

**THE RELATIONSHIP BETWEEN COMPLIANCE
OF INTERNAL CONTROLS AND CORPORATE
GOVERNANCE SYSTEM IN THE SOUTH
AFRICAN PUBLIC SECTOR**

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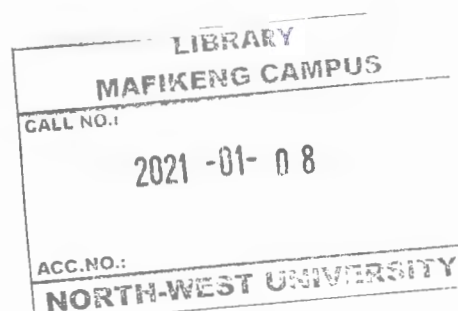


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Declaration

I hereby declare that the mini-dissertation submitted for the Master's degree in Business Administration at North West University Mafikeng campus is my own work and has not been submitted at any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged in a list of comprehensive list of references.

Mothepane Leticia Makhele

Abstract

The purpose of this study is to investigate the overall performance of the corporate governance system in the South African Public Sector. The study will be conducted on provincial and national government departments across South Africa. Effective management leads to effective corporate governance in any institution. Good corporate governance is essential in making sure that the service delivery is sufficient to the public, supports the development processes and also increases the effectiveness and efficiency of the government's investments.

The researcher attempts to answer the question on what are the main causes of dysfunction in corporate systems and internal controls in the public sector. The researcher investigated on the effectiveness of internal controls and corporate governance.

Corporate governance is considered as the burning issue globally. The study also looks at the core components that contribute to effective governance this components are; the internal controls, risk management, internal audit, audit committee and the IT governance. During the study, research reveals that the corporate governance is complicated in the public sector. It shows loopholes regarding policy implementations and compliance, especially with regard to PFMA and Treasury Regulations. The main aim of this study is to examine the relationship between compliance of internal controls and corporate governance system in the South African Public Sector.

Key words: corporate governance, internal controls, risk management, internal audit, audit committee and IT governance

CHAPTER ONE: INTRODUCTION

According to King Report 1 (1994:1) there has been great concern over significant corporate failures arising from fraud such as the Maxwell and B.C.C.I scandals and question have been asked such as “Do we have effective board accountability in our corporate governance system?”.

The function of the board of directors is to ensure that the company has adequate systems of internal controls both operational and financial.

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders. It also spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (Economist Intelligence Unit, 2002:5).

The concepts of corporate governance also rely heavily on the necessity of internal controls. Internal controls help ensure that processes operate as designed and that risk responses (risk treatments) in risk management are carried out. Risk management is very important in this study because it identifies risks faced by organisations, and the implementation of systems to mitigate these risks. Risk management is a process that uses internal control as one of the measures to mitigate and control risks.

According to Puttick and van Esch (2003: 211-212), internal control is a process designed to provide reasonable assurance regarding the achievement of organizational objectives with respect to: the effectiveness and efficiency of operations, the safeguarding of the company’s

assets(including information), compliance with applicable laws, regulations and supervisory requirements, supporting business sustainability under normal as well as adverse operating conditions, the reliability of reporting, and behaving responsibly to stakeholders.

1.1 Background to the research problem

1.1.1 Internal control and corporate management

According to Section 27.1.1 of the Treasury Regulations (RSA: 2005) the accounting authority of a public entity must establish an audit committee as a subcommittee of the accounting authority. Section 27.1.3 of the Treasury Regulations says the chairperson of the audit committee must be independent, be knowledgeable of the status of the position, have the requisite business, financial and leadership skills and may not be the chairperson of the accounting authority or a person who fulfils an executive function in the public entity.

The audit committee must review the effectiveness of the internal control systems; the effectiveness of internal audit; the risk areas of the entity's operations to be covered in the scope of internal and external audits; the adequacy, reliability and accuracy of financial information provided to management and other users of such information; any accounting and auditing concerns identified as a result of internal and external audits; the entity's compliance with legal and regulatory provisions; and the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and where relevant, the independence and objectivity of the external auditors (RSA Treasury Regulations, 2005:Section 27.1.4).

The audit committee must report and make recommendations to the accounting authority; report on the effectiveness of internal controls in the annual report of the institution; and comment on its evaluation of the financial statements in the annual report (RSA Treasury Regulations, 2005: Section 27.1.10).

According to section 38 (1) (h) (ii) of the PFMA an Accounting Officer must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institutions who commits an act which undermines the financial management and internal control system of the organisation.

1.1.2 Internal controls and internal audit

The internal audit function must assist the accounting authority in maintaining effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the information systems environment; the reliability and integrity of financial and operational information; the effectiveness of operations; safeguarding of assets; and compliance with laws, regulations and controls (RSA Treasury Regulations, 2005:Section 27.2.10)

The internal audit function must assist the accounting authority in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which objectives and values are established and communicated; the accomplishment of objectives is monitored and accountability is ensured(RSA Treasury Regulations, 2005:Section 27.2.11).

1.2 Statement of the research problem

Part of a sound corporate governance policy framework within an institution will involve the establishment of an internal control system. Internal control systems are designed to help the organisation attain effective and efficient operations, reliable financial reporting and following applicable laws and regulations. These contribute towards the goal of meeting the overall organisational objectives. Thus internal controls are a part of the overall corporate governance structure. Internal controls and corporate governance also play a vital role towards transparency and efficiency towards service delivery in the public sector. As a result of this the relationship between compliance of internal control and corporate governance is of fundamental importance in order to address any ineffectiveness.

1.3 Research problems/ questions

Through the application of primary and secondary source research methods, the following research questions, which could lead to the possible solution to the problem statement, were pursued.

- What are the main causes of dysfunction in corporate governance systems and internal controls?
- Is the application of internal controls related to effective governance?
- What changes can still be made to improve the compliance of internal controls and corporate governance system?

1.4 Approaches of the Study

The study will be undertaken by reviewing related literature as well as constitutional and statutory provisions in order to describe and analyse the relationship between compliance of corporate governance and internal control system in the public sector.

A cross sectional method will be used in this study it will include; individual interviews, group interviews and documentary interviews. Interviews will be undertaken in order to extract the relevant information from public institutions at the National and Provincial levels of government. During this study public officials will be consulted in order to find out the current state of affairs and perception as well as problems and suggestions with respect to the compliance of corporate governance system and internal controls in the public sector.

1.5 Objective/ purpose of the study

The aim of this research is to see if the transactions that are being done are valid and authorized as required by the PFMA and Treasury Regulations.

To determine occurrence in terms of whether transactions occurred during the correct period or were processed timely to avoid wasteful and fruitless expenditure.

To determine valuation in terms of whether transactions are calculated using an appropriate methodology or are computationally accurate.

1.6 Definition of key concepts and Abbreviations

Corporate governance is the system by which business corporations are directed and controlled.

"PFMA" means the Public Finance Management Act No.1 of 1999, as amended;

"Accounting Authority" means a body or person mentioned in section 49 of the PFMA;

"Public Sector/entity" means a national or provincial public entity.

1.7 Structure of the study

In this study there will be five chapters: Chapter One is the Introduction, Chapter Two is the Literature Review, Chapter Three is the Research design and Methodology, Chapter Four is the Results and lastly Chapter Five is Discussion, Recommendations and Conclusions.

1.8 Summary

The concept of corporate governance in the public sector is now becoming international practice. The public sector has rapidly adapted the principles of corporate governance for the purposes of controlling the activities of institutions such as State Owned Enterprises or public institutions that operate as business units within the parameters of the government sector. From this chapter the following were looked at: the background to the research problem which entails (i) the internal controls & Corporate management; (ii) internal controls & internal audit, statement of the research problem, research problems/questions, approaches of the study, objectives/ purposes of the study, definitions of key concepts and abbreviations and the structure of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Corporate governance is not only a South African issue but also an international issue. Corporate governance is associated with acceptable compliance standards. Transparency, accountability and openness in reporting and disclosure of information are considered to be crucial to the practice of good corporate governance. In this chapter the literature is going to be reviewed on; previous studies made on corporate governance, corporate governance and internal controls, corporate governance-an anti corruption tool. The literature to justify the approach the research problem and that is; audit committee, audit committees in the public sector, benefits of the audit committees, internal audit, audit planning process, roles and responsibilities of internal audit, internal controls, components of internal controls, elements of internal controls, limitations on internal controls effectiveness, risk management, principles of risk management, processes of risk management, IT governance and frameworks of IT Governance.

2.2 Previous studies made on corporate governance

Bekker M.P (2009:7-8) says that for corporate governance to be considered effective in the public sector, officials should have knowledge, skills and the ability to carry out their duties as expected. The officials should know and understand the strategies and objectives of their organisation. Bekker further emphasises that good corporate governance must encourage “efficient, effective and sustainable entities that contribute to the welfare of the society”

Bekker M.P (2009:19) is of the view that South Africa needs people with relevant qualifications and skills to enable them to carry out the mandate of corporate governance and accountability in the public sector.

Koma (2009:453) says there is a need to enforce governance in the public sector, the reason being that it will improve day- to - day activities which will result in improved and effective services in the public sector. Corporate governance provides direction as to how the corporation should operate. The governance structure identifies how the responsibilities are divided among the participants in the institution; it will also state the rules. By so doing, it will assist in meeting the objectives set by the organisation.

Koma (2009:454) says that corporate governance is considered as a model of rules governing methods, the decision methods used in the decision making process, and the method of control and liability.

According to Koma (2009:456) elements of corporate governance in the public sector are as follows:



- Public governance. Public entities must be managed to benefit the communities. The executive management of public entities must make sure that the mandate of the institution is properly carried out.
- Management Structure. The executive must institute management structures that will ensure that the policies and objectives are being implemented.
- Strategic Planning. The executive must determine the strategic direction for the institution under its guidance. The executive should also make sure that the strategies are properly implemented.
- Risk management. Risk management is one of the most significant functions of the institutional executive. This includes identification of the risk, response, and monitoring of the risk.

- Compliance and control. The executive management must have appropriate methods in place to ensure compliance with policies, rules and procedures, as well as appropriate structures of control to monitor progress on the implementation of the institution's core functions.
- Audit. The executive should ensure that audit structures, both internal and external, are in place to oversee institutional control.

