division of responsibility**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	33	73.3	33	73.3
Agree	12	26.7	45	100
Disagree	0	0	0	0
Strongly Disagree	0	0	0	0

The table above indicates that 73.3% of the respondents strongly agree that employees of the GDE understand the importance of internal control, including division of responsibility. The records above also indicate that 26.7% of the respondents agree with the statement.

**Table C3.3: GDE communicates any delay on payments to different service providers and other stakeholders on time**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	0	0	0	0
Agree	0	0	0	0
Disagree	19	42.2	19	42.2
Strongly Disagree	26	57.8	45	100

It was revealed that 57.8% of the respondents strongly disagree with the statement that GDE communicates any delay on payments to different service providers. It is only 42.2% of the respondents who disagree and confirm that no communication is made with the service providers about the delay of payments.

**Table C3.4: The Auditor-General is frequently invited to meet with the internal control section for dialogue and support**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	20	44.4	20	44.4
Agree	25	55.6	45	100
Disagree	0	0	0	0
Strongly Disagree	0	0	0	0

Responses collected show that 55.6% of the respondents agree that the Auditor-General is frequently invited to meet with the internal control section for dialogue and support. The respondents who strongly agree with the statement are at 44.4%

#### **C4: CONTROL ACTIVITIES**

**Table C4.1: GDE has a reliable system to verify compliance with the leave requirements before approval can be granted to employees for leave application**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	0	0	0	0
Agree	8	17.8	8	17.8
Disagree	23	51.1	31	68.9
Strongly Disagree	14	31.1	45	100

In the table above, it can be seen that 51.1% of the respondents disagree and 31.1% strongly disagree with the statement on verification of compliance on leave requirements. Only 17.8% agrees with the statement and confirm that verification is done.

**Table C4.2: GDE has a system in place to verify the employees' leave information before any payment or deduction can be made**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	0	0	0	0
Agree	1	2.2	1	2.2
Disagree	30	66.7	31	68.9
Strongly Disagree	14	31.1	45	100

The statistics reveal that 66.7% of the respondents disagree with the statement that GDE has a system to verify employees' leave information before any payment or deduction is made. The respondents also indicated during the short interview that their salary advice slips are always indicating that leave days of employees are not yet audited by Human Resource section. The other 31.1% of the respondents strongly disagree with the statement and confirm that there is no verification of leave information before any payment or deduction is made on the employee's salary. It is only 2.2 % of the respondents that agree with the statement.

## C5: MONITORING

**Table C5.1: The Audit Committee of the Department monitors the implementation of internal control effectively**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	6	13.3	6	13.3
Agree	9	20	15	33.3
Disagree	17	37.8	32	71.1
Strongly Disagree	13	28.9	45	100

The statistics show that 37.8% of the respondents disagree that the implementation of internal control is effectively monitored by the audit committee while 28.9% of them strongly disagree with the statement. It is only 20% of them that agree that there is an effective monitoring of the implementation of internal controls by the audit committee while 13.3% strongly agrees with the statement.

**Table C5.2: Senior Managers in different directorates monitor compliance by ensuring that the Chief Financial Officer receives certified payroll certificates on time**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Frequency</b>	<b>Cumulative Percentage</b>
Strongly Agree	3	6.7	3	6.7
Agree	5	11.1	8	17.8
Disagree	10	22.2	18	40
Strongly Disagree	27	60	45	100

Majority of the respondents (60%) indicates that senior managers do not monitor compliance to ensure that certified payroll certificates are submitted to the CFO on time. Additionally, 22.2% of the respondents disagree with the statement that compliance is monitored. Only 6.7% of the respondents strongly agree that senior managers monitor compliance and 11.1% of them also agree with that statement.

#### **4.6 CONCLUSION**

In this chapter, the research methodology was defined, and two types of methodologies were discussed in detail. The researcher has also presented the discussion on research instruments. Data was collected and analysed. Short interviews were also conducted with some participants for further clarity on other issues or questions from the questionnaire. The population sampling was also

discussed. The next chapter will outline the detailed findings from the data that was analysed.

