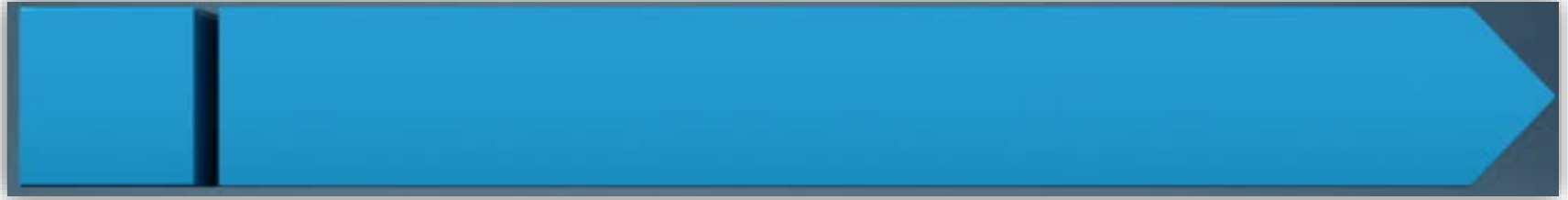# AUDIT IMPROVEMENT PLAN - PROGRESS TO DATE

19 November 2019

Table of Contents

1. ARC Audit Outcome – FY2018/19

Qualified Audit Opinion for 3 consecutive years [FY2016/17 to FY2018/19]
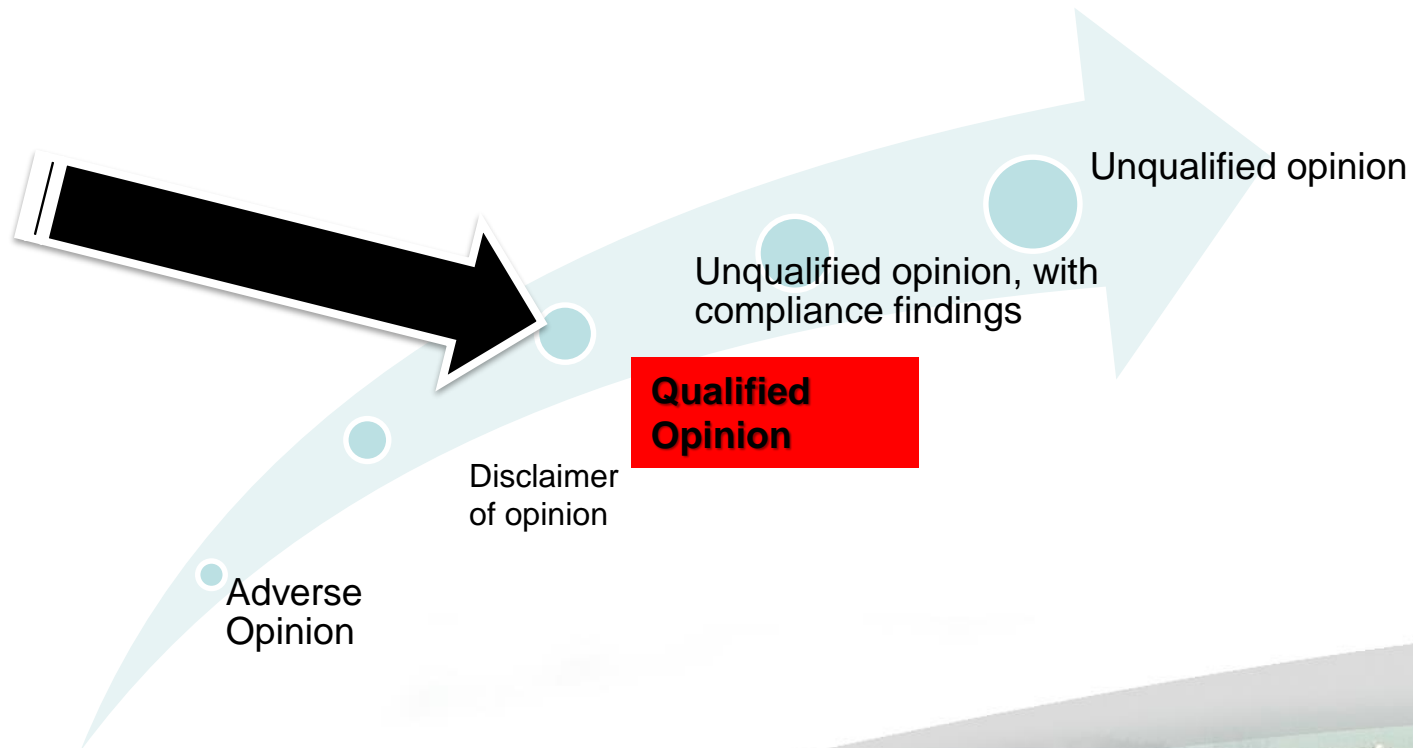
Unqualified opinion

