

# Internal Audit and Financial Misconduct: The Case of the South African Social Security Agency (SASSA)

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**Abstract:** The paper, which emanates from the author's doctoral study, explored the role of an internal audit function in averting financial misconduct, at the South African Social Security Agency (SASSA). A review of literature pointed to the scarcity of research that focuses on the role that an effective internal audit function can play in making recommendations for the institution of internal controls that would contribute to averting or reducing financial misconduct, in developing countries such as South Africa. In this context, the study emphasised that although an internal audit function plays an advisory and indirect role, the function still has an important task to play as highlighted above. Thus, the problem statement for the study was articulated as follows: *The existence of an internal audit function at SASSA had not resulted in improved internal controls, which contribute to the curbing of financial misconduct.* Consequently, the main research question for the study was: *What are the necessary conditions under which an internal audit function could be improved?* Using the Agency theory, the study conceptualised an internal audit function as an important part of internal management controls that functions by reviewing, evaluating and making recommendations for the improvement of other controls within an institution, with the aim of promoting good governance. The research design and methodology for the study was qualitative, as it was necessary to get the views of the respondents on the various themes covered in the interview schedules and survey questionnaire. The case study design was employed as the operational framework for data collection. The main findings of the study are articulated in a conceptual framework for the effective implementation of an internal audit function. Thirteen conditions have been identified as necessary for an internal audit function to be effective. In addition, the study makes recommendations for amendments to the PFMA and/or Treasury Regulations: PFMA, to contribute to the efficiency of internal audit functions in South Africa's public sector.

**Keywords:** Financial Misconduct, Implementation, Internal Audit, PFMA, SASSA

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## 1. Introduction

The first step that South Africa's democratic government took to correct the shortcomings of the apartheid government in relation to financial management was the introduction of the Public Finance Management Act 1 of 1999, or PFMA. The acceptance and introduction of the PFMA, was a positive step towards promoting fiscal discipline in South Africa. The PFMA, read together with Treasury regulations and the Public Audit Act 25 of 2004, provide the necessary guidance for effective financial control. The PFMA's predecessor, the Exchequer and Audit Act 66 of 1975, which was rules-driven and prescriptive in nature, necessitated the passing of legislation that provides a framework for efficient and effective public financial management that eliminates waste, fraud and corruption (Bekker, 2009:11). The PFMA has four main objectives. The first objective is to streamline the system of financial management in the public sector. The second is to empower public sector managers to manage, but

at the same time be held accountable. The third is to ensure that the financial information provided is of a high quality and is provided on time, and the fourth objective is to ensure that waste and corruption in the use of public assets is eliminated (RSA, 1999:1). The PFMA, therefore, aims to promote the effective use of financial resources, increase production and facilitate economic growth.

The specific aspect of the PFMA that the study considered is the implementation of the internal audit function, as articulated in sections 76 and 77 of the Act. Section 76 lists all the matters on which the National Treasury may make regulations or issue instructions, and these include inter alia the execution of internal audit functions. Section 77 stipulates the composition of audit committees (RSA, 1999:62). An internal audit function is thus one of the important internal control mechanisms, also required by the PFMA, for purposes of inter alia ensuring that institutional systems are operated according to the prescribed policies and standard

operating procedures. In addition, public finances should be managed in accordance with the PFMA and its regulations. Compliance with the PFMA's requirements of an internal audit function is therefore seen as important, as the recommendations of the internal audit function, pertaining to the internal control environment of public institutions would contribute to the elimination of fraud and corruption. For purposes of this study, the consideration of the implementation of the internal audit provisions of the PFMA took place at the South African Social Security Agency (SASSA), which was the case study for the research. SASSA is an agency of the Department of Social Development tasked with distributing social grants to South Africans. The agency was chosen as the case study for the research because of the importance of the work it does in distributing social grants to 31% of South Africa's population (SASSA, 2017:24). The Overseas Development Institute (ODI) (2011:3) remarks that South Africa has the largest and most developed social security system in Africa, where social assistance programmes amount to 3.2% of the gross domestic product (GDP) (National Treasury, 2018:62). It is within this context that the author found the study necessary. Moreover, financial misconduct represents one of many institutional risks at SASSA. An example of these is financial loss, when money meant for grant payments is lost and not recovered due to irregularities and fraud (SASSA, 2015:16–25). The importance of the work done by SASSA, as highlighted above, thus makes it necessary for its internal audit function to be effective. In this regard, an effective internal audit function would make recommendations for the institution of internal controls, to prevent or reduce cases of financial misconduct.