According to Cattrysse (2005:17) corporate governance falls within the responsibility of management, as it deals with all aspects of corporate governance on a daily basis. He also says internal auditor involvement in corporate governance is based on internal controls.

Mohamad (2004:4) says that with effective corporate systems in place the cost of capital will be lower. This will lead to the improvement of confidence by both foreign and domestic investors. Effective corporate governance provides management with oversight. It also holds managers and the board accountable in their management of the company's assets. Effective corporate governance assists in reducing corruption in business operations by making the development of corrupt dealings difficult.

Four cardinal values of corporate governance are;

- Fairness; ensuring that the shareholder's rights in particular the rights of minority and foreign shareholders, are protected (Mohamad, 2004:6).
- Transparency; the ease with which the public can obtain a reliable view of the organisation's decisions and actions. It includes disclosure of the performance risk and performance on environmental and social issues (Gamble, Hough, Strickland III and Thompson, 2008:178).

- Accountability; the clarification of the management roles and responsibilities in an organisation. It also means the ability to explain and justify actions taken by the management (Gamble et.al, 2008:178).
- Responsibility; ensuring compliance with laws and regulations of the organisation (Gamble et.al, 2004:6).

2.2.1 Corporate governance and internal controls

According to Cattrysse (2005:25) a review of the effectiveness of internal controls should be done annually. It should include financial, operational and compliance controls and risk management. Internal control is of fundamental importance to corporate governance.

The Madrid Working Group (2003:13) say there is a link between internal controls and the way the organisation is managed. Therefore internal controls are a crucial part of corporate governance. The committee further says the management of the institution is responsible for establishing and maintaining the internal controls system.

2.2.2 Corporate governance- an Anti Corruption Tool

According to Shkolnikov and Wilson (2009:31-32) there is a linkage between corruption and governance; high corruption leads to bad governance. Corruption leads to lower investment and higher costs of running the business. There are anti-corruption measures that can be implemented in the public sector to limit the ability to engage in corruption; one of those measures is corporate governance. When corporate governance is effective the organisation has transparency in place, decision makers are held responsible for the decisions they take and managers do not act in their personal interest but in the interest of the institution. Effective governance makes it difficult for organisations to accept bribes in exchange for services.

When internal controls and financial reporting are tightened, the managers and directors of the institution can ensure that transactions with suppliers and dealings with government employees are free of corruption (Shkolnikov & Wilson, 2009:32).

2.3 Study of the Literature to justify the approach in terms of the problem and concepts

Arising from the problem statement, the literature studied will cover five aspects of corporate governance. These aspects are audit committee, internal audit, internal financial controls, risk management and IT governance. Below is the discussion on these aspects;

2.3.1 Audit Committee

According to Ali, Evens, Hamid, Saad and Sori (2007:13) the existence or operation of an audit committee improves the monitoring of internal controls and financial reporting. The committee serves as a bridge between internal and external auditors. The responsibility of the audit committee is to ensure that both the accounting policies and the internal control systems are of a high standard. The committee also ensures that the external auditors are able to detect fraud and anticipation of the financial risk in the institution.

The fundamental responsibilities of the audit committee are; reviewing of audit programmes, monitoring and reviewing of the effectiveness of the entity's risk assessment procedures, and the review and analysis of the adequacy and effectiveness of both internal accounting and financial controls of the entity (Ali et.al, 2007:51-53). Members of the audit committee must be skilled and experienced. These members must be knowledgeable and independent.

2.3.1.1 Audit Committees in the public sector

The audit committee is a crucial element of public governance and accountability. The committee plays a crucial role concerning the integrity of the financial information of the public entity. Audit committee members in the public sector encounter special challenges because of the unique nature of public sector entities. The effectiveness of the audit committee is shown by the increase in the integrity and efficiency of the internal control systems, financial reporting and audit processes (Van der Nest, 2006:178-179).

Van der Nest (2006:183-184) says the audit committee is the key player in the corporate governance of an entity. The committee reviews internal controls and risk management in the institution. It provides oversight over internal and external audits and acts as a link with management. The committee must ensure that continuous review is made on their oversight function.

Agarwal (2006:739-740) says the main function of the audit committee is to review and assess the financial reporting system to ensure that financial statements are correct, sufficient and credible. The committee oversees the operation and quality control of both internal and external audits.

According to Kurre (2009:2) audit committees are being challenged to focus on ensuring the following;

Investment committees and management have established and implemented additional internal controls and procedures relating to their investment portfolios. The audit committee should assess whether the organisation has an ongoing process that monitors the investment

performance. He further says the appropriate financial controls are fundamental for the accountability of the investments (Kurre, 2009:2).

Appropriate cash management procedures and policies are in place. The audit committee is required to review the cash management controls and procedures in the public sector organisation. Moreover, entities must develop extensive procedures for both cash inflow and outflow projections on a weekly and monthly basis. The committee pays special attention to what is included in the financial position statement as cash equivalents (Kurre, 2009:2).

Conflicts of interest are carefully considered. Kurre (2009:2) emphasises that the audit committee must be sure that potential conflicts are identified and disclosed. The committee must evaluate these conflicts and if there is a need to take action, the committee should determine the action to be taken.

2.3.1.2 Benefits of the audit committees

The Auditor-General of New Zealand (2008:8-9) says the presence of the audit committee increases scrutiny in the public sector governance, assurance, risk management and financial management practices. Moreover, this scrutiny gives assurance to the executive of the institution that these areas have been independently reviewed. The committees assist public organisations to utilize resources efficiently. When an audit has independent members with financial skills, then it provides assurance to the entity that financial compliance matters are taken care of.

According to the Auditor-General of New Zealand (2008:9-10) an audit committee that is effective strengthens the internal audit function. It enforces the risk based strategic audit plans and regularly reports on audit results and audit progress against the audit plans. The audit

committee improves the accountability mechanisms across the institution. The committee expects the management and internal auditors to report on areas of the entities operations.

2.3.1.3 Good Practice Principles of an audit committee

Independence; in order for the advice to be objective and impartial, the audit committee members are expected to be independent of the management of the institution. The independence of members of the audit committee adds value to the governance of an organisation (Auditor-General of New Zealand, 2008:13).

Competence; appointed audit committee members must have skills and enough experience for the audit committee role. Members of the committee must have financial expertise, knowledge of governance, assurance and best practices of risk management, and a good knowledge of the sector in which the organisation operates (Auditor-General of New Zealand, 2008:15).

Clarity of purpose; members of the audit committee must “be clear about its mandate, purpose and the role in the entity and within the governance structure as a whole” (Auditor-General of New Zealand, 2008:16).

Open and effective relationships; the audit committee’s chairperson must ensure that the audit committee has an effective and open relationship with other committees in the institution (Auditor-General of New Zealand, 2008:17).

2.3.2 Internal audit



Singh (2008:2-3) says a crucial component of corporate governance is an effective internal audit. The performance of the public sector entity is improved through an audit function. The audit function gives assurance to the management that received public funds received are spent in

compliance with relevant laws, and that the use of money is a fair and accurate reflection of the financial position of the institution.

Turlea and Stefanescu (2009:212) say an internal audit of an entity is an independent function of control, with the intent to examine and evaluate its operations, with the consideration to add value to services rendered by the organisation. The essential role of the internal audit is to ensure the quality of the internal controls existing in an organisation, the way they are operated, the accuracy, efficiency and effectiveness of the strategy implemented. Internal audit in the public sector helps the institution achieve its objectives by a “systemic approach and methods approach, evaluating and improving the efficiency and effectiveness of the management based on the risk, control and process management”.

2.3.2.1 Audit planning process

According to Diamond (2002:31) planning of audit process includes;

Identifying the audit population. The population of the audit must cover the full range of activities, processes, systems, policies, financial and other records, procedures and information reports (Diamond, 2002:31).

Evaluating the risk factor. Planning internal audit operations, assessment of relevant risk factors and their significance is crucial. The internal auditor must test these risks and put a value on each risk; the value should be based on the assessment of the risk, then decisions can be made on where to task scarce audit resources and the definition of time, frequency and approach to the audit.

Establish audit work schedule. Schedules must include operations to be audited, timing of the audit and time estimations taking into consideration the risk factor and the scope of planned audit work. The schedule must be flexible enough to cover unanticipated demands of the internal audit section.

Review planned audit coverage with top management. The accounting officer and the audit committee must review the audit work plan to make sure that all aspects considered to be crucial or requiring special attention are included in the planned audit.

Performance reports. Submission must be made to the internal audit's head office or the accounting authority. A comparison between performance and audit work must be done. Should there be variations, reasons must be provided.

2.3.2.2 Roles and responsibilities of internal auditors

According to Shamki (2009:25-26) both internal and external auditors and the audit committee must have skills, experience and responsibilities in detecting fraud in financial reporting. Internal auditors assist the institution accomplish its objectives. The objectives can be achieved through a "disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process".

The internal auditor makes recommendations to the audit committee on the implementation of missing fundamental internal controls. The auditor makes recommendations on the improvement of the effectiveness of weak internal controls. The internal auditor should frequently review how the institutional management and accountants utilise the materiality principle in "recording questionable transactions" (Shamki, 2009:29).

The internal auditor ensures compliance with financial, personnel, borrowings and other administrative policies. The auditor ensures that resources are used are efficiently and effectively. Internal audit is considered the major management control tool. It also gives an assurance to the management that the financial information given to management to help in decision making is accurate, reliable and based on reliable records. Internal audit alerts management to pay attention to deficiencies in the internal controls (Kida & Unegbu, 2011:305-306).

According to Kida and Unegbu (2011:307) the internal auditor reviews, evaluates and reports on the efficiencies of financial controls operating in the institution. The auditor carries out a “complete and continuous auditing of accounts and records of revenue, expenditures” and other assets. The auditor also evaluates if the actual performance is within the institutional financial control framework.

2.3.3 Internal financial controls

According to the Guidelines for Internal Control Standards for the Public Sector (2004:6) “internal control is a process which is effected by the staff and management of the organisation; it is designed to address risks and to give reasonable assurance in pursuit of the organisation’s mission”. Klingenstierna (2009:3) says the objectives of internal controls are to ensure the integrity and reliability of information, compliance with applicable laws, the safeguarding of assets and the effective and efficient use of resources. For public administration to be efficient there must be a sound public finance system in place. De Visscher, Sarens and Van Gils (2010:65) are of the view that internal control is associated with keeping the organisation under control; activities includes policies, procedures, segregation of duties and performance measures.

