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PROVINCIAL TREASURY CIRCULAR 40 OF 2012

TO: ALL ACCOUNTING OFFICERS

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (DR N MKHIZE)
THE ACCOUNTING OFFICER (ACTING): VOTE 2: PROVINCIAL LEGISLATURE (MR SS SANYANE)
THE ACCOUNTING OFFICER (ACTING): VOTE 3: FINANCE (MR JB MBATHA)
THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR D MAHLOBO)
THE ACCOUNTING OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MS NL SITHOLE)
THE ACCOUNTING OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (DR DV DLAMINI)
THE ACCOUNTING OFFICER: VOTE 7: EDUCATION (MS MOC MHLABANE)
THE ACCOUNTING OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR KM MOHLASEDI)
THE ACCOUNTING OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR ST SIBUYI)
THE ACCOUNTING OFFICER: VOTE 10: HEALTH (MR R MNISI)
THE ACCOUNTING OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MS SP MJWARA)
THE ACCOUNTING OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS NL MLANGENI)
THE ACCOUNTING OFFICER (ACTING): VOTE 13: HUMAN SETTLEMENTS (MR S MTSWENI)

THE CHIEF EXECUTIVE OFFICER (ACTING): MPUMALANGA ECONOMIC GROWTH AGENCY (ADV B MKHIZE)
THE CHIEF EXECUTIVE OFFICER: MPUMALANGA GAMBLING BOARD (MR B MLAMBO)
THE CHIEF EXECUTIVE OFFICER: MPUMALANGA TOURISM PARKS AGENCY (MR BJ MODIPANE)
THE CHIEF EXECUTIVE OFFICER: MPUMALANGA REGIONAL TRAINING TRUST (MR ND MOROPANE)

THE GENERAL MANAGER: SUSTAINABLE RESOURCE MANAGEMENT (PT) (MS N NKAMBA)
THE GENERAL MANAGER (ACTING): ASSETS AND LIABILITIES MANAGEMENT (PT) (MR R MASAMBO)
THE GENERAL MANAGER: FINANCIAL GOVERNANCE (PT) (MS J BEZUIDENHOUT)

1. GUIDELINE ON EFFECTIVE INTERNAL AUDIT REPORT WRITING

Communicating audit results effectively requires both knowledge of the subject and knowledge of the audience. Not only is it important to employ a direct writing style, it is equally important to persuade the readers to take action and implement changes.

The internal audit report is the principal means by which audit findings are communicated to management and the audit committee for the purpose of reporting on the scope of the audit performed and the audit results.

Writing an audit report is the final stage of performing an audit. Generally speaking, the audit report should present random samples of findings and communicate these findings in a clear, concise manner to the person, or entity, which is undergoing the audit. The audit report is a way of giving the client an idea of whether or not they are operating in an acceptable manner

This circular is intended to introduce the basic elements of effective internal audit report writing that summarize the scope of the audit performed.

1.1 LEGISLATIVE MANDATE

In terms of Treasury Regulation 3.2.12, the internal audit function must assist the accounting officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which –

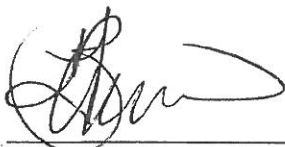
- (a) objectives and values are established and communicated;
- (b) the accomplishment of objectives is monitored;
- (c) accountability is ensured; and
- (d) corporate values are preserved.

1.2 SCOPE OF THE GUIDELINE ON EFFECTIVE INTERNAL AUDIT REPORT WRITING

- The guideline provides a basis to assist departments and public entities in developing value adding internal audit reports.
- Present ways to improve the quality of internal audit reports and ensure audit effectiveness.

It is recommended that the guideline on effective report writing be incorporated into the Internal Audit Function for standardisation of Internal Audit Methodology in preparation of Internal Audit Quality Assurance Review.

Regards,



MRS J BEZUIDENHOUT
ACTING HEAD OF DEPARTMENT
DATE: 19/12/2012

MPUMALANGA PROVINCIAL GOVERNMENT



Department of Finance

EFFECTIVE REPORT WRITING GUIDELINE

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1 Introduction

An internal audit is an audit that an organization has conducted on itself in order to provide an accurate assessment of the processes that the organization employs to conduct business. Persuasive communication is an essential skill for auditors at all levels, and high-quality audit reports are a key communication tool.