## **2. Background and Rationale**

Public financial management by government institutions is becoming increasingly important internationally. South Africa is not immune to global developments, and the advent of democracy in 1994 brought with it major changes to fiscal policy and financial accountability. Some of the notable reforms on public financial management relate in particular to budget reforms (Khalo & Fourie, 2006:131). The promulgation of the PFMA was thus a positive step in promoting fiscal discipline and transparency in the management of public finances. The current study focused on the internal audit sections of the PFMA (sections 76 & 77) and

considered the role that an internal audit function could play in making recommendations for the institution of internal controls, which would contribute to a reduction in cases of financial misconduct at SASSA. Several authors have explained the role of an internal audit function using agency theory. Firstly, the relationship between political leaders and public managers, within public institutions is regarded as an agent and principal one, whereby the managers are the agents and the political leaders are the principals (Provan & Milward, 2001:417; Al Mamun, Yasser & Rahman, 2013:38; Khaled & Mustafa, 2013:92). Managers are regarded as agents of the political leaders because they do work on behalf of the political leaders. However, there is a possibility that the managers may deviate from conducting their duties in the manner expected, and instead pursue their own interests. This situation can be monitored by the presence of corporate governance mechanisms, such as audit committees, external and internal auditors who can ensure that managers perform their duties as expected by the political leaders (Al Mamun *et al.*, 2013:38; Vafaei & Christopher, 2014:7). Within this context, Khaled and Mustafa (2013:92) highlight that there is a lack of research that evaluates the effectiveness of the internal audit function, when compared to external auditing. Furthermore, there is a need for research in this area, especially in developing countries, where the internal audit function could play a critical role in preventing unethical conduct, such as fraud (Badara & Saidin, 2014b:177; Khaled & Mustafa, 2013:92). The current study aimed to address this gap, using SASSA as a case study.

## **3. Theoretical Perspectives**

The following section provides theoretical perspectives in the domain of the internal audit function and financial misconduct.

### **3.1 Internal Audit Function Evolution and Current State**

Sarens and De Beelde (2006:453) remark that the profession of internal auditing emanates from the area of financial control. Similarly, Willson and Root (1984:2) posit that records of accounting history show that the first audit function took place prior to ad 1500. At the time, the services involved validating government transactions in order to avert misappropriation of funds in treasuries of ancient rulers. The procedure that was followed included

two individuals who kept records of the same transaction for purposes of providing the ancient rulers with assurance that any attempted misappropriation of funds would be identified on time. This illustrates that the interlinked connection between internal control, auditing and assurance was there, from the beginning of the function (Willson & Root, 1984:2). In addition, during the earlier periods in the development of the profession, it focused on measuring and evaluating the effectiveness of various types of control, such as the correctness of financial transactions and making sure that institutions complied with applicable laws and regulations. These functions were performed to support members of institutions in discharging their duties effectively (Sarens & De Beelde, 2006:453).

Internal auditing was thus defined as an independent appraisal function established to examine and evaluate institutional activities, with the objective of promoting effective control and assisting institutions, including management, to discharge their responsibilities effectively (Willson & Root, 1984:2; D'Silva & Ridley, 2007:117). Willson and Root (1984:3) further define internal auditing as a function that is responsible to the owners of an institution, and which provides a service to senior management. The services provided include inter alia, monitoring management controls as well as being proactive in identifying and assessing risks to institutional assets and activities. Other services include investigating lapses in controls that have occurred and those that have a potential of occurring and making recommendations for improving responses to risk and achieving institutional objectives.

The profession of internal auditing has since advanced and has changed from only assessing financial records and investigating fraud, and now encompasses expert advisory services, where the internal auditor provides institutions with recommendations for future action. This implies that the modern-day internal auditor should establish whether institutional objectives have been achieved. The names used for the additional facets that are now part of the internal audit function, as highlighted above are 'management' or 'operational auditing' and in other instances, 'performance auditing' or 'value-for-money auditing'. The aim of an operational audit is to assist management in improving the operations of an institution, as well as in achieving efficiency, effectiveness and economy in their delivery of goods and services (Pollitt

& Bouckaert, 2011:86; Allen, Hemming & Potter, 2013:378; Vafaei & Christopher, 2014:4-6). Similarly, Allen *et al.* (2013:374) state that the findings and recommendations of an internal audit function should provide management of a public institution with input that enables them to take corrective action to improve the effectiveness of its operations and internal controls.

### 3.2 Audit Committees

Allen *et al.* (2013:390) cite that a strong internal audit function in the public sector is dependent on an effective audit committee. Several authors assert that the role of audit committees is to promote accountability and to strengthen the internal and external audit functions, financial management and overall governance (Sarens & De Beelde, 2006:459; Badara & Saidin, 2014b:178; Nevondwe, Odeku, Tshoose, 2014:268). Furthermore, the presence of audit committees creates the perception that the internal audit function is independent, which may lead to more reliable financial reporting (Christopher *et al.*, 2009:204; Vafaei & Christopher, 2014:15).