According to Sass (2008:2) the two most crucial pieces of legislation which apply to government institutions are the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA). This legislation identifies the responsibilities of the accounting officers; one of the most important responsibilities is to ensure the effectiveness, efficiency and transparency of financial policies, risk management and internal control systems in the organisation.

Sass (2008:2) says that even though controls are in place, appropriate application is not always possible. For instance, “segregation of duties becomes impossible when positions are constantly vacant”, while the implementation of affirmative action strains the situation further. When staff members are not properly trained, human error increases. As a result of these factors, there are deficiencies in internal controls in government institutions.

De Visscher et.al (2010:65) say risk management and internal controls are not appropriately developed. Improvement in internal controls involves more than improvements on risk management. Concepts on risk management such as risk identification and evaluation are part of internal control, instead evaluation of internal control being part of risk management.

2.3.3.1 Components of internal controls

According to the United Nations Office for Project Services (2008:2) there are five components of internal controls. These components are namely control environments, risk assessment, control activities, information and communication, monitoring. Below is the full discussion of each component.

a) Control environment

It gives structure and discipline for the achievement of fundamental objectives of the internal control system. It includes integrity and ethical values, management's business philosophy and operating style, organisational structure, assignment of authority and responsibility, human resource practice and policies, and competence of personnel (UNOPS, 2008:2).

b) Risk assessment

According to UNOPS (2008:2-3) risk assessment is the analysis and identification of appropriate risks related to achieving the objectives of the institution. Organisational managers must assess risks based on the types of activities performed, organisational structure, stating levels and attitudes within their departments.

c) Control activities

Control activities are policies and procedures established in order to make sure that management's directives are implemented. Control activities happen across the institution at all levels in all functions. It includes tasks such as "approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties" (UNOPS, 2008:3).

d) Information and communication

Information should be identified, captured and communicated within a certain period and in the way that makes people carry out their responsibilities. Organisational managers must have strong lines of communication across the sub-units and centralised functions within their department (UNOPS, 2008:3).

e) Monitoring

Monitoring “is the process that assesses the quality of the internal control system’s performance” over a certain period. Monitoring is achieved by “routine activities, separate evaluations or a combination of both”. Monitoring must ensure that audit findings and recommendations are appropriately and promptly resolved. The management of the institution is responsible for monitoring the tasks carried out across their department (UNOPS, 2008:3).

2.3.3.2 Elements of internal controls

According to Philippine National Guidelines on Internal control system (2009:9) there are two elements of internal controls, namely the plan of the organisation, and coordinated methods and measures.

a) Plan of organisation



Plan of organisation entails the entity’s structure and the staff component that makes the entity perform its tasks. The plan defines and distributes powers, tasks and responsibilities to different departments, as well as the organisational personnel to make them achieve the objectives of the organisation (Philippine National Guidelines on Internal control system, 2009:10).

b) Coordinated Methods and Measures

According to Philippine National Guidelines on Internal control system (2009:10) coordinated methods and measures are “systems of authorisation, policies, standards, accounting systems and procedures” and reports utilised by the entity to control activities and resources. The procedures are implemented so that the entity achieves the control objectives of safeguarding assets, ensuring the accuracy of information and compliance with laws, policies, rules and regulations.

2.3.3.3 Limitations on internal control effectiveness

According to Guidelines for Internal Control Standards for the Public Sector (2004:12) an effective internal control, no matter how properly performed and operated, can only give reasonable assurance to the management concerning the achievement of the institution's objectives.

a) Human factor

The internal control depends on human beings, it is subject to “flaws, judgement or interpretation errors, misunderstandings, carelessness, fatigue, distraction, collusion, abuse or override” (Guidelines for Internal Control Standards for the Public Sector, 2004:12).

b) Resource constraints

The benefits of internal control systems should be linked to their costs. Maintaining the control system that can totally remove the risk is not realistic, it might even cost more than is “warranted through the benefits derived” (Guidelines for Internal Control Standards for the Public Sector, 2004:12).

c) Organisational changes and management attitude

The management attitude and organizational changes might have “an impact on the effectiveness of the internal controls and the personnel operating the system”. Therefore, management is required to continually review and update controls; changes should be communicated to employees. The management should lead by example by adhering to the control systems (Guidelines for Internal Control Standards for the Public Sector, 2004:12).

2.3.4 Risk Management

Risk management is “a structured approach to manage uncertainty related to a threat, a sequence of human activities including; risk assessment, strategies development to manage it, and mitigation of risk using managerial resources” (Iho Strategic Plan Working Group, 2008:1).

Victorian-Auditor General (2007:13) says risk management is a crucial element of corporate governance. Public sector entities and regulators utilises risk management policies and processes to identify, assess, manage and report risks. Public sector utilises risk management to deliver better policies, services, laws and regulations.

2.3.4.1 Principles of risk management

According to the Department of Finance and Deregulation in Australia (2010:1-2) principles of risk management are as follows:

a) “Create and protect value”

Good risk management makes a contribution to the achievement of the entity’s objectives by continuously reviewing its processes and systems

b) “Be part of decision making”

The risk management processes aids decision makers to make choices that are well informed, priorities are identified and the most suitable action can be selected.

c) “Be an integral part of organizational processes”

Department of Finance and Deregulation in Australia (2010:1) says risk management needs to be linked with the entity’s governance framework and become part of the strategic planning, both operational and strategic level.

d) “Explicitly address uncertainty”

Through identification of potential risks, entities might be able to implement controls and “treatments to maximise” the opportunity to gain while minimising the opportunity to lose (Department of Finance and Deregulation in Australia, 2010:2).

e) “Be systematic, structured and timely”

According to Department of Finance and Deregulation in Australia (2010:2) the risk management process must be consistent throughout the entity in order to ensure efficiency, consistency and reliability of the outcomes.

f) “Based on the best information available”

In order to manage the risk effectively it is crucial to understand and consider all relevant information available for the task and awareness of the limitations that the information might have. It is therefore crucial to have an understanding of how the information informs the processes of risk management.

g) “Be tailored”

An entity’s risk management framework should include its risk profile and should take into account both internal and external environment.

h) “Take into account human and cultural factors”

Recognition should be made by risk management of the contribution made by both people and culture towards the achievements of the entity’s objectives.

i) “Be transparent and inclusive”

Engagements of internal and external stakeholders and the process of risk management should give recognition to communication; it plays a crucial role in identifying, analyzing and monitoring risk.

j) “Be dynamic, iterative and responsive to change”

The risk management should be flexible.

2.3.4.2 Risk management processes

Queensland Treasury (2011:17) identifies what is mentioned as Seven Steps in the risk management process as follows:

a) Establish the context

When establishing the context, the organisation should take into account the risk profile, risk appetite and risk tolerance, internal and external environment, the risk matrix and the responsibilities, and the business continuity plan (Queensland Treasury, 2011:18).

b) Identify risks

According to Queensland Treasury (2011: 22) once the context has been established, the step to follow is to identify the individual risks. If the risk is not identified then it means it cannot be

managed. The common method used by organisations to identify the risk is environmental scanning. Environmental scanning is said to be a very powerful tool in risk management and strategic planning of the organisation. Fundamental considerations for organisations when performing environmental scanning are: the type of the risk, the source of the risk, the impact of the risk and the control levels.

c) Risk analysis

According to Queens Treasury (2011:24) Risk analysis includes analysis of possible challenges or opportunities, beginning with the assessments of the aftermath of a risk occurring. There is a common approach in risk analysis; the approach is utilisation of the risk matrix that the organisation has developed. The process of risk analysis differs from organisation to organisation. Therefore, an organisation must ensure that all risks in the organisation are assessed using the same method. There are two approaches to risk assessment, namely: inherent risk and residual risk.

d) Evaluate risks



After an organisation has identified and analysed its risks, the risks must be evaluated in order to determine the risks to be treated and the treatment implementation priority. The organisation should consider the following when evaluating risks: “internal and external environment that the organisation is operating in, the risk appetite of the organisation, the risk appetite of other participants excluding the organisation, the regulatory requirements that exists and the cost and benefits of treating risks” (Queens Treasury, 2011:26),

e) Treat risks

Queens Treasury (2011:27) says after the risks have been analysed and evaluated, the organisation must determine the relevant risk treatments. Any decision taken to address a risk it becomes part of the internal controls of the organisation. Types of risk treatment include: preventative controls which limits the possibility of unwanted outcomes, corrective controls are used to correct undesirable outcomes that have been identified, directive controls are utilised to make sure that certain outcomes are achieved while detective controls identifies “unfavourable” occasions after it has happened.

f) Monitor and Review

Important elements of an effective risk management are continuous review and monitoring of the risk. The fundamental reason for monitoring and review is to determine the existence of the risk. The review process must make sure that all areas of the process of risk management are reviewed at least once in a year; provision should be made for alerting the relevant management level concerning new risks identified so that appropriate improvements could be made (Queens Treasury, 2011:29).

g) Communication and consultation

Communication, consultation and regular follow ups should take place throughout the whole risk management process. All personnel in the organisation must take part in the risk management process including: “identifying, analyzing, managing and reporting on risks”. It is crucial to make sure that all personnel in the organisation understand what the risk strategy is, what the priorities of the risk are and how their different roles in the organisation fit into the risk management framework (Queens Treasury, 2011:30).

2.3.5 IT governance

According to Boyd, Brisebois and Shadid (2007:31) IT governance “is an integral part of an organisation and is made up of the leadership and organisational structures and processes that ensure that the organisation’s IT sustains and extends the organisation’s strategies and objectives”.

Gurpreet and Sushma (2008:1) are of the view that internal control makes a key contribution towards the effectiveness of information system security. Controls are crucial in an entity. Internal controls of information system security are seen as practices, procedures, policies and responsibility structures in an entity that aids in risk management and protection of information assets.

According to the Guidelines for Internal Control Standards for the Public Sector (2004:32) there are two types of IT control, namely general controls and application controls. Further discussions on these types of controls are as follows:

General controls are structures, policies and procedures that apply to most areas of an organisation’s information system and assists in making sure operations run smoothly. The categories of general controls are “ (i) organisation overall security program planning and management, (ii) access controls, (iii) controls on the development, maintenance and change of the application software, (iv) system software controls, (v) segregation of duties and (vi) service continuity”.