## **CHAPTER 5: FINDINGS, RECOMMENDATIONS AND CONCLUSION**

### **5.1 INTRODUCTION**

The previous chapter was an empirical study on the impact of internal control and its implementation on service delivery at Gauteng Department of Education. In this chapter, the researcher gives a summary of the previous chapters. Both the realisation of objectives and hypothesis are discussed. The detailed discussions of the findings are undertaken. The chapter is completed by recommendations on how internal control mechanisms can be made effective in monitoring financial resources at Gauteng Department of Education.

### **5.2 SUMMARY OF CHAPTERS**

Chapter 1: The background and rationale to the study was discussed. The detailed discussions on the problem statement, hypothesis, research questions and research objectives were outlined.

Chapter 2: A theoretical exposition of the concept of internal control mechanisms was given. The chapter also gave a definition of the concept of internal control. The legal framework, which regulates internal control, was discussed in detail. The objectives of internal control were explored. The chapter also gave a detailed explanation of the components and characteristics of internal control systems. Furthermore, the operational means of internal control were discussed. The last part of the chapter speaks to the possible problems that can be encountered as well as role players in the implementation of internal control.

Chapter 3: The chapter outlined the structure of internal control processes and systems at the Gauteng Department of Education. It gave an outline of the purpose and functions of different chief directorates and directorates that perform the internal control function. The standard internal control process, with its eight key steps, was discussed. The design, evaluation and limitations of internal control were also discussed.

Chapter 4: The chapter entailed the empirical study of the research. Different research methods used for the study were explained, such as qualitative and quantitative methods. The method of collecting data was outlined. A questionnaire consisting of three sections was given to the respondents in order for them give information. A clear analysis of data was done. Research ethics were clarified.

### **5.3 REALISATION OF THE RESEARCH OBJECTIVES**

As stated in the first chapter, the first objective was to give a theoretical exposition of the concepts of internal control mechanisms. This objective was realised in Chapter 2, where definitions of internal control were clearly discussed, including the legal framework, objectives, components, operational means, possible problems and role players in the internal control functions.

Objective number two was to describe the processes and systems of internal control at Gauteng Department of Education. It was achieved in Chapter 3, where a detailed discussion of processes and systems of internal control at Gauteng Department of Education was presented.

Objective number three was to conduct research into the effectiveness of internal control mechanisms at Gauteng Department of Education. This objective was realised in the fourth chapter. The realisation of this objective was done by means of data collection with responses from sampled employees of the Department as respondents. The researcher made an analysis as well as a summary of the data.

Objective number four was to provide recommendations from the findings that may assist Gauteng Department of Education in strengthening the implementation of internal controls for effective service delivery. This objective will be attained later in this final chapter.

#### **5.4 TESTING OF THE HYPOTHESIS**

As stated in Chapter 1, the study was meant to investigate the effectiveness of internal control mechanisms in monitoring financial resources at Gauteng Department of Education. An investigation was made on this objective by means of conducting a test on hypothesis, which states that effective implementation of internal control mechanisms by officials of Gauteng Department of Education is likely to promote efficient monitoring of resource use. Both the literature and empirical evidence were used to support the statement that the effectiveness of internal control mechanisms in monitoring financial resources can enhance service delivery.

## 5.5 FINDINGS

The findings in this study are based on the research questions that have been outlined in Chapter 1 as follows:

- ❖ What is meant by internal control mechanisms?
- ❖ How effective are processes and systems of internal control at Gauteng Department of Education?
- ❖ What are the challenges that Gauteng Department of Education experienced in the implementation of internal control mechanisms?
- ❖ What recommendations can be offered to improve the implementation of internal control mechanisms at Gauteng Department of Education?

The researcher attempted to address these research questions by assessing the effectiveness of internal control mechanisms in monitoring financial resources at Gauteng Department of Education. The summary of findings is outlined below.