Unqualified opinion, with compliance findings

Qualified Opinion

Disclaimer of opinion

Adverse Opinion

1.1 Audit Outcome (2)

Rating - Audit Findings

Chart categories (top to bottom): Admin matters, Other NB Matters, Auditor's opinion, Total Findings

Horizontal axis: 0, 20, 40, 60, 80, 100, 120, 140

Legend: ■ FY2017/18 ■ FY2018/19
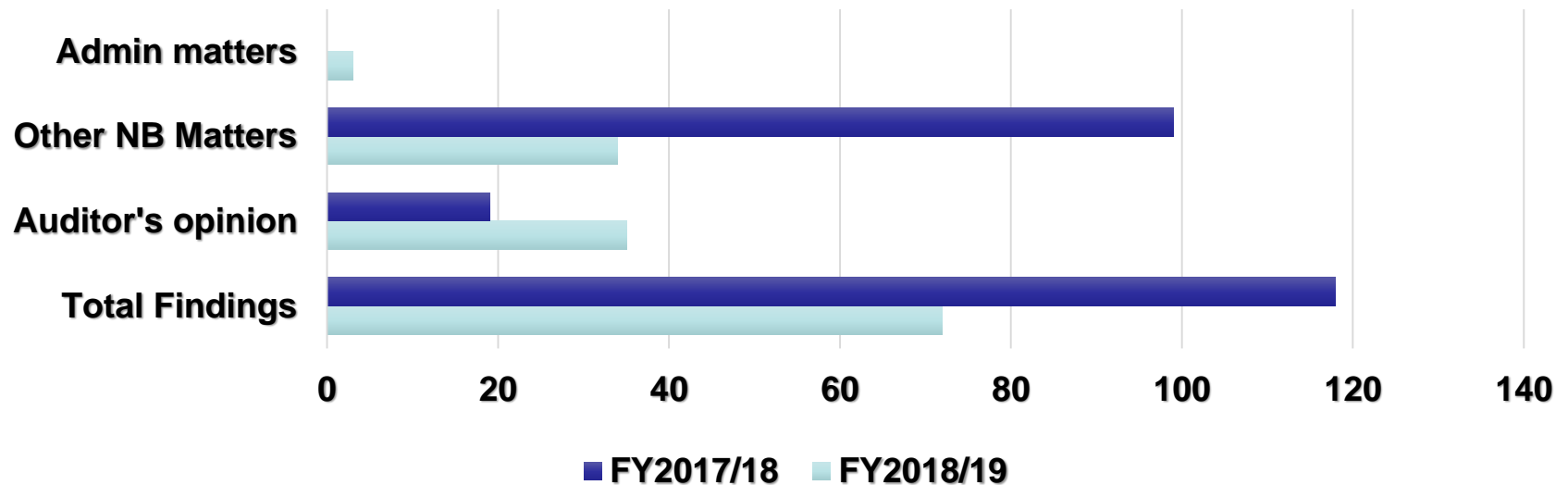
➢ The number of findings reduced, however the organization had findings which had a negative impact on the opinion.