Application controls are the structures, policies and procedures to separate, individual application systems and are directly associated to individual computerised application. These controls are designed to prevent, detect, and correct errors and irregularities as information flows

through information systems (Guidelines for Internal Control Standards for the Public Sector, 2004:32).

Boyd et.al (2007:31) say IT governance gives special attention to information systems value and alignment, risk management and the performance of the IT system and accountability. The fundamental goals of IT governance are to provide assurance that the IT investment brings value to the organisation, and to ensure that risks related to IT are mitigated. This can be achieved through implementing institutional structures with well- described roles for the responsibility of information, organisation processes, applications and infrastructures.

Symons (2005:1-3) says “good IT governance ensures that IT investments are optimised, aligned with business strategies and delivering value within acceptable risk boundaries, taking into consideration culture, organisational structure, maturity and strategy”. He further says that implementing good IT governance needs a framework based on structure, processes and communication.

Treatise (2005:46-47) says the purpose of IT governance is to: (i) make sure that IT is linked with the entity it supports; (ii) make sure that IT makes the organisation exploit opportunities and maximise benefits; (iii) make sure that IT resources are responsibly utilised; (iv) make sure that IT risks are managed accordingly. He further emphasises that it is crucial to link the technology with organisation processes, recognising the importance of IT strategies.

According to Treatise (2005: 55) IT is now considered as an integral part of the organisation strategy. Figure 1 is a reproduction of the enterprise/ organizational governance model.

Figure 1 Enterprise Governance (Treatise, 2005:56)

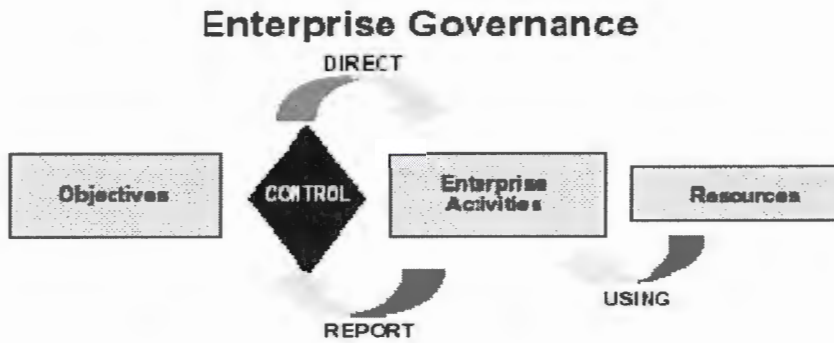
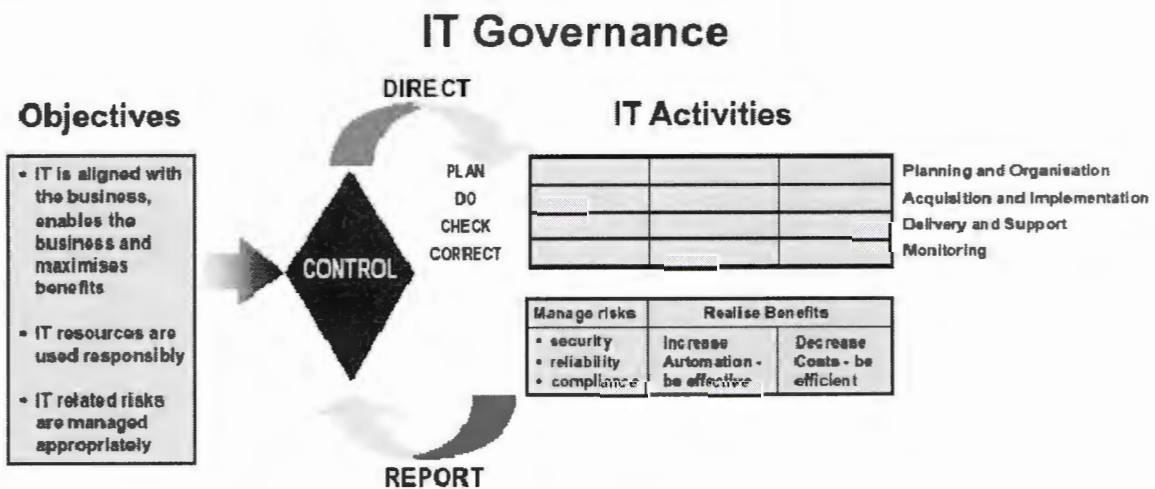


Figure 2. IT Governance (Treatise, 2005:57)



According to Treatise (2005:57) the IT governance model and related description are remarkably similar; this can be seen from figure 2.

2.3.5.1 Information Technology Governance Frameworks

According to Goeken, Johannsen and Looso (2011:91) the main aim of IT frameworks is improving; “IT alignment, service management, process quality and security management”.

Common examples of IT governance frameworks are COBIT (Control Objectives for IT and related technology, ITIL (IT Infrastructure Library), CMMI (Capability Maturity Model Integration) and the ISO/IEC 27000 standards for security management. This section will concentrate on COBIT as it is highly recommended by the public sector.

a) COBIT

According to the IT Governance Institute (2000:5) Control Objectives for Information and Related Technology (COBIT) assists in meeting many needs of management by aligning the gaps amongst business risks, control needs and technical issues. Management should make sure that internal control system is in place which supports the enterprise processes; clarity should be made on how each control task satisfies the information requirements and the impact of IT resources.

According to Treatise (2005:79) there are four domains in COBIT which are:

Planning and organisation: this includes categories, tactics and the ways in which IT could contribute to the entity's objectives. It also covers planning for appropriate organisation and technological infrastructure. However, the strategic vision should be planned, communicated and managed from various perspectives. Lastly, an appropriate organisation and technology must be in place.

Acquisition and implementation: it identifies and implements IT solutions. It also deals with maintenance. Moreover, "changes in and maintenance of existing systems are addressed by this domain to ensure the best lifecycle for these systems".

Delivery and support: this addresses service delivery and data processing by application systems.

Monitoring processes: this covers internal and external auditing, quality assurance and issues about compliance. It also covers management's oversight of the entity's control processes.

According to IT Governance Institute (2000:17) these processes can be utilised at different levels throughout the institution. In addition, the effectiveness criterion of processes that plan or deliver solutions for business requirements will sometimes cover the criteria for availability, integrity and confidentiality.

According to IT Governance Institute (2007:5) the focus areas is shown through a process model that divides IT into four domains and 34 processes in relation to responsibility areas of plan, build, operate and monitor, providing the view of Information Technology. The entity's architecture concepts assist in identifying the important resources for in process, that is, application, information, infrastructure and people.

(i) Benefits of COBIT



According to ISACA (2010:3) benefits of implementing COBIT include:

There is a better understanding of how the business and IT can work together for successful delivery of IT initiatives,

A better alignment based on a business focus,

An improved efficiency and optimisation of cost and

The reduction of operational risks.

Figure 3 below shows the interaction of IT processes within the four domains:

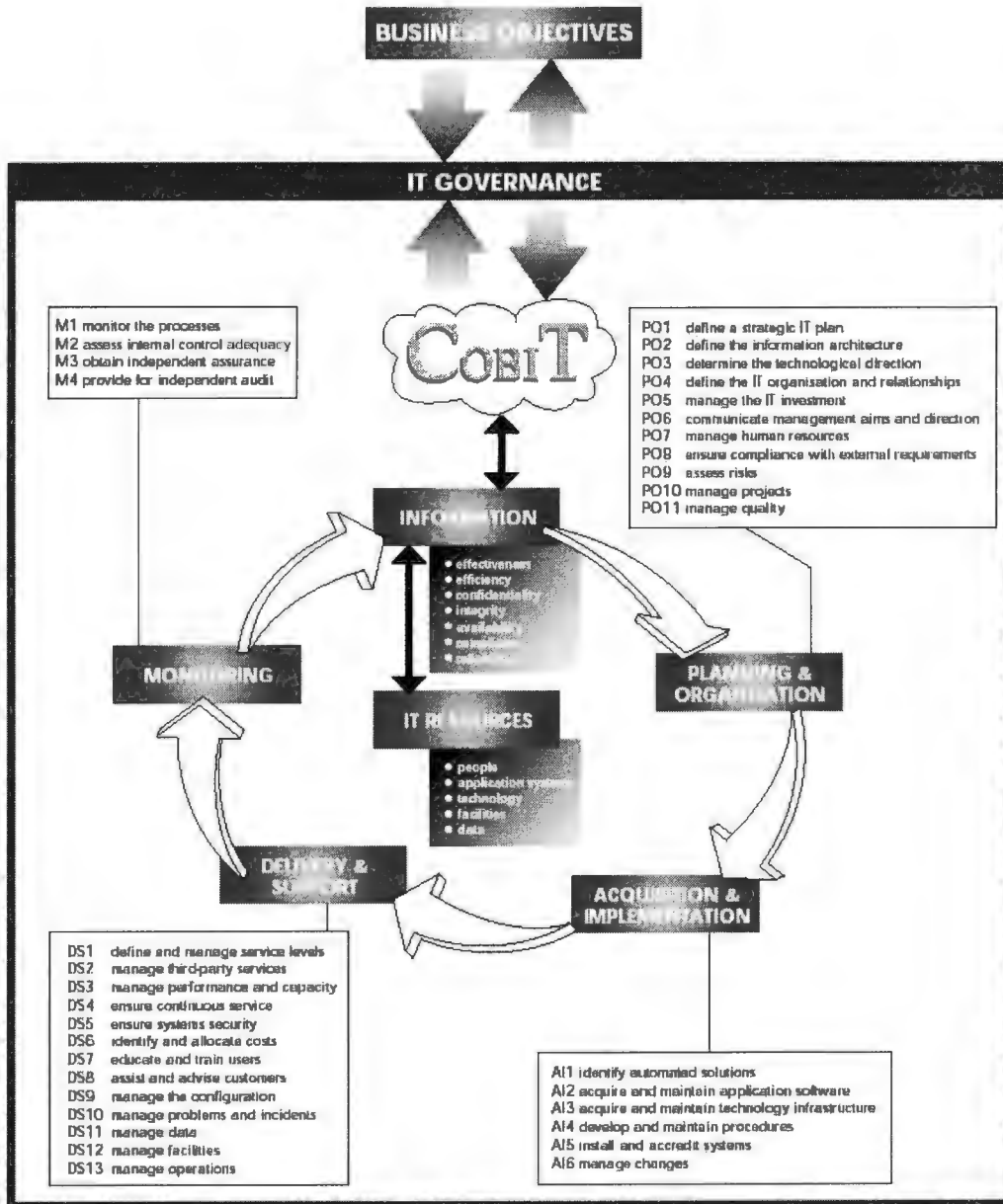


Figure 3, COBIT IT Processes defined within four domains (Treatise, 2005:80)

2.4 Summary

From the above literature some analysis were made and this analysis are as follows; (i) for the corporate governance to be effective in the public sector the officials/employees should have the knowledge and the ability to carry out their duties as expected, (ii) with the effective corporate system in place the cost of capital will be lower, (iii) effective corporate governance assists in reducing corruption in business operations by making the development of corrupt dealings difficult, (iv) there is a linkage between corruption and governance, high corruption leads to bad governance and (v) when internal controls and financial reporting are tightened, the managers and directors of the institution can ensure that transactions with suppliers and dealings with government employees are free of corruption.