### ❖ **Review of policies and procedures**

All policies and procedures are reviewed on an annual basis by different directorates in consultation with relevant stakeholders. The reviewed policies and procedures are communicated to all employees of the Department through circulars.

### ❖ **Systems to prevent irregular, fruitless and wasteful expenditure**

The systems to prevent the Department from incurring irregular, fruitless and wasteful expenditure are in place but not implemented. Some managers – out of their own unethical behaviour – decide not to implement the available systems. It

has been revealed during the short interviews that some of the managers deliberately do not comply with the internal control systems of the Department so that they can conduct irregular transactions for personal benefit.

**❖ Evaluation of risks during planning and approval of projects**

There is usually no evaluation of risk conducted during planning and approval of projects. Some respondents indicated during the short interviews that only consultants do evaluations on some projects as and when they are contracted for specific jobs.

**❖ Periodic risk assessment on individual projects of the Department**

There is no periodic risk assessment conducted on individual projects.

**❖ Internal control reports on finances**

All directors submit the financial reports of their directorates on a monthly basis, which clearly indicate how budgets are flowing in terms of expenditure. It emerged during the short interviews that senior officials of the Department restrict their subordinate from giving authentic reports. Some of the irregularities are hidden and not reflected on the monthly reports.

**❖ Understanding the importance of internal control and division of responsibility by GDE employees**

GDE employees understand the importance of internal control and division of their responsibility fairly well. This is supported by the fact that all employees are employed on merit, and there is no employee delegated to perform internal control

functions without proper qualifications as reflected in section A of the questionnaire.

**❖ Communication on the delayed payment of services rendered**

The Department does not communicate any delay on payments of services even after the invoices or statements have been submitted. It has never complied with the call of the Premier of Gauteng on paying service providers within 30 days of receiving an invoice. The service providers usually start complaining to the Department about the delayed payments. The accounts of the bursary holders of the Department at different universities are not paid on time, and the Department keeps quite about it and does not communicate delays on settlement of those accounts.

**❖ Frequent meetings with the Auditor-General**

The Auditor-General meets frequently with the internal control section of the Department for dialogue and support, but financial reports are not shared with the Auditor-General during those meetings. It is just a meeting to share good practice. It is only the Auditor-General who always gives out some important documents for information.

**❖ Verification of requirements before leave is granted**

Leave policy requirements are not always met. A number of employees go on leave before their leave is approved, and they still get paid for those days taken. This shows lack of control by the respective supervisors. The employees are paid for the days they did not work for, and this resembles a deficiency on internal control of financial resources.

**❖ Existence of Audit Committee to monitor the implementation of internal control function**

The Department has an existing audit committee which holds meetings on a monthly basis. This committee is functional but has some weaknesses on the performance of its audit function. It is against this background that the Department incurred irregular, fruitless and wasteful expenditure as reported in both the Final Management Report and Auditor-General Report of 2012/2013 financial year. In fact, the audit committee should have noticed that irregular, fruitless and wasteful expenditure well in advance and mitigated it before the Auditor-General conducted his audit.

**❖ Submission of payroll certificates to the Chief Financial Officer**

Most of the directorates return payroll certificates to the CFO quite late – after 10 days of being certified. The majority of employees do not know the importance of signing the payroll register on time. Other directorates sign them on time but submit them very late to the CFO; that indicates lack of monitoring.

**❖ Strategy to deal with unauthorised leave taken by employees**

The principle of “no work, no pay” applies for any unauthorised leave taken by the employees as a result of a labour strike. However, there are no penalties imposed for unauthorised leave emanating from personal commitments. Such employees usually get their full salary at the end of the month. It shows that there is a lack of internal control on finances and personnel.