1.2 Audit Outcome (3)

ARC Audit Outcome – Matters affecting the Auditors' Opinion

Areas affecting Auditors' Opinion

Area	Value
Compliance: Procurement and Contract Management	4
Revenue	4
Trade and Other Payables	5
Trade and Other Receivables	4
PPE	8
Biological Assets	1
Limitation of Scope	1
PY Uncorrected Misstatements	1
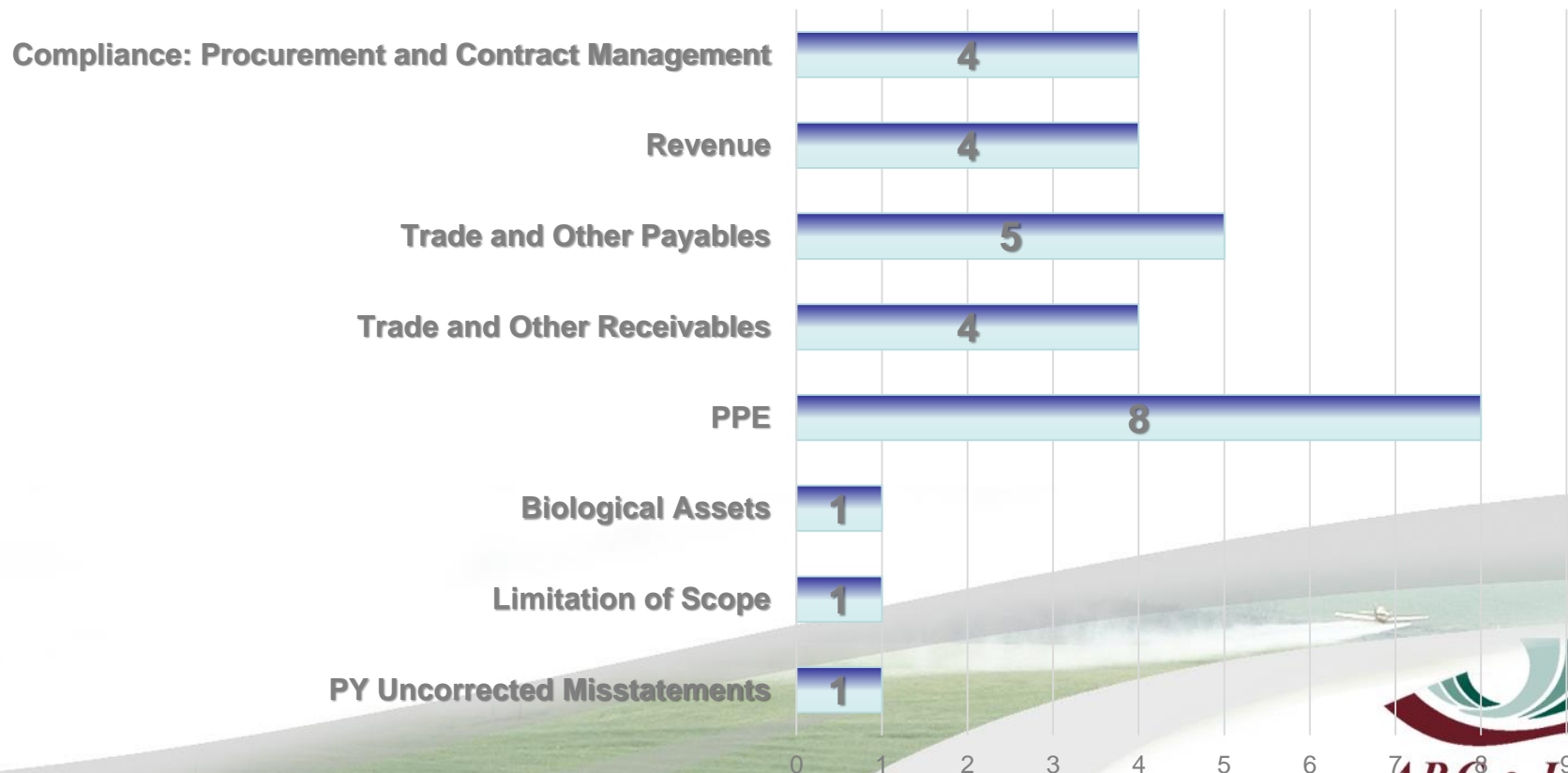
1.3 Audit Outcome (4)