In conclusion, the internal control system is an integral part of corporate systems. It is crucial that the management of an organisation has effective and efficient internal control systems in place, so that they address all aspects of the risk. The management should also ensure that internal control systems contribute towards the achievement of the organisational objectives. It is important to note that internal control is intertwined with and directly affected by the dynamics of corporate governance.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The study will be undertaken by reviewing related literature as well as constitutional and statutory provisions in order to describe and analyse the relationship between compliance of corporate governance and internal control system in a public sector organisation. According to Van der Nest (2006:7) the research design must “be a deliberate planned arrangement of the conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose”. This will be a qualitative field study based on interviews with four senior managers, four middle management staff and four junior staff members in the public sector. A cross sectional study will be used in this study. It will include: individual interviews, group interviews and documentary interviews.

3.2 Definition of Qualitative research

According to Molema (2006:54) qualitative research is a term for investigation methodologies such as “ethnographic, field, naturalistic, anthropological or participant observer research”. Leedy and Ormrod (2005:94) state that qualitative research answers questions related to the nature of phenomena, with the purpose of describing and understanding the phenomena from the participant’s point of view. It is also referred to as the “interpretative, constructivist or post positivist approach”.

3.2.1 Characteristics of Qualitative Research

According to Leedy and Ormrod (2005:95), qualitative researchers want a better understanding of complicated situations. Their duty is usually exploratory in nature, and they can utilise their observation to build theory from the ground. The process of qualitative research is considered to be “more holistic”, design, instruments, and interpretations develop and there is the possibility of

change as time goes by. Researchers come with open minds, prepared to immerse themselves in the complication of the situation and communicate with their participants. Variables come from the data, which leads to “context bound” information, patterns, or theories that assist in explaining the phenomenon under study. Leedy and Ormrod (2005:96) further say that in qualitative research, researchers are normally described as the research instrument, because their data collection largely depends on their personal involvement in the research. Qualitative researchers have a tendency to select only a few participants, those who can best have light on the phenomenon under investigation.

Qualitative researchers make specific observations and then make inferences concerning larger and more general phenomena; moreover data analysis is usually subjective in nature. Qualitative researchers make interpretive narratives from their data and try to take control of the complications of the phenomenon under study. When reporting they utilise a more personal, literary style and usually include the participant’s language and perspectives. Even though all researchers should be able to write clearly, effective researchers should have special skills in their functional areas (Leedy and Ormrod, 2005:96).

3.2.2 Limitations of Qualitative Research

Molema (2006:56) states that the subjectivity of the inquiry might lead to complications in establishing “the reliability and validity of the approaches and information”. He further says it is very complex to detect or prevent the researcher’s bias; the scope is also limited as a result of the in-depth nature of the research.

3.3 Research Design for this study

This will be a qualitative field study based on interviews with four senior managers, four middle management staff and four junior staff members in the public sector. A cross sectional study will be used in this study. It will include: individual interviews, group interviews and documentary interviews.

According to Leedy and Ormrod (2005:135) there are five research designs and they are as follows;

3.3.1 Case Study

In a case study a certain individual, program or occasion is studied in detail for a specific period. The researcher collects enough data from the individual(s), program(s), or occasion(s) on which the investigation is focused. The data is normally obtained from observations, interviews, documents and past records. In many cases the researcher might spend a long time in the research area, interacting with people who are being studied. The details concerning the context of the case are recorded and these include information about the physical environment, and any economic, historical and social factors that have bearing on the situation. When identifying the context of the case, the researcher involves other people who might assist the case study to come up with conclusions concerning the findings (Leedy and Ormrod, 2005:135). In this instance there are two cases being studied and they are the Department of Justice and Constitutional Development, and the Department of Health in the North West Province.

3.3.2 Focus group

According to de Vos, Delpont, Fouche and Strydom (2007:300) a focus group is a planned discussion made to find perceptions on a certain area of interest in a “permissive, non threatening environment”.

The main reasons for utilising a focus group in this study are; (i) focus groups are utilized as “self-contained studies” in that they serve as a fundamental source of data; (ii) focus groups are utilized as a “supplementary source of data in studies that rely on primary methods such as surveys”; and (iii) focus groups are utilized in “multi-method” studies that add two or more ways of data collection where the primary method determines the utilization of others (de Vos et.al, 2007:300).

The phenomenological approach was utilized in order to enable the researcher to understand the daily experiences of the respondent.

According to de Vos et al. (2007:312), focus groups are of great importance because a focus group has the ability to produce relevant data that is related to the study, there is reliability of interaction amongst group members to give data and lastly the focus group “creates a fuller, deeper understanding of the phenomenon being studied”

3.3.3 Documentary Analysis



Documents are used in carrying out the study, being analyzed with the purpose of scientific research. Documentary analysis is utilized as a method of data collection. The sources of data utilised in this study were the annual reports of the Departments together with the Auditor General’s report. The advantages of documentary analysis are as follows;

- a) Relatively low cost. Even though the cost of documentary analysis is “influenced by dispersion and availability of documents”, documentary analysis is more affordable than a survey (de Vos et.al, 2007:318).
- b) Confession. A person is more likely to confess in a document than in interviews or questionnaires (de Vos et.al, 2007:318).
- c) Non-activity. Producers of documents do not anticipate that their documents will be analysed at a later stage, unlike surveys where participants are aware that they are being studied (de Vos et.al, 2007:318).
- d) Inaccessible subject. One fundamental importance of documentary analysis is that it is the only method in which the researcher does not need to make personal contact with the participant (de Vos et.al, 2007:318).

3.3.4 In depth interviews

In-depth interviews are normally used in “explorative research” to identify crucial factors in a certain area, the objective being to develop questions about the area of concern. In-depth interviews were used in this study. The interview schedule was used as an instrument in collecting data. The in depth interviews allows the researcher and the participant to explore issues across the framework of scheduled conversation, it also gathers crucial information that is needed by the interviewer.

The roles of in-depth interview are as follows;

- (i) the in-depth interview explores the limitations of a research problem,
- (ii) it also obtains content from the phenomenon of the study,
- (iii) it evaluates possible resolutions,
- (iv) and it manages the process of research through the support of interpretation of results.

3.4 The Context of the Study

This study focuses on the relationship between compliance of internal controls and the corporate governance system in the public sector in both Provincial and National Departments in the North West Province. This study covers a period of one year, the 2011 financial year.

3.5 Data Collection Methods in Qualitative Research

The interview as a data collecting method may differ from methods that are completely unstructured. The researcher will be using structured interviews. In a structured interview the researcher puts a collection of questions from a compiled questionnaire, to a respondent face-to-face and records the responses. The researcher or the interviewer collects the data by means of personal interviews, where they visit the respondents at their work place. Any method of data collection, however, from observation to content analysis, can be and has been used in survey research.

The data was collected by means of personal interviews. The interviewer / researcher visited the participants at their work place. Personal flexibility and adaptability is of fundamental importance. When conducting these interviews the researcher was in complete control of the interviews, and the response obtained from participants was of a high quality. Personal interviews have a higher response rate as compared to telephonic interviews. Telephonic interviews were also utilised to collect data. The advantage of telephonic interviews is the speed with which they may be completed. The cost of telephonic interviews is less than that of the personal interviews. The responses from the participants was of high quality as compared to personal interviews

3.5.1 Stratified random sampling

Stratified random sampling includes categorising members of the population. It provides precise estimations if the population surveyed is more different from the categorised groups. It also enables the researcher to determine desired levels of sampling accuracy for each group, and it provides administrative efficiency (Fairfox country department of systems for human services, 2003:5)

Sampling is considered a very powerful tool for accurately measuring characteristics and opinions of a population. There is a possibility for misuse of this tool by researchers who do not have understanding of the limitations of different sampling procedures. Probability samples that are well constructed give the researcher the ability to gather information from a small number of members of the population taken from a large population. A probability sample enables the researcher to calculate statistics that indicate the accuracy of the data (Fairfox country department of systems for human services, 2003:5)

3.5.2 Interviews



Leedy and Ormrod (2005:146) emphasise that during interviews in qualitative research, it is very rare for the interviews to be structured. Interviews are either open-ended or semi-structured. Unstructured interviews are flexible and it is likely that the researcher will obtain information that she or he did not plan for.

In this study the researcher interviewed participants both individually and collectively, as a focus group. During the focus group session, there were twelve participants who discussed the focus areas in the research problem. Focus groups are of great importance especially when time is limited; some people feel more comfortable speaking in a group rather than individually and

interaction amongst respondents might be more informative than individually conducted interviews. Telephonic interviews were also utilised to collect data.

3.6 Design of the Instrument

The researcher conducts interviews on a sample of a population to learn about the distribution of characteristics, attitudes, or beliefs. In deciding to survey a group of people, the researcher makes one critical assumption, that a characteristic or belief can be described or measured accurately through self reporting. In using interviews, the researcher relies totally on the honesty and accuracy of participants' responses. Structured interviews typically entail several questions that have structured response categories; some closed questions were utilised in the study. The questions were examined (sometimes quite vigorously) for bias, sequence, clarity, and face-validity. The interview schedule was used as the instrument of conducting this study.

3.7 Sampling

Interviews were used to collect the opinions of the public sector employees. These interviews were conducted with twelve people selected from senior management staff, middle management staff and junior staff members within the public sector. Group and documentary interviews were also conducted.