## 5.6 RECOMMENDATIONS

The researcher made the following recommendations based on the findings of the study for consideration by Gauteng Department of Education:

- ❖ Employees should be encouraged to familiarise themselves with all the reviewed policies and procedures of the Department on an annual basis. The Department should also hold policy indabas on an annual basis wherein changes and amendments made in individual policies are communicated.
- ❖ GDE should enforce full implementation of its internal control systems to prevent irregular, fruitless and wasteful expenditure. The audit committee should be effective in performing its roles and responsibilities. All members of the audit committee should be trained to enhance their capacity on internal control in monitoring financial resources of the Department. The audit committee should be effectively functional to the extent that it can identify all those managers with unethical behaviour of fraudulently benefiting themselves from public funds well in advance before the Auditor-General can find it.
- ❖ Risk assessment should be done to all projects and programmes of the Department on a regular basis. The implementation of a risk assessment would enable the Department to develop risk management plans, which would serve as mitigation or intervention strategies for any unforeseen circumstances that might occur. Furthermore, the GDE should also conduct a risk assessment for projects that are to be rolled out by its Agencies. This

would enable the Department to use other alternatives in the event where Agencies fail to deliver on the given projects.

- ❖ Financial reporting should be done regularly, i.e. monthly, quarterly and annually.
- ❖ GDE should strengthen communication with relevant stakeholders, including service providers and/or anybody owed by the Department. A hotline should be established and well maintained so that it can be able to register all queries and complaints from different stakeholders on a daily basis. The Department should be able to give feedback on the reported delay of payment within at least three working days.
- ❖ The CFO should apply strict measures to managers who submit payroll certificates later than the stipulated time. Late submission is a serious misconduct and warrant disciplinary measures to be taken against the perpetrator. It should be made clear to all responsible managers that late submission without a valid reason is not tolerated at all.
- ❖ Responsible managers should strengthen the administration of leave in order to be compliant with the leave policy requirements. GDE should keep on applying the principle of “no work, no pay” for any unauthorised leave taken by the employees. The same principle should apply even on the leave taken by employees for personal commitments without attaching proof as required by policy.

## **5.7 CONCLUSION**

Internal control is a critical system to monitor financial resources within Gauteng Department of Education. The Department can only be able to attain a clean, unqualified audit outcome if its internal control is strengthened. The internal control system is a tool which can enhance an effective and efficient monitoring of financial resources. All the components of internal control prescribed by COSO must be fully implemented in an integrated manner to strengthen the monitoring of financial resources. The objectives that have been outlined in Chapter 1 have all been realised. Findings and recommendations were made to enable GDE to improve its internal control system.

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# APPENDICES

**Annexure A**

**EFFECTIVENESS OF INTERNAL CONTROL MECHANISMS IN MONITORING FINANCIAL RESOURCES AT GAUTENG DEPARTMENT OF EDUCATION**

**QUESTIONNAIRE**

The researcher is a Masters candidate at North-West University. The purpose of the questionnaire is merely academic – to fulfil the requirements for a Master’s degree; aspects will also assist the GDE in improving systems of internal control. The responses to this questionnaire and all information obtained from the Department will be held in strict confidence. Please do not write your name on this questionnaire.

	<b>SECTION A: BIOGRAPHICAL DATA</b>	
	<b>Complete the following by indicating with an (X) the statement applicable to you.</b>	
1	<b>Age</b>	
	Between 18 and 30 years	
	Between 31 and 40 years	
	Between 41 and 50 years	
	Between 51 and 60 years	
	61 years and above	
2	<b>Highest qualifications</b>	
	Grade 12	
	Grade 12 plus 3 years degree/national diploma	
	BTech/Honours degree	
	Master’s degree	
	Doctorate (PhD)	

3	<b>Period of service at the Department of Education</b>	
	Between 1 and 4 years	
	Between 5 and 10 years	
	Between 11 and 20 years	
	Between 12 and 30 years	
	31 years and above	
4	<b>Period engaged in implementing internal control</b>	
	1-2 years	
	3-4 years	
	5-7 years	
	8-10 years	
	More than 10 years	