### 3.3 Financial Misconduct

Pauw, Woods, Van der Linde, Fourie and Visser (2002:37-42) highlight that in South Africa, the legislature is responsible for managing public finances on behalf of the public. The legislature, therefore, appropriates funds for use by the various public institutions, and, in so doing, authorises the expenditure of those public institutions. These funds are appropriated and authorised once departmental budgets have been presented and approved by the legislature. Through the budget, expenditure for the various programmes is authorised once the purpose of the programmes has been identified. It is emphasised that funds are appropriated for different programmes when such programmes are deemed necessary and of benefit to the public. Financial misconduct occurs when unauthorised expenditure takes place, which is, when expenditure occurs on programmes for which there are no budgets, or when the budgeted amount is exceeded. Additionally, financial misconduct occurs when funds are spent on activities that do not benefit the public, as defined in the budget – the so-called, fruitless and wasteful expenditure (Pauw *et al.*, 2002:24).

Furthermore, there are legislations such as the PFMA and the Preferential Procurement Policy Framework

Act 5 of 2000 (the PPPFA) (RSA, 2000), that regulate the use of public funds. In this regard, expenditure may be authorised according to a budget Act but be deemed illegal or irregular. Expenditure that occurs in contravention of acts such as the PPPFA (section 2(1) and the PFMA (section 81(b)) is considered irregular expenditure, and when public officials spend funds in this manner, they are guilty of financial misconduct (Pauw *et al.*, 2002:37-42). Similarly, Prechel and Morris (2010:332) posit that financial misconduct is an act that violates a law or a rule that has been established by a government or an organisation responsible for financial oversight. Additionally, Mhauri (2009:1356) defines financial misconduct as any falsifying of records, or deliberate distortion of financial reports to government institutions. It must thus be emphasised that the role of an internal audit function in averting financial misconduct is indirect, as an internal audit, function plays an advisory role to management. As this stand according to the legislative and regulatory framework, management can choose whether to implement the recommendations of the function or not. Nonetheless, the role remains important as an effective internal audit function could make valuable recommendations, as will be shown below. In addition, the author will make recommendations below for amendments to the legislative and regulatory framework, to improve the execution of internal audit functions.

#### **4. Research Methodology**

The research design and methodology for the study was qualitative, as this was found to be the most suitable methodology to address the research questions, which fell within the realism philosophical paradigm. According to Krauss (2005:761), realism is a philosophical paradigm that is adopted by qualitative researchers, who consider several perceptions relating to one reality. Knowledge about a reality is a result of social conditioning, as such it cannot be fathomed without considering the social actors involved in the process. The main approach that is used within the paradigm is case studies, wherein the data collection techniques that are employed, include inter alia interviews (Healy & Perry, 2000:119).

In this study, data was collected in the context of the case study approach, and the data collection techniques employed were personal one-on-one interviews, survey questionnaire that comprised

open-ended questions and a focus group. In addition, there is information/data the author had to request from SASSA in writing, which was relevant for the study. This information (inter alia on financial misconduct cases and training schedules) had to be requested in writing because not all SASSA employees are privy to it. The information could therefore not be included in the survey questionnaire or interview schedules. The study respondents (senior and junior managers) were selected using purposive sampling, to ensure that some diversity was included in the sample, to allow for the influence of differences in respondents' views, due to the positions that they occupy (Ritchie & Lewis 2003:79).

In consultation with SASSA's General Manager: Internal Audit, five senior internal audit managers were identified. Three out of the five senior managers were interviewed at SASSA's head office in Pretoria, where the agency's internal audit function is situated. In consultation with the General Manager: Finance, 10 more senior managers in certain of the areas in the agency that have been identified as strategic high-risk areas, were also identified and interviewed at SASSA's head office in Pretoria, as well as at the agency's regional office in Johannesburg, thus incorporating the agency's operations in Gauteng. It was necessary to include the other senior managers in the population of the study, as they are the recipients of the services of the internal audit function.

A survey questionnaire, which comprised open-ended questions, was completed by eight of the 14 junior internal audit managers. A qualitative data expert approved the data collection instruments. Furthermore, a pilot study was conducted, and this gave the author an opportunity to refine the data collection instruments. The data from the interviews and survey questionnaire was analysed using the ATLAS.ti. qualitative data analysis software, after which conclusions were drawn from themes that emerged from the data (cf. Ritchie & Lewis, 2003:203). The research respondents had been assigned pseudonyms to enable reflecting their differing opinions or minority views (e.g. SA 1-3=senior internal audit manager, SO 1-10=other senior managers, JA 1-8=junior internal audit managers). The focus group, which aimed to understand the influence or lack thereof of the work of the internal audit function, specifically in the Supply Chain Management (SCM) department, was held with



key members of that department. The focus group discussion was deemed necessary because the number 1 risk on the internal audit plan, provided to the author by SASSA relates to the possible manipulation of SCM processes and PFMA prescripts by corrupt SASSA officials, which may unfairly benefit certain suppliers. The focus group participants had been assigned pseudonyms as well to enable reflecting their differing opinions or minority views (e.g. participant 1-4).