In personal interviews flexibility and adaptability are of great advantage. The interviewers are in complete control of the interview situation. Should the interviewees be evasive, the researcher can attempt to gain their confidence. In personal interviews responses are of a high quality.

Since the researcher physically conducts the interview, there is less chance of the respondent evading the interview. Personal interviews have a higher response rate than telephonic interviews.

A group interview has many advantages, some of which are;

Group interviews provide sources of information that can be obtained rapidly at a low cost. They can be conducted within a wide range of settings and a vast number of respondents can be selected (Kruger, Mitchell and Welmet, 2005:203).

Since the researcher directly communicates with the respondents, he or she can easily clarify some questions put to the respondents. The researcher can also ask the respondents to clarify the answers (Kruger et.al, 2005:203).

According to Kruger et.al (2005:203) “Focus groups enable the participants in the group to discuss their views and experiences in a way that a consensus of opinions regarding the research problems can be reached”.

Interviews can be conducted with respondents who are unable to complete the questionnaires (Kruger et.al, 2005:203).

Respondents from different places can be drawn together for an interview without being physically present at a specific place (Kruger et.al, 2005:203).

3.8 Data Collection Procedure

The method used to collect the opinions of the public sector employees was by interview. Structured interviews were conducted with twelve people; i.e. four from senior management staff, four middle management staff and four junior staff members within the public sector. Group and documentary interviews were also conducted.

3.9 Method of data analysis

Descriptive statistics will be used in this study as it is concerned with the description or summary of the data obtained from a group of individual units of analysis. Content analysis was used as a method of data analysis. Guest, Johnson, Namey and Thairu (2007:138) say that in content analysis “the researcher evaluates the frequency and saliency of particular words or phrases in the body of the original text in order to identify keywords or repeated ideas”. Content analysis is considered to be efficient and reliable. Frequencies are based on the number of occasions where respondents say a certain topic/title. Coding of frequencies was utilized in data analysis of this study.

When coding the frequencies the researcher kept in mind that the codes represent an interpretative summary of data, unlike primary data. Code frequency assists in data management (Guest et.al, 2007:144).

3.10 Ethical Considerations

The researcher will take the following ethics into consideration when carrying out the research, as suggested by Kruger et.al (2005:201):

Informed consent. Researchers must obtain the necessary permission from the respondents after they have thoroughly, honestly and truthfully informed them about the purpose of the interview.

Right to their privacy. The interviewees should be assured of their privacy; they should be assured that their identity will remain unknown.

Justice. The researcher will ensure that any risks and benefits of data collection are distributed equally among the participants.

Minimal risk. Health, psychological or social risks to participants should be minimized by using procedures that are consistent with sound research design and do not unnecessarily expose participants to risk. Risk to the study group as a whole should also be considered.

Involvement of the researcher. Researchers should guard against manipulating respondents or treating them as objects rather than human beings. Unethical tactics should not be used during the interviews.

3.11 Summary



Kruger et.al (2005:207) says “qualitative data are based on meanings expressed through words and other symbols. Qualitative studies can be successfully used in the description of groups and organisations by studying cases that do not fit into particular theories”.

4. CHAPTER FOUR: FINDINGS

4.1 Introduction

Qualitative research design was utilised in this study to address the objectives of the study. Chapter 3 discussed the advantages of utilizing qualitative research; methods of data collection were discussed together with ethical considerations of the study. This chapter outlines the description of the participants, and the analysis of data collected from the participants.

4.2 Summary of the respondents' characteristics

The participants from the two cases, the Department of Justice and Constitutional Development and the Department of Health, in the North West Province, were selected in accordance with stratified sampling. During this process it was crucial that the selected individuals should be ready to take part and add value to the conduct of the study. In stratified random sampling members of each of the organisations were categorized according to their speciality. For instance, in this study, the participants were made up of Junior Management staff, Middle Management Staff and Senior Management Staff; these staff members were interviewed individually and collectively. The entire population sample was twelve with each department having six participants. The researcher managed to get cooperation from all participants of each department within their organisations.

4.3 Analysis and interpretation of data

This section presents the results of this study aimed at gathering the views of staff members in the Department of Health and Department of Justice and Constitutional Development in the

North West Province with regards to the relationship between corporate governance systems and internal controls system in the public sector.

4.3.1 Data from interview

TABLE 1: IS THERE A CLEAR MANAGEMENT STRUCTURE IN PLACE?

Answer	Frequency	Percentage %
Yes	10	83.33%
No	1	8.33%
Don't know	1	8.33%
Total	12	100%

From the Table 1 83.33% say there is a clear management structure in their organisations while 8.33% say there is no management structure, and 8.33% say they don't know if there is a clear management structure in place.

TABLE 2: HOW OFTEN IS THE STRUCTURE REVIEWED?

Answer	Frequency	Percentage
Annually	4	33.33%
Semi-annually	1	8.33%
Quarterly	1	8.33%
When the need arises	2	16.67%
Not sure	2	16.67%
Don't know	1	8.33%
Never reviewed	1	8.33%
Total	12	100%

From the above table, 33.33% of the respondents say the departmental structure is reviewed annually, 8.33% say semi-annually, 8.33% say quarterly, 16.67% say when the need arises, 16.67% say they are not sure, 8.33% say they don't know how often the structure is reviewed while 8.33% say the structure is never reviewed.

TABLE 3: ARE RESPONSIBILITIES AND ROLES OF EACH AND EVERY EMPLOYEE CLEAR?

Answer	Frequency	Percentage
Yes	7	58.33%
Partially	4	33.33%
No	1	8.33%
Total	12	100%

From Table3 58.33% of the participants say roles and responsibilities of each and every employee are clear, 33.33% say they are partially clear while 8.33% say no to the statement that the roles and responsibilities of each and every employee are clear.

TABLE 4: WHEN DECISIONS ARE TAKEN BY MANAGEMENT HOW ARE THEY COMMUNICATED TO STAFF MEMBERS?

Answer	Frequency	Percentage
Memos	7	58.33%
Staff meetings	2	16.67%
Via e-mails	2	16.67%
Never communicated	1	8.33%
Total	12	100%

58.33% of the respondents agree that when decisions are taken by the management they are communicated to them via memos, 16.67% says they are communicated through staff meetings; on the other hand 16.67% say they are communicated through emails while 8.33% say the management never communicates with them when decisions are taken.

TABLE 5: IS THERE ANY PERFORMANCE APPRAISAL IN PLACE, IF SO HOW OFTEN IT IS DONE, AND IF NOT WHAT ARE THE REASONS FOR NOT HAVING IT IN PLACE?

Answer	Frequency	Percentage
Yes, Annually	3	25%
Yes, Semi-annually	3	25%
Yes, Quarterly	6	50%
Total	12	100%

From 25% of the participants say there is performance appraisal in place and it is done annually, 25% say the performance appraisal is there but it is done twice in a year, which is semi-annually, while 50% of the participants say the performance appraisal is there and it is done quarterly.

TABLE 6: IS THERE STAFF TRAINING PLAN IN THE DEPARTMENT?

Answer	Frequency	Percentage
Yes	9.00	75%
Partially	1.00	8.33%
Not sure	1.00	8.33%
No	1.00	8.33%
Total	12.00	100%

From 75% of the respondents say there is a staff training in plan, 8.33% say partially, 8.33% are not sure if there is a training plan in their department while 8.33% of the respondents say there is no such a thing as a training plan in their department.

TABLE 7: DOES NEW STAFF RECEIVE APPROPRIATE INDUCTION?

Answer	Frequency	Percentage
Yes	9.00	75%
Partially	1.00	8.33%
Not sure	1.00	8.33%
No	1.00	8.33%
Total	12.00	100%

From the 75% of the respondents say new staff members receive appropriate induction, 8.33% say partially, 8.33% say they are not sure while 8.33% say the new staff members don't receive appropriate induction.

TABLE 8: ARE THERE CONTROLS IN PLACE TO ENSURE THAT ALL SERVICES ARE DELIVERED WITHIN THE FRAMEWORK OF THE PFMA?

Answer	Frequency	Percentage
Yes	10	83.33%
Partially	1	8.33%
No	1	8.33%
Total	12	100%

From 83.33 % of the respondents say there are controls to ensure that all services are delivered within the framework of the PFMA, 8.33% say partially while 8.33% say there are no controls to ensure that services are delivered within the framework of the PFMA.

TABLE 9: HAS THE DEPARTMENTAL STRATEGY AND ANNUAL SERVICE PLAN BEEN AGREED BY THE MANAGEMENT OF THE DEPARTMENT?

Answer	Frequency	Percentage
Yes	9	75%
Not sure	2	16.67%
Don't know	1	8.33%
Total	12	100%

From 75% of the respondents say their Departmental Strategy and Annual Plan have been agreed by the management, 16.67% say they are not sure while 8.33% say they don't know.

TABLE 10: HOW OFTEN IS THE DEPARTMENTAL STRATEGY REVIEWED?

Answer	Frequency	Percentage
Annually	5	41.67%
Semi-annually	1	8.33%
Quarterly	3	25%
Don't know	1	8.33%
Not sure	2	16.67%
Total	12	100%

From the 41.67% say their Departmental Strategy is reviewed annually, 8.33% say semi-annually, followed by 25% who say it is reviewed quarterly, and 8.33% say they don't know. Lastly, 16.67% say they are not sure.

TABLE 11: ARE BUDGETS REGULARLY MONITORED AND REALLOCATED IN LINE WITH RESOURCE NEEDS?

Answer	Frequency	Percentage
Yes	8	66.67%
Sometimes	1	8.33%
No	1	8.33%
Not sure	2	16.67%
Total	12	100%

From the 66.67% of the respondents say the budget is allocated in line with the resource needs, 8.33% say sometimes, 8.33% say the budget is not allocated in line with the resource needs while 16.67% were not sure.

TABLE 12: IS THERE EMBEDDED RISK MANAGEMENT PROCESS IN EACH DIRECTORATE OF THE DEPARTMENT?

Answer	Frequency	Percentage
Yes	9	75%
Some	2	16.67%
No	1	8.33%
Total	12	100%

From the 75% of the respondents say there is embedded risk management process in each and every directorate of their Department, 16.67% say some directorates have, while 8.33% say there is no embedded risk management process in each and every directorate of their Department.

TABLE 13: IS THERE AN ACTION PLAN THAT ENSURES THAT HIGH LEVEL RISKS ARE MANAGED AND MONITORED?