Writing an audit report is the final stage of performing an audit. An audit report is a summary of information which must clearly explain the scope of the audit. Generally speaking, the audit report should present random samples of findings and communicate these findings in a clear, concise manner to the person, or entity, which is undergoing the audit. The audit report is a way of giving the client an idea of whether or not they are operating in an acceptable manner

2 Definitions and abbreviations

Definitions:

“accounting officer” means the Head of a department, the CEO of a Public Entity and the Municipal Manager of a municipality

“financial year” means the financial year ending 31 March for departments and public entities and ending 30 June for municipalities

“the province” means Mpumalanga Provincial Government

“provincial treasury” means the Programmes in the Department of Finance responsible for treasury functions

Abbreviations:

IIA	:	Institute of Internal Auditors
MFMA	:	Municipal Finance Management Act, No. 56 of 2003
PFMA	:	Public Finance Management Act, No. 01 of 1999
ISPPIA	:	International Standards for the Professional Practice of Internal Auditors
KPI	:	Key Performance Indicators

3 Purpose of the Guidelines

This document provides a guideline to assist departments, public entities and municipalities in developing valuable internal audit reports.

The guideline was compiled taking into consideration the requirements of the Public Finance Management Act, No.1 of 1999, Treasury Regulations (Par 3.2.12), Municipal

Finance Management Act, No. 56 of 2003, (Section 165), International Standards for the professional Practice of Internal Auditors (ISPPIA) and Code of Good Governance Practice (King III report).

4 Scope of Application

Accounting Officers

Chief Audit Executives

Senior Managers and Managers

Any other officials designated by the Accounting Officer

5 Legislative Framework

5.1 Standards for the Professional Practice of Internal Auditing

2100 - Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 - Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

2410 - Criteria for Communicating

2410.A1 - Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

2420 - Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

5.2 The King Three Report

Principle 7.3

Internal audit should provide a written assessment of the effectiveness of the system of internal control and risk management to the board. The assessment regarding internal financial controls should be reported specifically to the audit committee.

5.3 Treasury Regulations

Paragraph 3.2.12

The internal audit function must assist the accounting officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which -

- (a) objectives and values are established and communicated;
- (b) the accomplishment of objectives is monitored;
- (c) accountability is ensured; and
- (d) corporate values are preserved.

5.4 Municipal Finance Management Act

Section 165

Each municipality and each municipal entity must have an internal audit unit. The internal audit unit of a municipality or municipal entity must:

- a) prepare a risk-based audit plan and an internal audit program for each financial year;
- b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan.

6 Principles

6.1 Provincial Internal Audit Unit

The role of the Provincial Internal Audit Unit in the Provincial Treasury is to provide support, monitoring and reporting to enable effective Internal Audit and Audit Committee practices in Government Departments, Municipalities and Public Entities in the Province by performing the following functions:

- Establish and implement standardized frameworks for Internal Audit in the Province;
- Establish and implement standardized policies and procedures for Internal Audit;
- Provide and arrange Internal Audit Training;

- Monitor the effectiveness of Audit Committees;
- Monitor the role of Internal Audit in the overall functioning of Provincial Departments, Municipalities and Public Entities;
- Monitor compliance with the IIA Standards, PFMA, MFMA and Treasury Regulations.

6.2 Standards

Compliance with the *Standards for the Professional Practice of Internal Auditing (Standards)* is essential if the responsibilities of internal auditors are to be met.

6.3 Definition of internal auditing in terms of the IIA

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

7 Provincial Internal Audit Guidelines on Effective Report Writing

The value of any internal audit depends on how effectively the results of the audit are communicated. High quality audit report support change and achieve results, while poorly written ones can detract from the most professional audit work. Three ways to improve report quality and ensure audit effectiveness include focusing on the report throughout the entire audit process; emphasizing the positives, including solutions and incorporating specific report style guidelines.

7.1 Five Characteristics of a Good Audit Report

- It complies with the Red Book standards
- It achieves its purpose
- It is clear
- It lets the reader know the severity of the problems
- It lets the reader know how to correct the problems

7.2 Report Writing Process to increase the impact of your report

7.2.1 Planning to Write

a) Format – Plan the Document

- ❖ Limit summary to one page.
- ❖ Make summary easy to find:

- place at front,
- use different font style
- **Use bold fonts** to highlight **key ideas**, but don't overuse
- Use bullets whenever possible for ease of reading

b) Purpose, Outline – Plan the Message

- ❖ Who is your audience?
- ❖ How much understanding of the subject does the target reader(s) have?
- ❖ May need to organize and format for multiple audiences.
- ❖ How much do they already know?
- ❖ Provide context.
- ❖ Balance information to keep problems in perspective.
- ❖ What is their burning question?
- ❖ Quantify whenever possible.
- ❖ Emphasize actual and potential consequences.
- ❖ How much time will they spend reading your report?
- ❖ Write for quick grasp.
- ❖ What sections of your report will they focus on?