ARC Audit Outcome – Number of times, findings were raised during the previous three years

No. of times audit findings raised in previous three years
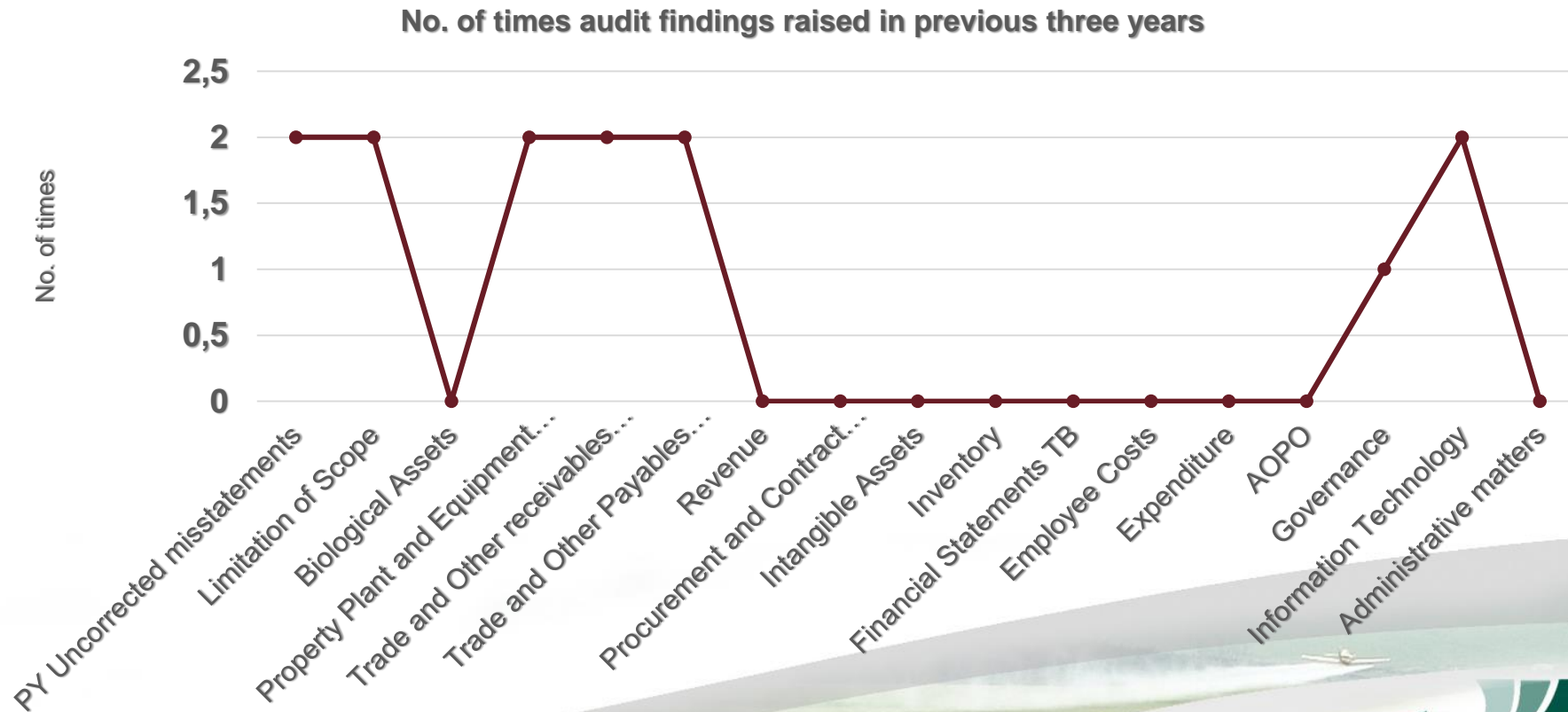
> ➤ **PY uncorrected misstatements. Limitation of scope. PPE. Trade and Other receivables. WIP. Governance**.