Answer	Frequency	Percentage
Yes	9	75%
Partially	1	8.33%
No	1	8.33%
Not sure	1	8.33%
Total	12	100%

From the 75% of the respondents say there is an action plan that ensures that high level risks are properly managed and monitored, 8.33% say partially, 8.33% say there is no action plan that ensures that high level risks are properly managed and monitored, lastly 8.33% say they are not sure of that.

TABLE 14: IS THE SYSTEM OF INTERNAL CONTROL ESTABLISHED, IF SO DOES IT INCLUDE SPECIFIC CONTROLS TO MITIGATE RISKS?

Answer	Frequency	Percentage
Yes, Yes	8.00	66.67%
Yes, No	1.00	8.33%
Yes, Partially	1.00	8.33%
No	1.00	8.33%
Not sure	1.00	8.33%
Total	12.00	100%

From the 66.67% of the respondents say the internal controls system is established in their departments and they include specific controls to mitigate risks. 8.33% say the system of internal controls is established but it doesn't include specific controls to mitigate risks while 8.33% say the system of internal controls is established but it only partially includes the specific controls to mitigate the risk. Lastly, 8.33% are not sure if the internal controls system is established and if it includes the specific controls to mitigate risks.

TABLE 15: HOW OFTEN DOES THE DEPARTMENT DO RISK ASSESSMENT?

Answer	Frequency	Percentage
Annually	4	33.33%
Semi-Annually	1	8.33%
Quarterly	1	8.33%
Monthly	2	16.67%
Don't Know	2	16.67%
Not sure	2	16.67%
Total	12	100%

From 33.33% of the respondents say risk assessment is done annually in their department, 8.33% say it is done semi-annually, 8.33% say quarterly and 16.67% say monthly, while 16.67% say they don't know and the other 16.67% are not sure.

TABLE 16: ARE POLICIES AND PROCEDURES FOR BOTH FINANCIAL AND NON FINANCIAL SYSTEMS CLEARLY DEFINED OR UNDERSTOOD?

Answer	Frequency	Percentage
Yes	12	100%
Total	12	100%

From 100% of the respondents say financial and non -financial systems are clearly defined and understood.

TABLE 17: ARE POLICIES COMMUNICATED TO DEPARTMENTAL STAFF?

Answer	Frequency	Percentage
Yes	9	75%
Partially	2	16.67%
No	1	8.33%
Total	12	100%

From 75% of the respondents say policies are communicated to staff members, 16.67% say partially, while 8.33% say the policies are never communicated to staff members.

TABLE 18: HOW ARE THE DEPARTMENTAL POLICIES AMENDED?

Answer	Frequency	Percentage
Through strategic planning	3	25%
When there are changes in the Legislation	3	25%
When the need arises	3	25%
Not sure	1	8.33%
Don't know	2	16.67%
Total	12	100%

From 25% of the respondents say the policies are amended through strategic planning, another 25% say when there are changes in the legislation and 25% say when the need arises. 8.33% say they are not sure and 16.67% say they don't know how the Departmental policies are amended.

TABLE 19: ARE THERE CONTROLS TO ENSURE ALL EXPENDITURE IS PROPERLY AUTHORISED?

Answer	Frequency	Percentage
Yes	11	91.67%
Partially	1	8.33%
Total	12	100%



From the 91.67% of the respondents say there are controls to ensure that all expenditure is properly authorized while 8.33% say only partially.

TABLE 20: ARE THERE CONTROLS TO ENSURE THAT ALL ASSETS ARE PROPERLY RECORDED AND SAFEGUARDED?

Answer	Frequency	Percentage
Yes	10	83.33%
Partially	1	8.33%
No	1	8.33%
Total	12	100%

From the 83.33% of the respondents are of the view that there are controls in place to ensure that all assets are properly recorded and safeguarded and 8.33% are of the view that the controls are only partially in place to ensure that all assets are properly recorded and safeguarded while the other 8.33% say they are no controls in place to ensure that all assets are properly recorded and safeguarded.

TABLE 21: ARE THERE CONTROLS TO ENSURE THE ACCURACY OF FINANCIAL INFORMATION HELD WITHIN THE DEPARTMENT?

Answer	Frequency	Percentage
Yes	7	58.33%
Partially	2	16.67%
No	1	8.33%
Not sure	2	16.67%
Total	12	100%

From the 58.33% of the respondents say there are controls to ensure the accuracy of financial information held within the department and 16.67% say partially, while 8.33% say there are no controls to ensure the accuracy of financial information held within the department and 16.67% say they are not sure.

TABLE 22: ARE THERE CONTROLS TO ENSURE ALL TRANSACTIONS ARE PROCESSED ACCURATELY, COMPLETELY AND ON A TIMELY BASIS?

Answer	Frequency	Percentage
Yes	9	75%
Partially yes	2	16.67%
Not sure	1	8.33%
Total	12	100%

From the above information 75% of the respondents are of the view that there are controls to ensure that all transactions are processed accurately, completely and on a timely basis and 16.67% say partially while 8.33% say they are not sure.

TABLE 23: ARE THERE CONTROLS TO ENSURE ALL INCOME IS COLLECTED/ RECEIVED?

Answer	Frequency	Percentage
Yes	7	58.33%
Partially	2	16.67%
No	1	8.33%
Not sure	1	8.33%
Don't know	1	8.33%
Total	12	100%

From the above information 58.33% of the respondents say there are controls to ensure that income is collected or received in their departments and 16.67% say partially. While 8.33% say there are no controls. Lastly 8.33% is not sure, also 8.33% say they do not know.

4.3.2 Narrative analysis

It is noted that the public sector still occurs irregular expenditure; moreover this seems to be condoned. There are no adequate systems for identifying and recognizing irregular expenditure. On the issue of the reliability of information, the reported information on performance was deficient in relation to the following: (i) validity: the performance didn't occur and didn't pertain to the organisations; (ii) accuracy: the amounts, numbers and data relating to reported actual performance had not been recorded and reported accordingly and (iii) completeness: the actual results and events of the most importance were not included in the performance information.

There was non compliance with assets management and supply chain management policies and procedures. On the issues of Human Resource Management and compensation issues some of the senior managers did not enter into performance agreements, as required in the Public Service Regulation.

The leadership of the public sector does not exercise its oversight responsibility regarding financial and performance reporting, compliance and internal controls appropriately. Furthermore, the organisations do not have appropriate monitoring controls to ensure compliance with all applicable regulations and laws.

4.4 Summary

This chapter provides the summary of the respondents' characteristics from the two different departments, who were interviewed to obtain their views on the corporate governance system and internal controls in their respective departments. From the data collected most of the respondents were of the view that internal control systems are in place but the challenge is that they are not implemented. Lack of communication between senior management and other staff members causes dysfunctional policies and procedures of the internal controls in their respective departments. The other issue that was raised is the unskilled staff members who are appointed to take responsibility of the internal control system; this results in ineffectiveness of corporate governance and internal controls in their organisations. Lastly the respondents indicated that most of the key functional positions are not filled, which leads to lack of leadership in their respective departments.

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CHAPTER FIVE: DISCUSSIONS, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

From the previous chapter, the data from interviews and documentary analysis were analysed and certain findings were made. In this chapter the researcher provides the summary of the findings related to the research problems. The researcher further provides the recommendations and conclusions that are based on the findings of the study.

5.2 Summary of the findings

The following main findings linked to the objectives of the study are summarized as follows from the different questions used during data collection. The main findings are:

- 5.2.1 The respondents say there are controls to ensure that transactions occur during correct period but the problem is with the implementation.
- 5.2.2 The respondents say their departments allow fruitless expenditure, the reason being is the interest charged by suppliers due to late payments on the invoices
- 5.2.3 The respondents say that there is less than full compliance with regulations in terms of transactions adhering to the PFMA, Treasury Regulations and King III Report.
- 5.2.4 The reported information on performance was deficient and not always reliable.
- 5.2.5 There was a lack of capacity
- 5.2.6 IT governance was not established
- 5.2.7 The respondents pointed out that there were risk management processes in their respective organisations.

5.3 Discussions of the findings

5.3.1 Irregular expenditure

It is noted that the public sector still occurs irregular expenditure, moreover this seems to be condoned. There are no adequate systems for identifying and recognizing irregular expenditure. In the area of Expenditure Management, the Accounting Officers did not take effective and relevant steps to prevent irregular expenditure as required by the PFMA. Not all payments due to creditors are paid within 30 days from the receipt of invoice as required by PFMA and Treasury Regulations.

5.3.2 Unreliability of information

On the issue of the reliability of information, the reported information on performance was deficient in relation to the following: (i) validity: the performance did not occur and did not pertain to the organisation; (ii) accuracy: the amounts, numbers and data relating to reported actual performance had not been recorded and reported accordingly and (iii) completeness: the actual results and events of the most importance were not included in the performance information. There were challenges with reconstruction of existing recordings. The management does not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

5.3.3 Lack of capacity

There was a capacity constraint in the Office of the Chief Financial Officer. Most of the work was done by contractors and most of these contracts were terminated in July 2010.

5.3.4 Non Compliance

Concerning Procurement and Contract Management; not all goods and services with the value of between R10 000.00 and R500 000.00 were procured with the Treasury Regulations. Not all

tenders were advertised within 21 days as required by the Treasury Regulations. The bidding processes were being circumvented in contradiction of a fair supply chain management as required by the Treasury Regulations. There was non-compliance with assets management and supply chain management policies and procedures. On the issue of Human Resource records management there was non-compliance by staff members and the unavailability of the PERSAL System.

5.3.5 Implementation of Internal Controls

Concerning the revenue management the accounting officers did not take effective and relevant measures to collect all money that is owed to their respective organisations as required by the PFMA. In asset management the accounting officers did not make sure that appropriate control systems were in place to eliminate theft, losses, wastage and misuse as required by the Treasury Regulations. The leadership of the public sector does not exercise its oversight responsibility regarding financial and performance reporting, compliance and internal controls appropriately.

