

# *External Controls and budget implementation*

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# Presentation Outline



- External audit processes and anti-corruption agencies roles
- The Audit chambers' roles and responsibilities
- Forensic and fraud audits
- Anti-corruption sanctions

# External audit processes

Steps followed when executing external auditing

## 1). Notification:

- ⇒ the Minister/head of the entity notifies the units/departments.
- ⇒ External auditing firm submit online notification form to Internal Audit.



- *External Audit contact person*
- *Current date*
- *Units being audited*
- *Point of contact (Internal audit coordinator)*
- *Activity being audited*
- *Audit scope*
- *Time period*
- *Date of last audit*

## 2). Authorization

- ⇒ Head of Internal Audit and his/her team reviews the external audit demands & determine if oversight is needed and to what extent.



- *Information on external auditing agency*
- *Information requested*
- *Impact on financial statements*
- *Area to be audited*
- *Legal involvement may be requested*
- *If oversight found necessary, the Director for IA assign the auditor to external auditors (liaison)*
- *Access to records withheld until authorization is given*

### 3). Entrance Conference

⇒ An Entrance Conference/meeting is held with corporation/ministry employees, where questions are asked and the external auditors clarify;



- *Audit objectives*
- *Scope*
- *Expected audit procedures*
- *Points of contact*
- *Records and information being examined*
- *Meeting planned and facilitated by Internal Audit*
- *Assigned internal auditor attends this meeting*

### 4). Data Request

⇒ External audit agency gives a list of records needed to perform the external audit, along with the date the records are required



- *List goes to Director for IA for review*
- *The assigned Audit official provides access to all records requested by the external audit firm.*
- *Those deemed legally private and sensitive might not be give out*

## 5). Audit Fieldwork



- Audit Coordinator arranges workspace, facilities, and assist with specific requests,
- Arranges meetings, and keep informing the Director for Internal Audit and Senior Management on issues of concern that require attention,
- Requesting Internal Auditors help during the process, when needed.
- Internal Audit gives contiguous report on the overall progress

## 6). Exit Conference



- When all has been said and done, an exit conference is held with the external auditors
- Preliminary results, reviews, findings and recommendations are exposed by the External auditors.
- The organization being audited raise their concerns/anxieties/fears
- This meeting is usually facilitated by the Department of Internal Audit /personnel assigned to carry out this role

## Reporting

### 7). Draft Report



- When the draft report has been received from External audit firm
- The director for Internal Audit and the Senior Management review the given report and make comments where necessary
- In this review process, the Internal Audit are crucial in guiding the Management wrt making appropriate comments

### 8). Response



- The Director for Internal Audit, in coordination with Senior Management prepares written response to the external audit's report.
- Before this report is submitted to the External Audit firm, this response is sent to the department of Internal Audit for review.
- Once comments from Internal Audit are received, the response is sent external audit agency in a timely manner.

## 9). Final Report



- Once copies of the external auditor's final audit report have been received by the Internal Audit and dispatched to the concerned units and Senior Management
- the Director for Internal Audit and her/his team put together a summary of the final audit report
- This summary is then presented in the next management/BOD/Audit Committee meeting.
- Once the resolutions have been made, they are passed to the affected units for execution

## 10). Follow-Up & Monitoring



- Senior Management ensure improvements are made
- Outstanding recommendations & action plans contained in the audit report timely implemented.
- Internal Audit Department tracks audit findings and resolutions with the concerned departments



# Role of Anti-Corruption Agencies

These agencies are;



- ***Legislative***:: *the parliament and the Council of States (South Sudan)*
- ***Audit Chamber***: *South Sudan Audit Chamber (headed by Auditor General)*
- ***Anti-corruption agencies***: *Anti-corruption Commission (SSD)*
- ***Independent whistle blowers***: *you, me, anybody*

# The External Scrutiny role of the national legislature (Parliament)

Look out for and ensure



- 1). Legislature's procedures for scrutiny are well established
- 2). Budget preparations and debates starts at least 3 months before FY ends
- 2). Timely budget execution
- 3). Spending priorities/inhibiting deviations
- 4). Each other
- 5). Budget lines are followed
- 6). Ensure financial statements are available for the public companies (Central Bank, National Banks, National corporations, etc)

