



**Western Cape
Government**

**Western Cape
Gambling and Racing Board**

Wes-Kaapse Raad op Dobbelaar en Wedrenne • Ibhodi Yelentshona Kapa
Yokungcakaza Ngemali Neyemidyarho

Western Cape Gambling and Racing Board

SCOPA REPORT

25 July 2018

TABLE OF CONTENTS

Par.	Details	Page
1.	Introduction	3
2.	Overview	3
3.	Effectiveness of internal control	3
4.	Quality of reports	3
5.	Internal audit	4
6.	Findings	4
7.	Summary of significant risks	4
8.	Implementation of annual internal audit plan	5
9.	Challenges	7
10.	External auditor's report	7
11.	Conclusion	8

REPORT DISTRIBUTION LIST:

Title	For comment	For action	For information
AC Chair: Mr Harris	x	x	x
Board of WCGRB			x
Audit Committee			x
CEO: Mr Abrahams			x

1. INTRODUCTION

The purpose of this briefing document is to provide a summary of the internal audit outcomes, key control deficiencies and recommended actions in respect of the Western Cape Gambling and Racing Board ("WCGRB") as a result of the 2017/2018 internal audit interventions, with the intention to assist the Audit and Risk Committee in reporting as required by section 51(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended by Act No. 29 of 1999) (PFMA) read with treasury regulation 27.1.10.

This document is confidential and has been prepared for the sole and exclusive use of management, the Audit and Risk Committee and the Board of the WCGRB. It may therefore not be made available to any other person, or relied upon by any third party without our express written authorization.

2. OVERVIEW

The WCGRB appointed MVI as internal audit service provider from 1 August 2016, for the next three years. They successfully executed the planned internal audit reviews based on the pre-approved internal audit plan for the 2017/2018 financial year.

A three year-rolling internal audit plan for the period from 2018 to 2021, supplemented by an annual internal audit plan for the 2018/2019 financial year, was developed in accordance with the risk profile of the WCGRB. These plans were recently approved by the Audit and Risk Committee.

Internal audit also attends the regular (quarterly) Audit and Risk Committee meetings where they, after proper consultation with the management of the WCGRB, report on the result of the internal audit interventions in the form of the findings raised.

3. EFFECTIVENESS OF INTERNAL CONTROL

Based on the (positive) outcomes of the internal audit reviews performed, it can be concluded that the WCGRB has established a sound internal control environment. The WCGRB has established numerous control activities to mitigate the risks which could compromise the achievement of their strategic and operational objectives. No significant and pervasive deficiencies or breakdowns of internal controls have been identified through the internal audit reviews performed. Where improvements were identified, corrective actions are being implemented to further strengthen the overall control environment of the WCGRB.

4. QUALITY OF REPORTS

The audit committee has reviewed and commented on the WCGRB's annual financial statements and report on performance information and their timely submission to the external auditors by 31 May.

The audit committee minuted its satisfaction with the content and quality of management and quarterly reports prepared and issued during the year under review in compliance with the statutory framework.

5. INTERNAL AUDIT

The accounting authority is obliged, in terms of the PFMA, to ensure that the entity has a system of internal audit under the control and direction of the audit committee. The audit committee is satisfied that the internal audit function has properly discharged its functions and responsibilities during the year under review.

Internal Audit introduced the AGSA's status of records review programme in all internal audit reports and a bi-annual review of focus areas not covered by the scheduled internal audit interventions was conducted. Findings were reported on in the quarterly assessment of key controls review report, which is based on the AG dashboard report templates.

6. FINDINGS

Findings / deviations are recorded after the following thorough process is followed:

- Internal Audit performs procedures in accordance with the approved internal audit plan where the objective is to test the maintenance and effectiveness of specific control measures.
- Any deviation is discussed with management to obtain confirmation of the validity of the finding.
- A draft report is distributed to management for comments.
- On confirmation of the factual appropriateness of the findings and management comments, the report is finalised for submission to the Audit and Risk Committee for consideration.

All findings raised by the internal audit activity and AGSA are tracked on an audit finding matrix, and follow-up on these listed findings during their quarterly assignments. The updated audit finding matrix is then reported through submission to the Audit and Risk Committee for oversight purposes on the progress made with clearing these findings. The document is a rolling document that only retains outstanding items, or new items not yet followed-up at the time of the Audit and Risk Committee meeting.

7. SUMMARY OF SIGNIFICANT RISKS

Management annually identifies significant risks through the risk assessment process that is reviewed by the various committees and the Board of the WCGRB. Internal audit applies these finalised risk assessment documents to identify the high level risks' mitigating controls for evaluation in their annual internal audit plan.

The interventions identified in respect of the strategic and operational risks (high risks only) are expanded on to ensure compliance with the Treasury Regulations and more recently King IV's requirements.

8. IMPLEMENTATION OF ANNUAL INTERNAL AUDIT PLAN

The annual audit plan, tabled in tabular format below, provides details on the progress made with respect to the implementation of the plan for the year ended 31 March 2018. It should be noted that the internal audit activity is primarily envisaged to test the adequacy and effectiveness of internal controls and not to perform substantive procedures in obtaining audit assurance as per the key objective and mandate of the AGSA as external auditor. This means that the internal auditor might test strategic and operational (business) controls that cannot be directly linked to an account balance, transaction or disclosure in the financial statements and therefore not necessarily reduce the audit effort of the external auditor.