Furthermore, the organisations do not have appropriate monitoring controls to ensure compliance with all applicable regulations and laws. Even though training was conducted to mitigate risks, there was an increase in corruption and fraud. On the issues of strategic planning and performance management the accounting officers did not ensure that the entities had an effective, efficient and transparent system of internal controls linked to performance management, which defines and represents how the entities' processes of performance planning, monitoring, measurement, review and reporting were conducted, organized and managed as required by the PFMA. The accounting officers did not establish procedures for reporting quarterly to the Executive Authority, to enable effective monitoring, evaluation and corrective actions as required by the Treasury Regulations

5.3.6 Risk management

Despite the availability of risk management in respective departments, if the internal controls are not properly implemented then it will not be easy for the institution to mitigate the risk. The other issue that relates to risk management is IT governance; if IT governance is not established then the risk will not be managed effectively and efficiently.

5.3.7 Absence of IT governance

The management has not established an IT governance framework that supports and enables the organisations to report efficiently. Management did not implement appropriate risk management activities to ensure that the entity's continuity plan for IT environment is in place and monitored.

5.4 Relations to the literature

Most of the participants' responses relate to chapter 2 and chapter 3; the main findings from 5.2 above are compared with the literature.

Main finding 1 (paragraph 5.2.1, 5.2.2, 5.2.3 and 5.2.5)

The findings indicate that the public sector still caters for unauthorized expenditure, non compliance with the applicable laws and regulations and that the internal controls are not properly implemented. The findings also indicate that there was lack of capacity. According to Sass (2008:2) the most crucial legislation in government institutions are the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA). These Acts identify the responsibilities of the accounting officers. One of the most important responsibilities is to ensure the effectiveness, efficiency and transparency of financial, risk management and internal control systems in the organisation.

Sass (2008:2) says even though controls are in place, appropriate implementation is not always possible. For instance, "segregation of duties becomes impossible when positions are constantly

vacant”, while the implementation of affirmative action strains the situation further. When staff members are not properly trained, human error increases. As a result of these factors, there are deficiencies in internal controls in government institutions.

Internal control depends on human being; it is subject to “flaws, judgement or interpretation errors, misunderstandings, carelessness, fatigue, distraction, collusion, abuse or override”. The management attitude and organizational changes might have “an impact on the effectiveness of the internal controls and the personnel operating the system”. The management should lead by example by adhering to the control systems (Guidelines for Internal Control Standards for the Public Sector, 2004:12).

Van der Nest (2007:178-179) states that the audit committee is a crucial element of public governance and accountability. The committee plays a crucial role concerning the integrity of the financial information of the public entity. Audit committee members in the public sector encounter special challenges because of the uniqueness of the public sector entities. While McGregor (2008:8) says the public sector “has a seriously inadequate number of educated, trained and competent directors. The challenge is to ensure accelerated learning for those currently in positions beyond their levels of competence”.

Bekker (2009:7-8&19) says that for corporate governance to be considered effective in the public sector the officials should have knowledge, skills and the ability to carry out their duties as expected. South Africa needs people with relevant qualifications and skills in order for them to carry out the mandate of corporate governance and accountability in the public sector. According to Shamki (2009:25-26) both internal and external auditors and the audit committee must have skills, experience and responsibilities in detecting fraud in financial reporting.

According to Sori, Hamid, Saad and Evens (2007:13) the existence or operation of an audit committee improves the monitoring of internal controls and financial reporting. The committee serves as a bridge between internal and external auditors. The responsibility of the audit committee is to ensure that the accounting policies as well as internal control systems are of a high standard. The committee also ensures that the external auditors detect fraud and anticipation of the financial risk in the institution.



Main finding 2 (5.2.4)

The findings indicate that the reported information on performance was deficient in relation to the following:

Validity: the performance didn't occur and didn't pertain to the organisations;

Accuracy: the amounts, numbers and data relating to reported actual performance had not been recorded and reported accordingly and

Completeness: the actual results and events of the most importance were not included in the performance information. There were challenges with reconstruction of existing recordings.

The management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information. Diamond (2002:31) is of the view that the Performance reports should be submitted to the internal audit's head office or the accounting authority. The comparison between performance and audit work must be done. Should there be variations, reasons must be provided.

Main finding 3 (paragraph 5.2.6 & 5.2.7)

The findings indicate that the IT governance framework was not established even though the risk management was in place. De Visscher et.al (2010:65) say risk management and internal controls are not appropriately developed. Improvements on internal controls are more than just improvements on risk management. Concepts about risk management such as risk identification and evaluation are part of internal control, instead of evaluation of internal control being part of risk management.

Victorian-Auditor General (2007:13) says risk management is a crucial element of corporate governance. Public sector entities and regulators utilise risk management policies and processes to identify, assess, manage and report risks. Public sector entities utilise risk management to deliver better policies, services, laws and regulations.

According to Boyd, Brisebois and Shadid (2007:31), IT governance “is an integral part of an organisation and is made up of the leadership and organisational structures and processes that ensures that the organisation’s IT sustains and extends the organisation’s strategies and objectives”. IT governance gives special attention to information systems value and alignment, risk management, and the performance of the IT system and accountability, while Treatise (2005:47) says that it is crucial to link the technology with organisational processes, recognising the importance of IT strategies. According to the IT Governance Institute (2000:5) Control Objectives for Information and related Technology (COBIT) assist in meeting many needs of management by aligning the gaps amongst business risks, control needs and technical issues.

5.4.1 Conclusions

From the findings above it can be concluded that a lack of skills contributes much to the non-compliance with laws. It is also noted that the non-implementation of internal controls leads to irregular expenditures, and fraud as well. The integration of risk management and IT governance plays a crucial part in the effectiveness of corporate governance.

5.5 Recommendations

The following recommendations are made to improve governance in South African Public Sector:

5.5.1 There should be a balance amongst public finance management system and skills development of public servants.

According to Siswana (2007:280) there should be an establishment of balance in developing the system of public finance and the development of skills of public servants, especially servants within the senior management cluster. Normally these senior managers are given the responsibility of managing different tasks and huge budgets. These managers analyse the environment in which they operate, therefore this requires skilled individuals. It is also expected of them to have a clear understanding of, and also implement the organisation's "performance budgeting system, PFMA prescripts, GRAP and the accrual accounting system and the implications of asset management, financial reporting and financial management as a whole. A balance between transformation and skills base is crucial to support effective governance".

5.5.2 Financial management and governance

It is very important to make sure that the “culture” of financial management is imposed in the public sector. The financial management elements should be tacit. For instance, there should be interrelations amongst “asset management, debt management, risk management and revenue management” in order to improve the financial management system in the enterprise. At the same time governance effectiveness is “undermined” by the ineffectiveness of governance institutions such as Parliament, especially SCOPA. In order to improve corporate governance in the Public Sector, analyses of both micro- and -macro environments should be made (Siswana, 2007: 282-283).

a) Auditing and Accounting

Siswana (2007:284) is of the view that both external auditors and institutional officials should share information taking into account “value for money auditing” with the view to minimize non-compliant standards from the Departments and for the Departments to understand what is expected of them. The Office of the Auditor General must “develop a very close relationship with government” entities, while not compromising its independence, in order to improve corporate governance through explaining procedures and processes that could encourage compliance and accountability in the Public Sector.

b) Risk Management and Internal Controls

Siswana (2007:289-290) says a risk management culture should be encouraged within the Public Sector; the management should encourage the formation of risk management committees in the entire government entities, so that committees could identify the risks in their own directorates “for the idea of an integrated approach to risk management”. This can only take place if the

public servants are well equipped in the implementation and theory “of an integrated approach to risk management” in the Public Sector. For the risk to be properly managed the internal controls should be in place. The internal controls cannot be effective if they are not monitored constantly, evaluated and improved in accordance with the strategic needs of the organisation. Should the internal controls be strong then the risk will be managed effectively. It is the responsibility of the managers to make sure that controls are in place and effective in the institution.

c) Public Expenditure Management

According to Siswana (2007:288) priority should be given to public expenditure management as an area that is important for skills development of public servants, especially managers. When the public expenditure management is prioritized corporate governance could improve in the Public Sector.

d) Decision making and compliance

Decisions should be made urgently, the reason being that they might affect financial accountability, transparency, ethics and financial management (Siswana, 2007:290).

e) Monitoring & Evaluations

Siswana (2007:290) is of the opinion that the Public Sector should not only assess, monitor and evaluate what is delivered but also go beyond results to effect an output.

5.5.3 Recommendation for further research

There is a need for further research on the effectiveness of internal controls and corporate governance system because there is already the introduction and amendments of the regulators and laws relating to corporate governance and internal controls.

5.6 Limitations

This study encountered some limitations and they are; (i) access and cooperation in one department was a challenge; (ii) the nature of the topic studied was a bit challenging to the participants; as a result it was a challenge to receive cooperation from other directorates of the institution, and the unavailability of documents was also a challenge.

5.7 Conclusion



From this study it can be stated that issues of non-compliance, irregular expenditure, risk management, IT governance, lack of capacity and internal controls affects to the effectiveness of the corporate governance system in the Public Sector.

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Annexure 1

Interview schedule

Part A

Please answer the following questions on management structures and reporting lines;

a) Is there a clear management structure in place?

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b) How often is the structure reviewed?

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c) Are responsibilities and roles of each and every employee clear?

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d) When decisions are taken by management how are they communicated to staff members?

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e) Is there any performance appraisal in place, if so how often it is done, and if not what are the reasons for not having it in place?

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f) Is there staff training plan in the department?

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Part B

Please answer the following questions on Strategy and Planning

a) Are there controls in place to ensure that all services are delivered within the framework of the PFMA?

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b) Does the departmental strategy and annual service plan has been agreed by the Management of the department?

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c) How often is the departmental strategy reviewed?

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d) Are budgets regularly monitored and reallocated in line with resource needs?

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Part C

Please answer the following questions on risk management

a) Is there embedded risk management process in each directorate of the department?

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b) Is there an action plan that ensures that high level risks are managed and monitored?

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c) Is the system of internal control established, if so does it include specific controls to mitigate risks?

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d) How often does the department do risk assessment?

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Part D

Please answer the following questions on policies and procedure

a) Are policies and procedures for both financial and non financial systems clearly defined or understood?

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b) Are policies communicated to departmental staff?

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c) How are the departmental policies amended?

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Part E

Please answer the following questions on Financial Controls

a) Are there controls to ensure all expenditure is properly authorised?

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b) Are there controls to ensure all assets are properly recorded and safeguarded?

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c) Are there controls to ensure the accuracy of financial information held within the department?

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d) Are there controls to ensure all transactions are processed accurately, completely and on a timely basis?

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e) Are there controls to ensure all income is collected/ received?

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