**SECTION B: THE COMPETENCE LEVEL OF RESPONDENTS**

<b>Indicate with an (X) the statement applicable to you.</b>							
<p><b>1. What is your level of confidence on internal control functions?</b></p> <table border="1"> <tr> <td>Lower level</td> <td></td> </tr> <tr> <td>Average level</td> <td></td> </tr> <tr> <td>Higher level</td> <td></td> </tr> </table>		Lower level		Average level		Higher level	
Lower level							
Average level							
Higher level							
<p><b>2. To what extent did you receive training on internal control function?</b></p> <table border="1"> <tr> <td>0-1 year</td> <td></td> </tr> <tr> <td>2-3 years</td> <td></td> </tr> <tr> <td>More than 3 years</td> <td></td> </tr> </table>		0-1 year		2-3 years		More than 3 years	
0-1 year							
2-3 years							
More than 3 years							

**3. How often do responsible Managers play the roles of supervision and leadership on internal control matters?**

Weekly	
Monthly	
Quarterly	

**4. To what extent is your understanding of the internal control function?**

Good	
Very good	
Excellent	
Minimal	

**5. How effective are processes and systems of internal control at your department?**

Not effective	
Partially effective	
Very effective	

**6. Are there any challenges that are experienced in the implementation of internal control?**

Yes	
No	
Not sure	

**SECTION C: THE LAPSES THAT EXIST IN THE INTERNAL CONTROL FUNCTION**

**The questions in this section are classified under each component of internal control. Indicate with (X) the statement applicable to you.**

**C1: CONTROL ENVIRONMENT**

a) Policies and procedures of GDE are reviewed on an annual basis by the Management team.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

b) The internal control systems are effectively implemented to avoid incurring irregular, fruitless and wasteful expenditure.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

c) The personnel in the internal control section understand the National Treasury Regulations.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

d) All personnel working in the internal control section understand the PFMA.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

## **C2: RISK ASSESSMENT**

a) Programme Managers conduct a risk assessment when the Department is planning and approving new projects in the internal control directorate.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

b) Risk Assessment is performed periodically on each project before it can be undertaken by the Department.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

## **C3: INFORMATION AND COMMUNICATION**

a) Different Directorates that are delegated to perform an internal control function on finances develop appropriate reports on a monthly basis.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

b) Employees of the Gauteng Department of Education understand the importance of internal control, including division of responsibility.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

c) GDE communicates any delay on payments to different service providers and other stakeholders on time.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

d) The Auditor-General is frequently invited to meet with the internal control section for dialogue and support.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

#### **C4: CONTROL ACTIVITIES**

a) GDE has a reliable system to verify compliance with the leave requirements before approval can be granted to employees' leave application.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

b) GDE has a system in place to verify the employees' leave information before any payment or deduction can be made.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

c) The Department complies fully with PFMA in the implementation of internal control functions.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

### **C5: MONITORING**

a) The Audit Committee of the Department monitors the implementation of internal control effectively.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

b) Senior Managers in different directorates monitor compliance by ensuring that the Chief Financial Officer receives certified payroll certificates on time.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

c) The Chief Financial Officer ensures the implementation of regular financial reporting.

Strongly Agree	
Partially Agree	
Strongly Disagree	
Partially Disagree	

## Annexure B

### APPROVAL LETTER/PERMISSION TO CONDUCT RESEARCH



#### **GAUTENG PROVINCE**

Department: Education  
REPUBLIC OF SOUTH AFRICA

For administrative use:  
Reference no. D2014/087

#### **GDE RESEARCH APPROVAL LETTER**

Date:	11 June 2013
Validity of Research Approval:	11 June 2013 to 20 September 2013
Name of Researcher:	Makgatho K.E.
Address of Researcher:	125 South Village Ormonde View Estate Nasrec Road 2091
Telephone Number:	011 355 0555 / 073 309 1574
Fax Number:	086 654 4758
Email address:	Emmanuel.Makgatho@gauteng.gov.za
Research Topic:	Effectiveness of internal control mechanisms in monitoring financial resources at the Gauteng Department of Education
Number and type of schools:	None
District/s/HO	Head Office

#### **Re: Approval in Respect of Request to Conduct Research**

This letter serves to indicate that approval is hereby granted to the above-mentioned researcher to proceed with research in respect of the study indicated above. The onus rests with the researcher to negotiate appropriate and relevant time schedules with the school/s and/or offices involved to conduct the research. A separate copy of this letter must be presented to both the School (both Principal and SGB) and the District/Head Office Senior Manager confirming that permission has been granted for the research to be conducted.