ARC • LNR
Excellence in Research and Development

1.4 Audit Outcome (5)

What is the meaning of Qualified Audit Opinion

The Auditors opinion is explicit ito areas of qualification

- ❑ Property, Plant and Equipment
- ❑ Inventories
- ❑ Payables from exchange transactions
- ❑ Receivables from exchange transactions
- ❑ Revenue from rendering of services

If any of the areas identified above are not addressed, the ARC is likely to get another Qualified Audit Opinion

ARC • LNR
Excellence in Research and Development

1.5 Internal controls deficiencies

Relating to the audit findings raised

- ❑ **Oversight responsibility** regarding financial and performance reporting
- ❑ **Compliance and related internal controls**
- ❑ **Implement controls over daily and monthly processing and reconciling** of transactions
- ❑ **Preparation of regular, accurate and complete financial and performance reports**…. Supported and evidenced by reliable information.
- ❑ **Leadership** – establish and communicate policies and procedures
- ❑ **Implement proper record keeping**….. To ensure complete, relevant and accurate information (accessible and available to support financial reporting).
- ❑ Management did not formulate and implement **record management policies and procedures.**

ARC • LNR
Excellence in Research and Development

2. Audit Improvement Plan (1)

Refer to Annexure (Detailed Audit Improvement Plan)

Improve the overall corporate governance

- Organizational culture review **[1.1]**
- Management representation letters **[1.2]**
- Document Management System **[1.4 to 1.5]**
- Internal Audit function (Value- add projects for AIP) **[12]**

Performance management and employee relations

- Job profiles enhanced and performance agreements strengthened **[2]**
- Consequence Management **[1.3]**

Interim Financial Statements & Prior year Misstatements

- All Prior year uncorrected misstatements to be corrected on the financial records **[3]**
- Interim Financial Statements **[6]**
- Limitation of Scope **[5]**

ARC • LNR
Excellence in Research and Development

2.1 Audit Improvement Plan (2)

Refer to Annexure (Detailed Audit Improvement Plan)

Property Plant and Equipment

- Assets Verification **[4.1]**
- R1 value assets and fully depreciated assets still in use **[4.2 to 4.3]**
- Biological Assets and Limitation of Scope **[4.4 to 4.5]**
- Decentralization of Fixed Assets register and related functions **[4.6]**

Accounts Receivables and Other Payables

- Trade and Other Receivables **[7]**
- Staff debtors and employee costs **[8]**
- Trade and Other Payables ; and WIP **[9]**

Other areas

- Procurement and Contract Management **[10]**
- Residential Rental Income **[11]**
- ICT **[12]**

ARC • LNR
Excellence in Research and Development

3.
Progress as at 31 October 2019

3.1 Snapshot on the AIP – Internal Audit

Snapshot on the AIP as reviewed by Internal Audit

- Audit Improvement Plan to address ICT Findings will be followed up during the ITGC and Application Control Review, which are scheduled to be performed during Quarter 3; and

- Audit Improvement Plan to address SCM findings raised by the AGSA during the 2018/19 audit, will be followed during the Supply Chain Management process, which is currently taking place

1.7 Summary of progress on the Audit Improvement Plan

Implemented	12	45%
Not Implemented	10	33%
Not tested	8	27%
Total	**30**	**100%**

Source: Internal Audit Report – Review of AIP Progress 12 November 2019

ARC • LNR
Excellence in Research and Development

3.2 Snapshot – High level AIP [Management]

Snapshot on the High Level AIP – as reported by Management

Status	No. of Initiatives	% Status
Completed	12	41%
Missed deadline	4	14%
In - Progress	13	45%