## Republic of South Sudan: FY 2014/15 - Approved Budget By Fund (figures in SSP)

<i>Spending Agency</i>	<i>wages &amp; Salaries</i>	<i>Use of goods and services</i>	<i>Capital Expenditure</i>	<i>Transfers</i>	<i>Other Expenditure</i>	<i>Total</i>
<i>Security</i>	3,140,488,469	723,564,181	100,000,000	5,041,464	0	3,969,094,114
<i>Rule of Law</i>	386,692,273	300,781,528	75,817,378	782,887,896	0	1,546,179,075
<i>Cross Sectoral Expenditure</i>	0	250,000,000	800,000,000	0	260,000,000	1,310,000,000
<i>Block Grants</i>	0	0	0	963,550,790	0	963,550,790
<i>Public Administration</i>	398,254,998	423,353,428	53,666,375	580,128	7,760,000	883,614,929
<i>Education</i>	110,273,257	158,272,070	0	0	0	603,643,900
<i>Health</i>	58,231,889	227,598,282	2,000,000	151,003,341	0	438,833,512
<i>Infrastructure</i>	27,060,517	35,174,569	355,700,000	0	0	417,935,086
<i>Economic Functions</i>	95,374,797	140,927,913	127,610,000	26,837,580	0	390,750,290
<i>Natural Res &amp; Rural Devt</i>	67,112,855	82,110,879	7,400,000	210,058,380	0	366,682,114
<i>Accountability</i>	90,867,290	194,802,881	5,000,000	0	0	290,670,171
<i>Social &amp; Humanitarian Affairs</i>	38,178,738	59,632,176	0	0	0	97,810,914
<b>Totals</b>	<b>4,412,535,083</b>	<b>2,596,217,907</b>	<b>1,527,193,753</b>	<b>2,139,959,579</b>	<b>267,760,000</b>	<b>11,278,764,895</b>

# How do the legislature ensures Internal Controls?



- Establishment of responsibility: whoever that writes checks shouldn't authorize them for payment
- One person can't sign a document more than once
- Segregation of duties: cashier can't authorize payments
- Physical, mechanical and electronic controls
- Independent internal verifications
- Documentation procedures

# Supreme National Audit Institutions' responsibilities and reports

Audit Chamber was supposed to foster;



- SAIs (Supreme Audit Institutions)
- financial accountability of individual agencies
- financial accountability of the government as a whole
- audit of financial systems
- Test and measure internal controls
- financial compliance;


Responsible for providing Independent Oversight to promote



- 1). Efficiency
- 2). Accountability
- 3). Transparency
- 4). Monitoring

# But why are SAIs None Effective?

## Some Reasons;

- 
- **Quasi-independency:** Lack of legal, financial and organizational independence of SAIs from governments
  - **Partial mandate:** lack of a comprehensive mandate to audit government performance
  - **Adverse Audit Opinion:** Formal audit opinion on government not flattering
  - Legislature and National Audit Institution not on the **same page**
  - **Recruitment of Audit Chamber** staff done by other ministries (Public service & Labor)
  - **Audit not done annually** as stipulated
  - Audit chamber has no **functioning website** and copies of past audit not online
  - Institutions have **different bank accounts/hard** to trace

# Forensic and Fraud Audits

## Forensic Auditing;



- Examination and evaluation of an institution/individual's financial information using legal entities to ensure no fraud or negligence took place.
- Evidence from forensic audit can be used in the court of law to persecute the wrong doer.

## The goals is always about whether;



- Fraud or negligence happened?
- The impact is material (huge)?
- Who is responsible (punitive measures)?
- How much value is recoverable?

## Why conduct forensic and Fraud Audits?



- Prosecution requires evidence
- Deter plans to commit financial crime
- Economic is a fundamental fact of life
- Fraud affects countries, regulators, law enforcement agencies, etc
- Through cybercrime, one person is capable of harming millions



# Why do people commit Fraud?



# How Forensic Differs from Statutory Audit

Basis	Statutory Audit	Forensic Audit
Objective	To express opinion as to 'true & fair' presentation.	To determine correctness of the accounts or whether any fraud has actually taken place
Techniques	'Substantive' and 'compliance' procedures.	Analysis of past trend and substantive or 'in depth' checking of selected transactions are done.
Period	Normally all transactions for the particular accounting period are considered.	There is no such limitations while conducting forensic audit and accounts may be examined in detail from the beginning.
Management Representation	Auditor relies on the management certificate/representation of management.	Independent verification of suspected/selected items carried out/
Off balance-sheet items (like contracts etc.):	Off balance-sheet items are used to vouch the arithmetic accuracy & compliance with procedures	Regularity and propriety of these transactions/contracts are examined
Adverse findings, if any	If there are any adverse findings, negative opinion or qualified opinion is expressed with/without quantification	The auditor aims at legal determination of fraud and also naming persons behind such frauds

# Forensic Audit and Cybercrime

Are you on Facebook, Twitter, email, whatsapp, Instagram, LinkedIn?



- Do you read and understand terms of usage?
- Are institution's documents safe?
- Are you aware that they ask for your phone contacts, photos, passwords, etc?
- Do you know what they do with these?