*Hullido*  
*2013/06/11*  
The following conditions apply to GDE research. The researcher may proceed with the above study subject to the conditions listed below being met. Approval may be withdrawn should any of the conditions listed below be flouted: 1

*Making education a societal priority*

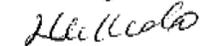
#### **Office of the Director: Knowledge Management and Research**

9<sup>th</sup> Floor, 111 Commissioner Street, Johannesburg, 2001  
P.O. Box 7710, Johannesburg, 2000 Tel: (011) 355 0506  
Email: David.Makhado@gauteng.gov.za

1. The District/Head Office Senior Manager/s concerned must be presented with a copy of this letter that would indicate that the said researcher/s has/have been granted permission from the Gauteng Department of Education to conduct the research study.
2. The District/Head Office Senior Manager/s must be approached separately, and in writing, for permission to involve District/Head Office Officials in the project.
3. A copy of this letter must be forwarded to the school principal and the chairperson of the School Governing Body (SGB) that would indicate that the researcher/s have been granted permission from the Gauteng Department of Education to conduct the research study.
4. A letter / document that outlines the purpose of the research and the anticipated outcomes of such research must be made available to the principals, SGBs and District/Head Office Senior Managers of the schools and districts/offices concerned, respectively.
5. The Researcher will make every effort obtain the goodwill and co-operation of all the GDE officials, principals, and chairpersons of the SGBs, teachers and learners involved. Persons who offer their co-operation will not receive additional remuneration from the Department while those that opt not to participate will not be penalised in any way.
6. Research may only be conducted after school hours so that the normal school programme is not interrupted. The Principal (if at a school) and/or Director (if at a district/head office) must be consulted about an appropriate time when the researcher/s may carry out their research at the sites that they manage.
7. Research may only commence from the second week of February and must be concluded before the beginning of the last quarter of the academic year. If incomplete, an amended Research Approval letter may be requested to conduct research in the following year.
8. Items 6 and 7 will not apply to any research effort being undertaken on behalf of the GDE. Such research will have been commissioned and be paid for by the Gauteng Department of Education.
9. It is the researcher's responsibility to obtain written parental consent of all learners that are expected to participate in the study.
10. The researcher is responsible for supplying and utilising his/her own research resources, such as stationery, photocopies, transport, faxes and telephones and should not depend on the goodwill of the institutions and/or the offices visited for supplying such resources.
11. The names of the GDE officials, schools, principals, parents, teachers and learners that participate in the study may not appear in the research report without the written consent of each of these individuals and/or organisations.
12. On completion of the study the researcher/s must supply the Director: Knowledge Management & Research with one Hard Cover bound and an electronic copy of the research.
13. The researcher may be expected to provide short presentations on the purpose, findings and recommendations of his/her research to both GDE officials and the schools concerned.
14. Should the researcher have been involved with research at a school and/or a district/head office level, the Director concerned must also be supplied with a brief summary of the purpose, findings and recommendations of the research study.

The Gauteng Department of Education wishes you well in this important undertaking and looks forward to examining the findings of your research study.

Kind regards



Dr David Makhado

Director: Education Research and Knowledge Management

DATE: .....2013/06/11.....

**Office of the Director: Knowledge Management and Research**

9<sup>th</sup> Floor, 111 Commissioner Street, Johannesburg, 2001  
 P.O. Box 7710, Johannesburg, 2000 Tel: (011) 355 0506  
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