Detailed initiatives are outlined on Section 3.2.1 to 3.2.3

ARC • LNR

Excellence in Research and Development

3.2.1 Initiatives completed to date [GREEN]
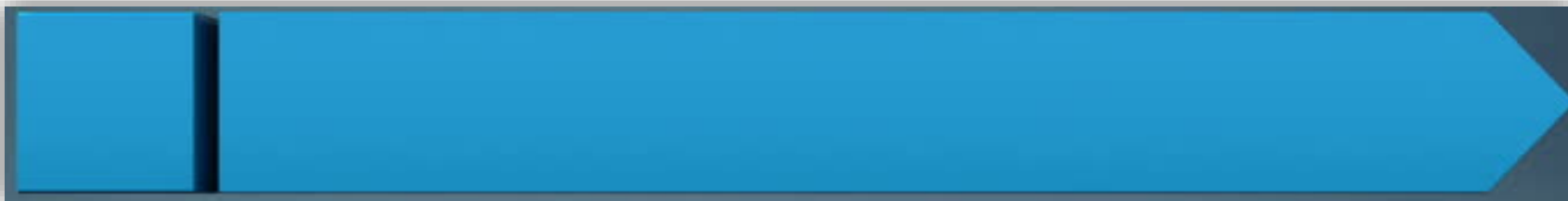
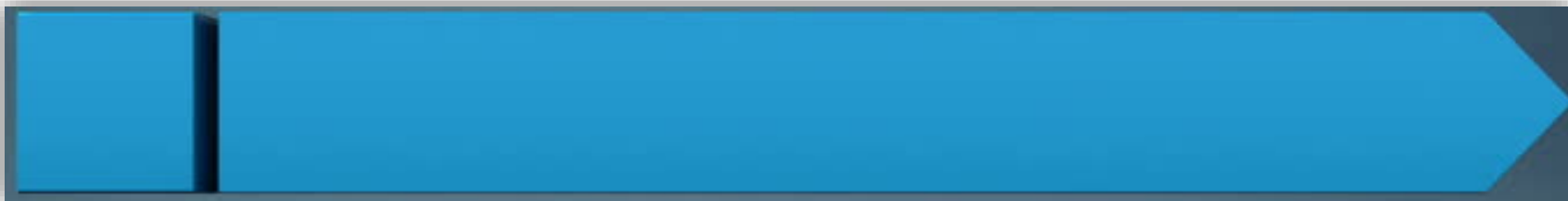| NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
1.	Improve overall Corporate Governance	Addressing the root cause		
1.1	360 degree assessment results and action plan		31/10/2019	
4.6	Decentralization of the Fixed Assets Register: Monthly monitoring of FAR vs AFS.	10,30,31,32,33,34,35,36	30/09/2019. Month-end & Ongoing	
6.1	ARC Interim Financial Statements for the period ended 30 September 2019 & Prior year misstatements corrected [3(a) to 3(f)]		October 2019	
6.2	ARC Interim Financial Statements submitted to the Auditor – General for audit		04/11/2019	