## 5. Findings and Discussion

The findings below are organised according to a juxtaposition of the themes that emerged from the literature and the findings from the case study.

### 5.1 Themes from Internal Audit Literature

The following are key themes that emerged from the literature on the internal audit function. The literature themes are considered against SASSA's realities at the time of the research. Compliance with the PFMA or a lack thereof is also highlighted, as well as any theory-practice gaps.

#### 5.1.1 Internal Audit Plan

The role of SASSA's audit committee makes provision for an advisory and oversight function. Additionally, the audit committee considers the agency's internal audit plans and activities (SASSA, 2013:61; SASSA, 2016:54). The above and SASSA's 2015/16 audit plan, which was provided to the author, show that SASSA's audit committee has an influence on the audit plan of the agency, as the committee is required to sign off the plan. The influence of the audit committee of the agency on the audit plan is in line with what the literature emphasises (Sarens & De Beelde, 2006:459-460; Christopher *et al.*, 2009:208). Furthermore, the audit plan of the agency covers institutional risks based on the strategic risks and operational risks that have been identified (SASSA, 2013:61; SASSA, 2016:54).

#### 5.1.2 Internal Audit Charter

Written feedback from SASSA indicated the agency's audit committee charter is reviewed annually. Furthermore, SASSA's audit committee charter, which was provided to the author, showed the mandate of the agency's audit committee as well as the roles and responsibilities of the committee and its members. The information reflected on the agency's audit committee charter shows that it is in

line with best practice and the PFMA. On the issue of assessing the performance of the audit committee members, further written feedback from SASSA indicated that the assessment method that was applied at the time of the study was self-assessment. In this regard, the PFMA and Treasury Regulations: PFMA do not make any pronouncements on the need to assess the performance of audit committee members. Setlhomamaru (2016:227) says the performance of audit committee members should be assessed regularly using a combination of self-assessments and independent assessments, as both assessments have shortcomings when done in isolation. Setlhomamaru reiterates the importance of assessing the work of audit committee members in the public sector, as performing and effective audit committees are a necessary condition for good governance as well as for the functioning of an internal audit function (Nevondwe *et al.*, 2014:268-270; Setlhomamaru, 2016:228). The lack of pronouncements in the PFMA and Treasury Regulations: PFMA on the need to assess the performance of audit committees is thus a concern.

#### 5.1.3 Follow-Up Plan for Internal Audit Opinions and Recommendations

The South African Social Security Agency's 2015/16 internal audit plan shows that at the time, there was a process in place for the internal audit function to carry out reviews to determine the progress made by management on the implementation of previously reported and agreed-upon management action plans, emanating from audits conducted. Furthermore, feedback from interviews conducted and survey questionnaire, confirm that SASSA's internal auditors do follow-up on the implementation of management action items that are raised in internal audit reports. The above findings are in line with what the literature emphasises (cf. Enofe, Mgbame, Osa-Erhabor & Ehiorobo, 2013:164; Khaled & Mustafa, 2013:97-98).

#### 5.1.4 Qualifications and Experience of Internal Audit Staff

Numerous authors refer to the competence of staff working in an internal audit function as an important factor for an effective internal audit activity or operation. The quality of the work produced by an internal audit function is thus influenced by the competence of its staff, which is partly validated by their qualifications (Cohen & Sayag, 2010:299; Alzeban & Sawan, 2013:445; Vafaei & Christopher, 2014:16). The average experience of SASSA's internal

audit staff was 11 years. However, the findings from interviews with the other senior managers pointed to the fact that the agency's internal auditors are lacking when it comes to linking theory to practice.

Specific reference is made to feedback from one other senior manager, who said – [T]hey are lacking in terms of linking theory to practice (SO 8). An inference could thus be made that although the internal auditors are qualified; they are also perceived as being unable to translate the theory that they learned into practice. In addition, further feedback from interviews with the other senior managers pointed to that, the agency's internal auditors avoid proposing strategies for improvement, as they do not understand the work and operational processes of the agency.

#### **5.1.5 Appointing the Chief Audit Executive**

The independence of an internal audit function is one of the important attributes of an effective internal audit function, and it is compromised if management is responsible for the appointment and dismissal of the chief audit executive (CAE) (Christopher *et al.*, 2009:208; Alzeban & Sawan, 2013:446). Written feedback from SASSA indicated that the agency's chief executive officer (CEO) and audit committee are both involved in the appointment of the agency's CAE. The audit committee's involvement in the appointment of this incumbent somewhat contributes to the independence that is referred to above.