7.2.2 Drafting the report

- a) Expand your message into an executive summary ensuring that it includes most important points from outline
- b) Draft the body using your summary memos and outline. Flesh out each finding making sure each one has all the elements then, add transitions

7.2.3 Review/Edit

- a) Stages of Review (Organizational, Logical, Format, Deductive Structure, Paragraph Coherence, Content Coherence & Congruity)
- b) Stages of Edit (Clarity/Specificity of Terms, Transitions, Grammar, Punctuation, Exhibits)

7.3 Things not to say in an Internal Audit Report

- a) **Don't say, "Management should consider..."**

Audit reports should offer solid recommendations for specific actions. When our recommendation is merely to "consider" something, even the most urgent

call to action can become unimportant. No auditor wants a management response that says merely, "Okay, we'll consider it."

b) Don't use "weasel words."

It's tempting to hedge our words with phrases such as "it seems that" or "our impression is" or "there appears to be." It may feel safer to avoid being specific, but when you have too many hedges, particularly in the same sentence, there's a danger that you are not presenting well-supported facts. Report readers need to know they can rely on our facts, and over-use of weasel words can make solid recommendations sound a little too much like hunches.

c) The problem is rarely universal.

It's good to be specific, but there's a danger in words such as "everything," "nothing," "never," or "always." "You always" and "you never" can be fighting words that can distract readers into looking for exceptions to the rule rather than examining the real issue. It's safe to say you tested 10 transactions and none were approved – less safe to say transactions are never approved.

d) Avoid the "blame game."

The purpose of internal audit reports is to bring about positive change, not to assign blame. We're more likely to achieve buy-in when our reports come across as neutral rather than confrontational. The goal is to get to the root cause rather than to call out the name of the guilty party. It's fine for a report to identify the party responsible for taking action on a recommendation – not so fine to say, "It was Fred's fault."

e) Don't say "management failed."

Making statements such as "Management failed to implement adequate controls" will invariably annoy those to whom we are looking to implement corrective actions. Simply stating the condition without assigning blame through words like "fail" is much more likely to result in the needed corrective actions and help preserve our relationship with management for the next time we conduct an audit of their area.

f) Avoid unnecessary technical jargon.

Every profession needs a certain amount of technical jargon, but the more we can avoid audit-speak, the more we can be sure that the message is clear. If you use more than one phrase such as "transactional controls," "stratified sampling methodology," or "asynchronous transfer mode" on a single page of an audit report, don't be surprised when some of your readers check out without reading to the end of the report.

g) Avoid taking all the credit

It is tempting in audit reports to use phrases such as “internal audit found” or “we found.” Management will often bristle that you are taking credit for identifying something that wasn’t all that well concealed. It comes off like you threw them under the bus, and then backed over them.

h) Avoid using the word “management Oversight” as a root cause

Merely telling people what is wrong cannot be seen as a good use of internal audit resources. That is easy work, and does not reflect well on internal auditing as a profession. The real value of the work of internal audit comes from an emphasis on the cause and effect. Defining a problem in terms of its symptoms obscures the real cause and leads to symptomatic solutions that fail to correct the basic condition.

i) The following process will help identify fundamental root causes

- Write down the specific finding on the draft report template to formalise the problem. It will also help the auditee to focus on the finding
- Schedule a meeting with the auditee and ask why the problem happens and write the answer below the problem
- If the answer provided by the auditee does not identify the root cause of the finding, ask why again and write that answer down
- Loop back to step 3 until you are both in agreement that the finding’s root cause is identified.

7.4 Components of the Internal Audit Report

- Cover Page
- Distribution list
- Executive Summary
- Introduction
- Standard for the Professional Practice
- Audit objective and scope
- Management responsibilities in terms of governance, risk and controls
- Opinion on internal controls, risk management and governance
- Summary of findings
- Conclusions
- Appreciation
- Detailed findings

8.1 Internal Audit Report Template

Cover Page

Name of audit:

Date of Audit

Internal Audit Staff involved

8.1.1 Distribution List

	For Information	For Action	To secure Action
Audit Committee	√		
Head of Department			√
Director: Corporate Services		√	

8.1.2 Executive summary

8.1.2.1 Introduction

The internal audit was conducted in accordance with the approved internal audit plan, covering the [Process] of the Department.

This report records the results of our internal audit findings and recommendations looking at possible ways in which the controls and operations could be improved to overcome identified weaknesses in control and increase the adequacy, efficiency and effectiveness of controls based on the risk identified.

The matters raised in this report are only those, which have come to our attention arising from our audit that we believe they need to be brought to your attention. It is not a comprehensive record of all the matters arising and in particular we cannot be held responsible for reporting all risks and all internal control weaknesses.

The maintenance of effective control measures still remains the responsibility of management and not that of Internal Audit.

This report has been prepared solely for the use by the management of the Department of Finance. We do not accept responsibility to any third party to whom the contents may be disclosed or who at

their own accord may decide to rely on it as the report has not been prepared for, and is not intended for, any other purpose.