ARC • LNR
Excellence in Research and Development

3.2.1 (a) Initiatives completed to date [GREEN]
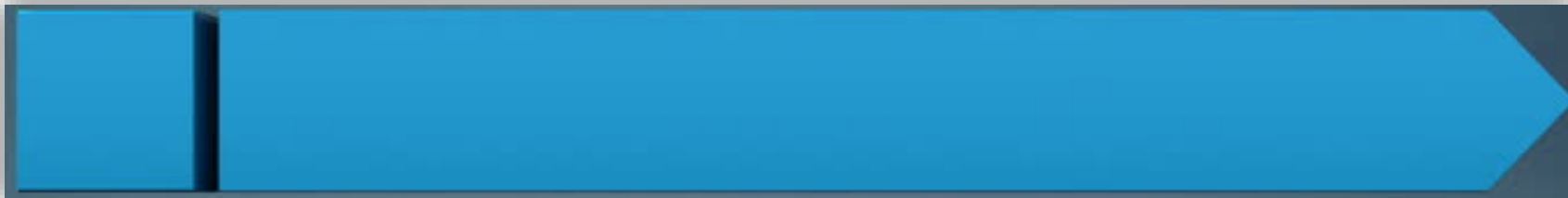
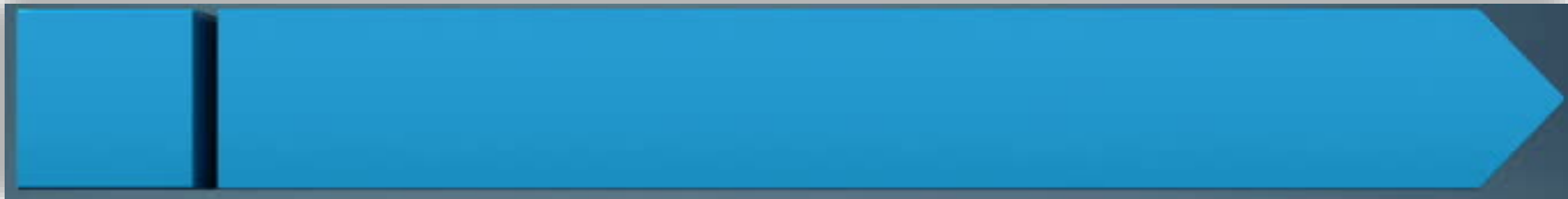| NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
7.1	Provision for bad debts performed on a quarterly basis	12	10/09/2019	
7.4	Debtors confirmation performed every six months	14, 16	30/09/2019	
8.2	S & T Reconciliations per Institute, to be sent weekly for follow-ups		Effective July 2019	
8.4	Request to travel only approved if the travelers do not have outstanding / unreconciled S & T advances		Effective September 2019	
10.1	All Bid evaluation committee reports., reviewed by Senior Manager: SCM before tabled at respective Bid adjudication committees		Effective August 2019	

ARC • LNR

Excellence in Research and Development

3.2.1(b) Initiatives completed to date [GREEN]
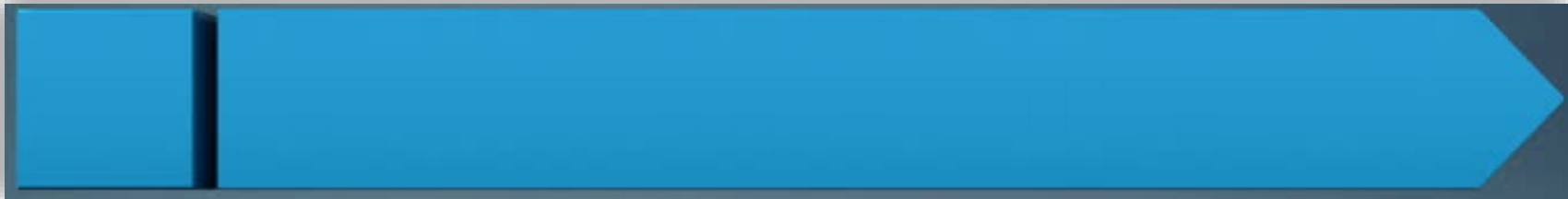
NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
10.2	**SCM:** Using the CSD as a primary point of reference in effecting changes in banking details	57	Effective immediately	
11.1	**Residential Rental Income** : Maintain an updated Lease Register	51	30/09/2019	
12.	Internal Audit Plan to be revised and demonstrate the value-add on projects relating to AIP		30/09/2019	