#### **5.1.6 The Reporting Line of the Chief Audit Executive**

The PFMA states that an internal audit function must report directly to the accounting authority of a public entity, who is the CEO, and at all audit committee meetings. This means that the CAE reports administratively to the CEO and functionally to the audit committee. The feedback from the interviews and written responses from SASSA indicated that SASSA's internal audit function reports directly to the agency's CEO and to the audit committee at quarterly audit committee meetings. Whilst the dual reporting line of SASSA's internal audit function complies with the PFMA, it does contradict what the literature suggests. In the literature, it is emphasised that an internal audit function should report administratively to the audit committee or board and functionally to the CEO (Sarens & De Beelde, 2006:459-460; Christopher *et al.*, 2009:208; Alzeban & Sawan, 2013:446). The authors further

reiterate that if a CAE reports to senior management instead of an audit committee, this has the potential to result in internal auditors failing in their duty of amongst others ensuring that there are adequate control measures in place to protect an institution against fraudulent activities.

#### **5.1.7 Budget Appropriation and Approval for the Internal Audit Function**

Financial resources are critical for the effective functioning of an internal audit function, as such adequate financial resources should be allocated to an internal audit function (Cohen & Sayag, 2010:300; Khaled & Mustafa, 2013:97; Badara & Saidin, 2014b:177; Vafaei & Christopher, 2014:17). It is further proposed that, if management influences the budget of the internal audit function, its independence may be compromised. The audit committee should thus be the one that allocates the budget (Christopher *et al.*, 2009:208). Written feedback from SASSA indicated that the agency's CAE and its chief financial officer (CFO) together determine the budget for the agency's internal audit function. The above indicates that the agency's audit committee is not involved in deciding on the budget that is appropriated to the internal audit function, which is not good practice.

#### **5.1.8 Policies and Procedures Guiding Operations of Internal Audit Departments**

Several authors emphasise that internal auditing is most effective when it enjoys institutional support, which includes ensuring that there are adequate policies and procedures that guide the operation of internal auditors (Cohen & Sayag, 2010:300; Khaled & Mustafa, 2013:97; Badara & Saidin, 2014b:177; Vafaei & Christopher, 2014:17). There is an audit policy in place at SASSA, which guides the work of the agency's internal audit function, which was provided to the author. The policy clarifies the roles of the CEO and executive management in the affairs of the agency. Furthermore, the agency's audit committee and internal audit charters are contained in this policy. On reflection, this policy highlights all the necessary requirements of an internal audit function by the PFMA and the Institute of Internal Auditors (IIA). Areas of improvement would thus be about the implementation of the audit policy.

#### **5.1.9 Training Undertaken by the Internal Audit Department**

Some of the factors that have been noted as having an influence on internal audit effectiveness are

experience, training, education (including continuous professional education) and professional qualifications of internal audit staff (Badara & Saidin, 2014b:176). Additionally, Alzeban and Sawan (2013:445-446) highlight that internal auditors are required by the IIA to complete 80 hours of acceptable continuous professional education every two years and to make use of relevant learning opportunities. Written feedback from SASSA showed that SASSA's internal audit staff had attended various courses relevant to their work. Of importance to note was that, the training undertaken was specific to the internal audit profession, such as training on auditing financial statements for the public sector and not about SASSA and its operations. This supports the feedback reported above to the effect that the internal auditors are perceived as lacking when it comes to their understanding of the agency's operational work.

#### **5.1.10 Composition of the Audit Committee**

Allen *et al.* (2013:390) explain that the independence of an audit committee is further improved if the audit committee has technical expertise in fields such as accounting and budgeting, to understand the work of the internal audit function. Audit committee members are thus collectively required to be knowledgeable, or to have expertise in areas of finance and accounting, industry-specific knowledge, internal and external auditing, risk management, regulatory compliance, law as well as information technology (IIA, 2014:15). Furthermore, the IIA (2014:6) remarks that the composition of an audit committee is critical, and that the majority of audit committee members should be external members. Similarly, section 77 of the PFMA (RSA, 1999) states that audit committees must consist of at least three persons of whom one must be from outside the public service. The PFMA goes further and states that most members may not be persons in the employ of the public institution, other than when permission from the relevant treasury is sought (RSA, 1999:63). SASSA (2016:54) explains that the Agency's audit committee is made up of nine members who were all external members. Two of the members were chartered accountants, two had law degrees, four had finance and business degrees and one had a law and a business degree.

It thus appears that SASSA's audit committee members possessed the right mix of qualifications required for an audit committee. However, the IIA and the PFMA state that most members should be

external and not all members. The author believes that having a committee that consists of external members only may mean that they do not have insight into what is happening inside the institution, as they are not part of the day-to-day activities of the institution and/or its immediate environment.