8.1.2.2 Standards for professional practice

Paragraph 3.2.6 of Treasury Regulations states that the internal audit must be conducted in accordance with the standards set by the Institute of Internal Auditors. These standards require the Internal Audit activity to evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations and information systems. This process includes the evaluation of:

- The reliability and integrity of financial and operational information.
- The effectiveness and efficiency of operations.
- Safe guarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

We endeavored to comply with the standards for the professional practice of internal auditors as issued by The Institute of Internal Auditors, in the performance of our duties in respect of this focus area.

8.1.2.3 Audit Objective and Scope

We have conducted an audit in terms of the approved internal audit plan. Audit procedures performed are designed to evaluate the adequacy, efficiency and effectiveness of the Department's governance principles, risk management and control processes.

8.1.2.4 Management responsibilities in terms of governance, risk and controls

Management is responsible for the establishment and maintenance of an effective system of governance to:

- Promote appropriate ethics and values within the department;
- Ensure effective performance management and accountability;
- Communicate risk and control information to appropriate areas in the department; and
- Coordinate the activities of and communication of information EXCO, external and internal auditors and management.

Management is further responsible for the establishment and maintenance of an effective system of internal control and risk management. The objectives of the system of internal control are,

inter alia, to provide management with reasonable, but not absolute, assurance that:

- Risks are properly managed;
- Assets are safeguarded;
- Financial and operational information are reliable;
- Operations are effective and efficient; and
- Laws, regulations, policies, procedures and contracts are complied with.

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control. It must, however, be recognised that there are inherent limitations in any system of internal control - including management override, human error and circumventions through collusion. The prevention and detection of fraud is therefore management's responsibility.

Management representations made are considered to form part of our audit evidence. Any management representations will be accepted on face value and in good faith. We will not perform detailed procedures to verify the accuracy, validity or completeness of the representations.

8.1.2.5 Summary of findings

The summarised matters are discussed in detail in the attached pages.

Section A: Critical Finding:

Item	Audit Finding	Pg. No.	Previously Reported			
			Internal Audit		Auditor-General	
			2011/12	2010/11	2011/12	2010/11

Section B: Significant Findings:




Item	Audit Finding	Pg. No.	Previously Reported			
			Internal Audit		Auditor-General	
			2011/12	2010/11	2011/12	2010/11

Section C: Housekeeping Issues:




Item	Audit Finding	Pg. No.	Previously Reported			
			Internal Audit		Auditor-General	
			2011/12	2010/11	2011/12	2010/11

8.1.2.6 Opinion on internal controls, risk management and governance

The internal audit sections judgement on internal controls, risk management and governance is as follows:

Audit objectives	Internal Controls	Risk Management	Governance
	Assessment		
			

Legends:

-  : Adequate except where noted in the report
-  : Adequate, however there is room for improvement
-  : Urgent attention to the matter is required

8.1.2.7 Conclusions

The problems raised by this audit report are seen in a serious light and can be attributed to a lack of sufficient control measures.

Management's comments and action plans are required within two weeks from the date of this letter.

Comments by management would be noted and the steps taken to rectify deficiencies will be evaluated during the next audit or a follow-up audit.

8.1.2.8 Appreciation

The internal audit would like to thank management and staff of staff members for their co-operation during the audit.

NAME

DD/MM/YYYY
DATE

CHIEF AUDIT EXECUTIVE / SENIOR MANAGER: INTERNAL AUDIT

8.1.3 Detailed internal audit findings

A: CRITICAL FINDING

FINDING 1

Criteria

Finding/Condition

Root cause

Risk

Risk Rating

Current Control

Control Rating

Agreed Action

The following action plans represent the agreed management actions to be taken to address the weaknesses and/or areas for improvement, as identified during the internal audit review.

Responsible official

Due date

B: SIGNIFICANT FINDINGS

FINDING 1

Criteria

Finding/Condition

Root cause

Risk

Risk Rating

Current Control

Control Rating

Agreed Action

The following action plans represent the agreed management actions to be taken to address the weaknesses and/or areas for improvement, as identified during the internal audit review.

Responsible official

Due date

C: HOUSEKEEPING ISSUES

FINDING 1

Criteria

Finding/Condition

Root cause

Risk

Risk Rating

Current Control

Control Rating

Agreed Action

The following action plans represent the agreed management actions to be taken to address the weaknesses and/or areas for improvement, as identified during the internal audit review.

Responsible official

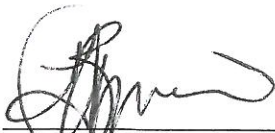
Due date

9

Implementation

The Guideline on effective report writing will be rolled out to Provincial Departments and Municipalities after approval thereof by the Head of the Department.

Approved:



MR. B. MBATHA
ACTING HEAD OF DEPARTMENT
DATE: 19/12/2012