The activities identified and subjected to review were based on the analysis of the risk assessment done by management for the WCGRB. The risks with a high likelihood and high impact (before taking into account the mitigating controls), with a calculated risk rating of 50 and above, were the key focus of the planned internal audit interventions.

Internal Audit conducted reviews on the adequacy and effectiveness of the identified mitigating controls for the following business processes and risk areas as per the approved annual internal audit plan:

Internal Audit area as per approved Internal Audit Plan	Objective
Quarterly interventions:	
Review of the quarterly Performance Reports for the 2017/2018 financial year.	Reviewed quarterly performance information reports to determine the accuracy and validity of the information contained in the report based on the evidence presented.
Follow up Matrix for internal/external audit findings.	Report back on progress made on previously unresolved internal and external audit findings.
Attendance of the audit committee meetings.	Report on the result of the internal audit interventions in the form of the findings raised.
Updated reports on key controls (in AGSA's dashboard format).	Evaluation of the impact of internal audit findings on the drivers of key internal controls.

Internal Audit area as per approved Internal Audit Plan	Objective
Annual interventions:	
Admin and Finance (ADFIN)	Reviewed the risk environment and controls to mitigate the risks on the strategy for or operations of the department / function. <i>No high risks were identified for the Information Technology department / function, however an IT systems review was conducted in compliance with Treasury Regulation 27.2.10 (a).</i>
The Board	
The Executive	
Human Resources	
Legal	
Licencing	
Gambling Compliance	
SCM / Procurement	Compliance to laws and regulations governing procurement were evaluated as required in terms of TR 27.2.10 (e).
Review of the Annual Financial Statements for the year ended 31 March 2018	The various drafts of the annual financial statements of the WCGRB for the 2017/2018 financial year were reviewed to assist the CFO in ensuring full compliance to the GRAP accounting framework.
Review of Internal Audit Charter	The WCGRB's Internal Audit Charter was reviewed to detect any needed updates in order to comply to the standards, Treasury Regulations and the King IV Report.
Prepare Internal Audit Coverage Plan: Rolling Three-year Plan 2018-2021 and for the 2018-2019 period.	The IA plans were revised to reflect the focus on relevant mitigating controls, identified as risk treatment(s) for risks with a high inherent risk rating (+50). The approved Risk Register (as at 28 February 2018) was used for this purpose.

All planned internal audit reviews for the period 1 August 2017 to 30 June 2018 have been fully implemented. All final reports were presented to Audit and Risk Committee for their consideration.

Based on the (positive) outcomes of the internal audit reviews performed, the WCGRB has established a sound internal control environment. The WCGRB has established numerous control activities to mitigate the risks which could compromise the achievement of their strategic and operational objectives. No significant and pervasive deficiencies or breakdowns of internal controls have been identified through the internal audit reviews performed. Where improvements were identified, corrective actions are being implemented to further strengthen the overall control environment of the WCGRB.

No special investigations were requested by the Audit Committee or the Board during this reporting period. Internal audit assisted the management of the WCGRB to develop

an assessment tool to evaluate compliance to King IV's practices and principles and to facilitate reporting thereof.

9. CHALLENGES

The reporting of performance information (predetermined objectives) continuously evolve and management should ensure that all officials understand their roles and responsibilities in the process of collating information to support reported achievements.

In terms of the King Code on Corporate Governance, the accounting authority should ensure that appropriate systems and processes are established to produce an integrated report to stakeholders that gives a complete picture of an entity's financial and non-financial profiles in such a way that the report is holistic and reliable. The reporting proposed by the King IV Report should be integrated across all areas of performance, reflecting the choices made in the strategic decisions adopted by the accounting authority and should include reporting in the triple context of economic, social and environmental issues.

Although this reporting is not mandatory and no guidance and/or instructions on compliance with King IV reporting has yet been issued by the Provincial Treasury, the audit committee will need to assess the level of reporting and consider its reporting obligations related to Integrated Reporting.

The WCGRB's internal audit plans have been structured in such a way to assist those charged with governance to provide a narrative explanation of the recommended practices that have been implemented and how these practices give effect to the related King IV principles.

10. EXTERNAL AUDITOR'S REPORT

The external audit function, performed by the Office of the Auditor-General ("AGSA"), assisted by Mazars, is independent of the entity. The AGSA and relevant team members have a standing invitation to the WCGRB Audit Committee where they actively participate in the discussions.

In the most recent (draft) Management Report, for the financial year ended 31 March 2018, the AGSA evaluated the internal audit activity as "**providing assurance**", further confirming that Internal Audit provides an independent assessment of the entity's governance, risk management and internal control processes.

Regular interaction between management, internal audit and the AGSA's representatives ensure that a combined assurance model (as directed by King IV) is achieved, that covers the significant risks and material matters through a combination of the organisation's line functions, risk and compliance functions, internal auditors and external auditors.

11. CONCLUSION

We would like to thank the management and staff of Western Cape Gambling and Racing Board for their cooperation during the 2017/18 internal audit interventions.

Yours sincerely,

Annelie Terheyden
Director: Maseng Viljoen Inc (t/a MVI)
4 July 2018