#### **5.1.11 Cooperation Between Internal and External Auditors**

Pollitt and Bouckaert (2011:87) cite that the level of sophistication of internal audit functions in the public sector, determines the ease or difficulty of the work of external audit institutions. Badara and Saidin (2014a:77) highlight that effective cooperation between internal and external auditors leads to better quality audit exercises, while it also creates an enabling environment for effective audits. The other senior managers interviewed in this study as well as the focus group participants were of the view that there is no effective cooperation between SASSA's internal auditors and the external auditors. Their view was that the ineffective working relationship has led to duplication of efforts. This finding also indicated a lack of compliance with Treasury Regulation 27.2.9, which states that internal audit functions must be coordinated with internal and external assurance providers to minimise duplication of effort (National Treasury, 2005:10).

#### **5.1.12 Support by Organisation Members**

'Support by members of a public institution' refers to, amongst others, support by senior managers in promoting the internal audit function within a public institution, to encourage everyone in the institution to implement recommendations by the internal audit function. Enofe *et al.* (2013:164) point out that audit findings and recommendations would not be useful if management, as clients of the internal audit function, is not committed to implement them. Management's lack of awareness of the internal audit function could lead to a lack of cooperation during audits and non-implementation of recommendations. The data collected in the current study pointed to that in the main, senior managers in SASSA support the internal audit function in the implementation of internal audit recommendations.

#### **5.1.13 Service Level Agreements**

The focus group participants cited that there was no service level agreement between SASSA's internal audit function and the various directorates and/or departments within the agency. An SLA is defined as the contractual obligation between a service

provider and the consumer of the service (Yan, Kowalczyk, Chhetri, Goh & Zhang, 2007:749). An SLA, therefore, specifies a mutually agreed understanding and expectations of how the service will be provided. The main things that are specified in an SLA are, firstly, service guarantees, which define both functional and non-functional guarantees of a service provision. Secondly, the interactions that need to be carried out are defined to specify the service to be provided. Thirdly, a set of quality of service constraints, such as time constraints, are agreed on to specify how well the service should be offered (Yan *et al.*, 2007:749). The absence of an SLA, as noted above, therefore does not bode well for SASSA and its internal audit function. The reason for this is that at the time of this study there were no service guarantees between recipients of the internal audit function's services and the internal audit function.

## 5.2 Themes from Financial Misconduct Literature

The next section considers the themes that emerged from the literature on financial misconduct in relation to realities at SASSA, at the time of the research. Compliance with the PFMA or a lack thereof is thus highlighted, as well as any theory-practice gaps.

### 5.2.1 Number and Type of Financial Misconduct Cases Reported Per Annum

SASSA (2016:14) shows that during the period under review, 1 316 cases of financial misconduct, i.e. irregular and fruitless and wasteful expenditure, were reported. Written feedback sent to the author by SASSA indicated that the officials, who were found guilty of financial misconduct, encompassed all management levels, i.e. junior, middle and senior managers. The exact breakdown could not be provided as some of the regional offices did not provide the ranks of officials being investigated or those found guilty of financial misconduct.

### 5.2.2 Sanctions Imposed on Officials Found Guilty of Financial Misconduct

Pauw *et al.* (2002:337-340) highlight that, in order for corruption to take place, the following should be present: dishonesty, opportunity and motive. Poor internal control measures create opportunities for financial misconduct, such as fraud. Fijnaut (2002:9) states that the prevalence of corrupt activities increases when individuals who commit such activities believe that if they were caught, there

would be no serious repercussions. Section 76(1)(b) of the PFMA stipulates that if an official is found to be liable in law for committing an act that results in a state institution suffering damages, the losses must be recovered from the official (National Treasury, 2005:32-33). Written feedback from SASSA indicated that the sanctions imposed on officials found guilty of financial misconduct are that some are required to pay for the damages or losses suffered by the state. Other officials who are found guilty of financial misconduct are referred to the Labour Relations department for further appropriate action. However, the Auditor-General found that SASSA had neglected its responsibility concerning taking reasonable steps that would prevent irregular expenditure. The author believes that some of such reasonable steps could be:

- adequate internal control measures;
- an active internal audit function, including internal audit reports that add value; and
- adequate policies to prevent irregular expenditure.

In addition, it was found that SASSA did not act against transgressors (AGSA, 2015:239).