To combat these, you need forensic auditors deeply skilled in;



- Accounting, Finance, Law, etc
- Thorough understanding of Auditing
- Traits of Investigating
- Capable of distrusting the obvious

# Anti-corruption sanctions

## What are they?



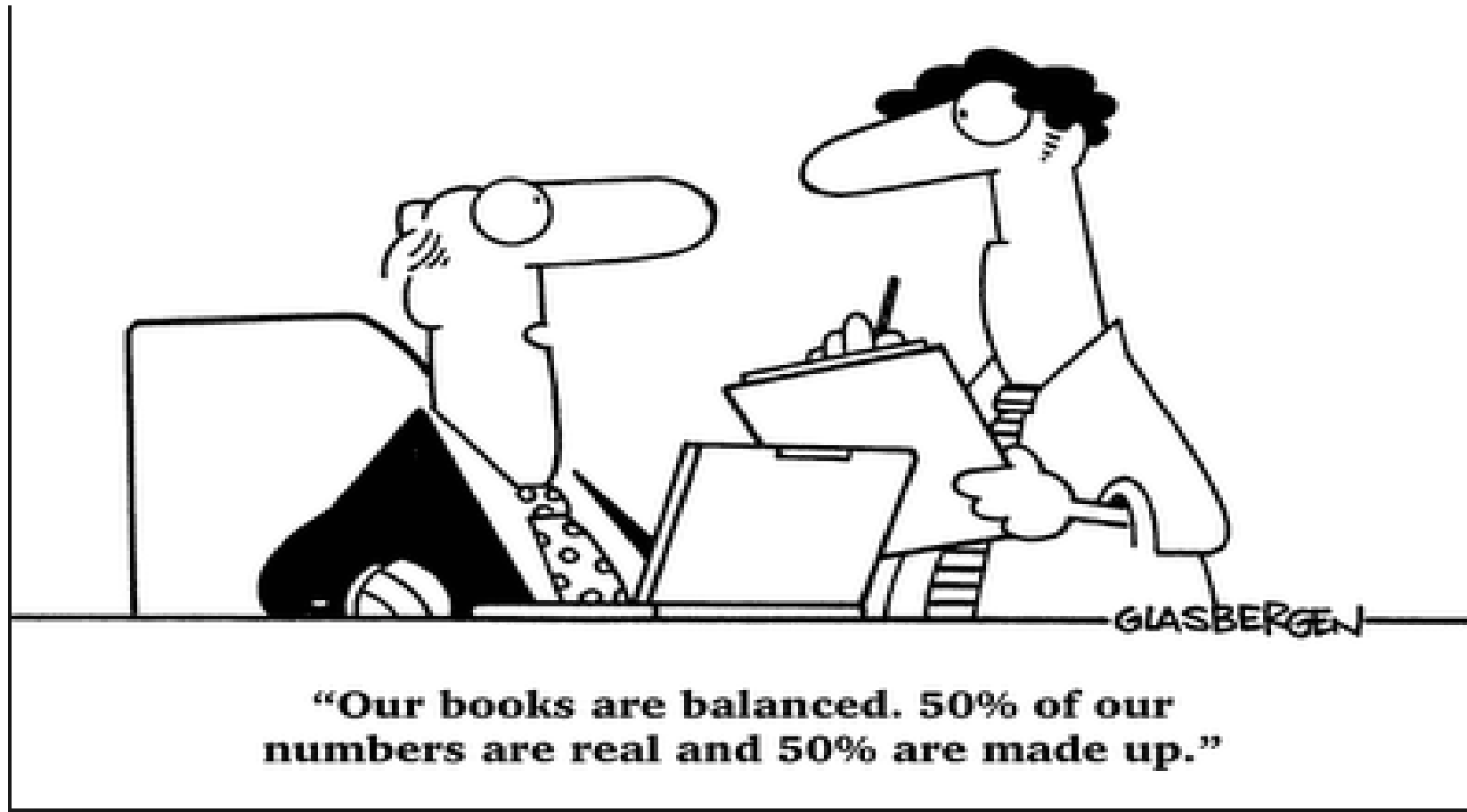
- Punitive measures designed to deter corrupt practices
- Potential consequences aimed at punishing those who commit financial corruption/crimes/frauds

## Examples of Anti-corruption Practices;



- Gov't employees not allowed to maintain conflict of interest
- Proven corruptive activity will lead to immediate dismissal of the staff member concerned
- Entity loses its operating license due to non compliance
- Some companies not allowed to merger
- Some companies registered as NGOs
- Assets disclosure for civil servants

# Thank you!



<http://www.cybercrime.gov/searchmanual.htm>

▶ 1. <http://www.bsa.org/usa/antipiracy/Free-Software-Audit-Tools.cfm>

▶ 2. [http://www.acfe.com/documents/Fraud\\_Prev\\_Checkup\\_IA.pdf](http://www.acfe.com/documents/Fraud_Prev_Checkup_IA.pdf)

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▶ 3. Gashaw Tsegaye Ayele, Assessment of Public Financial Management in the Central Government of the Republic of South Sudan (2018).