### 5.2.3 SASSA's Internal Audit Function in Establishing Sound Internal Controls

It is emphasised that in public financial management, 'internal control systems' refer to various management tools that aim to achieve, amongst other things, compliance with rules and regulations. In addition, internal control systems ensure that the financial information of an institution can be relied upon as well as enable the operations of an institution to run effectively and efficiently (Sarens & De Beelde, 2006:463; Allen *et al.*, 2013:374). A sound internal control framework is thus aimed at assuring the public that government operations have achieved basic fiduciary standards. In this regard, areas of concern are: averting the misuse and inefficient use of financial and human resources, preserving assets, achieving budget objectives, avoiding fraud as well as ensuring that financial information is produced on time and is reliable (Sarens & De Beelde, 2006:463; Allen *et al.*, 2013:374). Similarly, National Treasury (2005:81-82) asserts that an internal audit function must assist the accounting authority of a public entity in maintaining effective controls by evaluating those



**Table 1: Conceptual Framework for the Effective Implementation of the Internal Audit Function**

Number	Condition	Interpretation of Condition	Assessing the Condition
1	An understanding of the prescripts that govern the functioning of an internal audit function.	Internal audit staff is required to demonstrate an understanding of the PFMA and Treasury Regulation: PFMA stipulations on the internal audit function, when carrying out their work.	Internal audit staff's compliance with the requirements of the PFMA and Treasury Regulations: PFMA.
2	Internal audit plan.	An internal audit plan which is signed off by the audit committee must be in place. The plan must cover all institutional risks.	The majority of audits conducted should be those in the audit plan. Ad hoc audits must be in the minority. This is because the internal audit budget is informed by the audit plan, that is, ad hoc audits are not budgeted for as they are not covered in the plan.
3	Internal audit charter.	An internal audit charter has to be in place in order to clarify the mandate and responsibilities of an audit committee. Furthermore, an internal audit charter has to specify how and by whom the performance of audit committee members should be assessed.	Members of an audit committee must understand their mandate and responsibilities. In addition, the internal audit charter must stipulate that the performance of audit committee members must be assessed through self - and independent assessments. <b>This will require that the PFMA be amended.</b>
4	Follow-up mechanisms on internal audit recommendations and findings.	Follow-up mechanisms on internal audit recommendations and findings give the internal audit function an opportunity to hold management to account for the implementation of recommendations.	The internal audit function must use the follow-up mechanisms to hold managers accountable for the management of risks and implementation of recommendations to findings. <b>This will require that the PFMA be amended.</b>
5	Qualifications and experience of internal audit staff.	Staff in the internal audit function needs to have the necessary qualifications in internal auditing. In addition, most of them must have adequate experience in line with their positions in the function. In this regard, the head of the function has to have relevant industry-specific experience in order to be able to make recommendations that would add value to the institution.	First, all internal audit staff should have the necessary internal audit qualifications. Secondly, senior internal audit staff should be experienced and most importantly should have industry-specific experience.
6	Appointing and reporting line of the head of the internal audit function or CAE.	The role of the audit committee in the appointment of a CAE and the reporting line of the incumbent.	An audit committee's involvement in appointing the CAE. The incumbent must report to the audit committee, in order to ensure independence from management. <b>This will require that the PFMA be amended.</b>
7	Budget appropriation and approval for the internal audit function.	The audit committee's involvement in deciding on the budget of the internal audit function.	When the audit committee is involved in deciding on the budget of the internal audit function. <b>This will require that the PFMA be amended.</b>

**Table 1: Continued**

Number	Condition	Interpretation of Condition	Assessing the Condition
8	Cooperation between internal and external auditors.	The working relationship between internal and external auditors.	Cooperation between internal and external auditors in order to avoid duplication of effort.
9	Support by senior management.	The role played by management in ensuring that management action items from audits are implemented.	The managers of the various areas of an institution ensuring that internal audit findings are addressed and recommendations are implemented.
10	Policies and procedures for an internal audit function.	The existence of an internal audit function policy and procedures that directs its work and activities.	The work of an internal audit function itself has to be assessed against the function's policies and procedures.
11	Training undertaken by internal audit staff.	Internal audit staff has to undergo continuous professional development training in order to keep abreast of developments in the profession. Training in developments specific to SASSA is also important, in providing institution-specific context.	The application of knowledge gained from the training in internal audit work.
12	Composition of audit committee.	An audit committee that has members with the right mix of qualifications and a balance between external and internal members of the audit committee.	Firstly, members of an audit committee having the right combination of qualification ranging from inter alia finance to accounting, legal and information systems. Secondly, the inclusion of both internal and external members in the committee. Internal members have the necessary insights of what is happening in the public sector and would add value to the committee.
13	Service level agreement.	Service level agreements between the internal audit function and the various directorates/departments.	The existence of an SLA with all the necessary elements.

Source: Author

controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls that are subject to evaluation are:

- 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.

SASSA (2016:30) and AGSA (2016:139-140) indicate that during the period under review, the agency had

achieved an unqualified audit outcome, with findings on compliance with legislation. The findings on compliance with legislation related to irregular expenditure, which was recorded at just over R1 billion in the 2015/16 financial year up from R93 million during the 2014/15 financial year. 'Irregular expenditure' refers to expenditure that is incurred in violation of applicable legislation such as the PFMA, the State Tender Board Act No. 86 of 1968 (RSA, 1968) and any other legislation that informs procurement procedures (RSA, 1999:8). It must also be emphasised that irregular expenditure is regarded as financial misconduct (Pauw *et al.*, 2002:24).

The R1 billion recorded as irregular expenditure during the 2015/16 financial year as highlighted above is an indication of weaknesses in the internal control environment and that efficiencies may

not have been achieved in the process. Achieving efficiencies in the use of public financial resources is one of the objectives of the PFMA. It is as such the responsibility of an internal audit function to make recommendations for the institution of internal controls. The irregular expenditure may indicate that the agency did not have controls in place to detect or prevent such expenditure from taking place.

## 6. Conceptual Framework for the Effective Implementation of the Internal Audit Function

The conceptual framework for the effective implementation of the internal audit function presented in Table 1 will serve the purpose of improving the implementation of the internal audit provisions of the PFMA at SASSA or any other public institution

**Table 2: Suggested Amendments to the PFMA and Treasury Regulations**

Number	Current PFMA Section and Treasury Regulation: PFMA	Suggested Wording of Amendment	Motivation for the Amendment
1	Section 77(b): Audit committees must meet at least twice a year.	Audit committees must meet at least once every month or as often as practical.	If audit committees are to have executive powers/authority as suggested below, they would need to meet more often in order to exercise these powers.
2	Regulation 27.1.10: The audit committee must report and make recommendations to the accounting authority.	The audit committee must report and make recommendations to the accounting authority. However, the accounting authority must report on the extent to which internal audit recommendations have been implemented. In the event of non-implementation, adequate reasons should be provided.	Currently, the accounting authority (CEO) may choose whether to implement internal audit recommendations or not. The status quo has the potential of rendering internal audit functions inept.
3	Regulation 27.2.1: The accounting authority must ensure that a risk assessment is conducted regularly to identify emerging risks of the public entity.	The account authority must ensure that a risk assessment is conducted regularly to identify emerging risks of the public entity. Institutional risks must be determined in consultation with the Risk Management and Internal Audit directorates.	This suggested amendment would provide internal audit functions with the necessary context regarding institutional risks, and in turn would render the function more effective.
4	Regulation 27.2.8: The internal audit function must report directly to the accounting authority and shall report at all audit committee meetings.	The internal audit function must report directly to the audit committee and shall also report to the accounting authority.	This suggested amendment would give the audit committee executive power/authority, in order to enforce the implementation of internal audit recommendations.
5	<b>Currently no PFMA or Treasury regulations: PFMA stipulation.</b> Budget appropriation and approval for the function.	Proposed wording: The audit committee shall submit the budget proposals for the internal audit function on an annual basis in line with internal budget processes.	The audit committee's involvement in the allocation of the internal audit function's budget contributes positively to the independence of the internal audit function.
6	<b>Currently no PFMA or Treasury regulations: PFMA stipulation.</b> Assessment of audit committee members' performance.	Proposed wording: The performance of members of audit committees shall be assessed on a quarterly basis by way of self-assessments and independent assessments.	The performance of audit committee members has to be assessed on an intermittent basis in order for the members to add value to the committee, internal audit functions and institutions they serve.

Source: Author

to which the PFMA applies. The conceptual framework is thus the author's contribution in providing the necessary conditions under which an internal audit function could improve its effectiveness. The framework describes these conditions, their interpretation as well as how they can be assessed.

The research findings presented above show that SASSA's internal audit function had some of the above conditions in place. The conditions that were already in place included policies and procedures for the internal audit function, as well as the audit committee's involvement in the finalisation of the Agency's audit plan. However, most of the conditions were absent. These were inter alia cooperation between internal and external auditors, the composition of the audit committee (which, at the time of this research, was made up of external members only), as well as the absence of an SLA between the internal audit function and its clients.

Suggested amendments to the PFMA, which should be addressed by the National Treasury, are presented in Table 2 on the previous page.

## 7. Conclusion

The demand for resources, especially financial, usually exceeds the supply thereof. Therefore, it is important that public financial resources be managed in a way that will achieve economy, efficiency and effectiveness. It was shown throughout the article that an internal audit function is only responsible for making recommendations for the institution of internal controls that can play a role in preventing or reducing the use of public financial resources in ways that do not achieve the three E's (efficiency, effectiveness and economy). The findings further show that the presence of an internal audit function, at SASSA, has not resulted in efficiencies when it comes to cases of financial misconduct. The conceptual framework presented above provides recommendations on how the status quo could be improved, whereby the conceptual framework considered the necessary conditions for an internal audit function to operate effectively.

Moreover, going forward, the internal audit function at SASSA needs to make valuable recommendations for the improvement of the internal control environment. The internal audit function could be able to make valuable recommendations if amongst

others senior internal audit managers are familiar with their institution.

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