ARC • LNR
Excellence in Research and Development

3.2.2 Initiatives – missed deadline [RED]
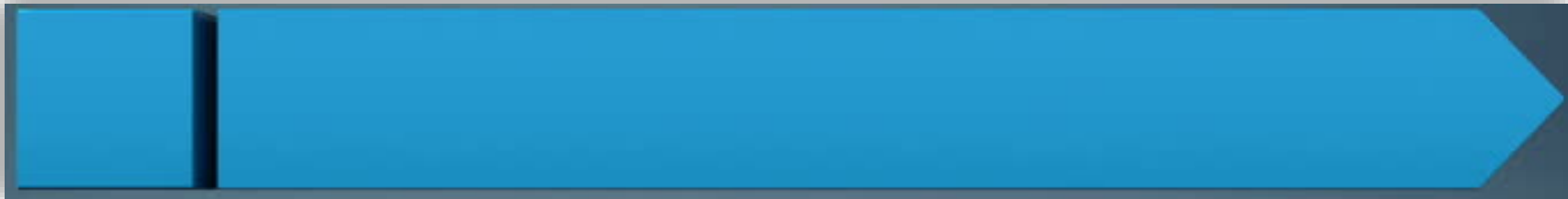
NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
1.2	Management Representation letters		31/10/2019	**Revised deadline 30/11/2019**
8.3	Scanning of S& T documentation and filing on a secured shared drive		Effective 10/09/2019	**Delayed start, but its underway / ongoing**
11.3	Benchmarking of the rental income charges to market value and align accordingly		30/11/2019	**Delayed start, but its underway. Revised deadline 31/01/2020**
11.2	All lease agreements and relevant documentation to be scanned and filed in Share Point			**Delayed start, but its underway. Revised deadline 31/01/2020**

ARC • LNR
Excellence in Research and Development

3.2.3 Initiatives – In progress [Yellow]
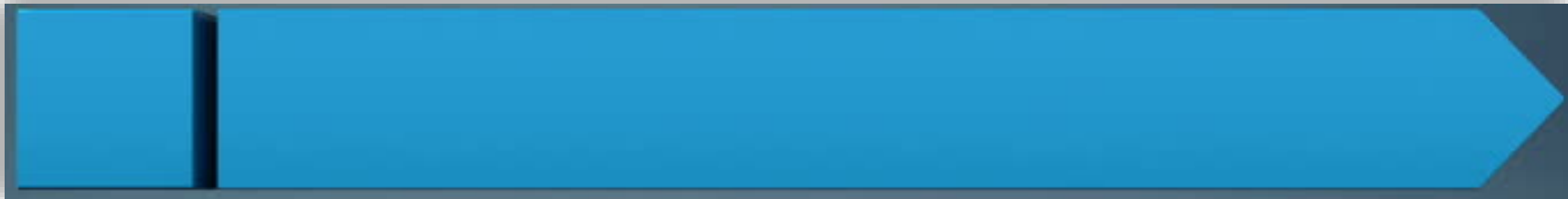
NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
1.1	Improve overall corporate governance b. Culture Survey c. Training on Social and Ethics (incl. ethics survey)		30/11/2019	
1.3	Consequence Management		Ongoing	
1.4	Document Management System		31/01/2020	
4.	Assets Project [Asset verification. Residual Values. Valuation]		01/12/2019	
4.4	Biological Assets [ARC biological assets portfolio. Valuation]		31/01/2020	

ARC • LNR
Excellence in Research and Development

3.2.3 (a) Initiatives – In progress [Yellow]

NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
5.	Scanning of documents to address limitation of scope. Monthly reconciliations	1; 25; 18; 55	Effective 30/09/2019	
7.2	Electronic scanning and filing of all documents – Debtors	12; 13; 15		
7.3	Long – Outstanding debtors. Debtors balance owed by DAFF	12		Only received R25m during April 2019. No further receipts to date
8.1	Staff deductions on employees with outstanding S & T advances		Effective September 2019 Payroll	Refer to the narrative [attached report]
8.4	Roll-out VIP Module on S & T			Pilot underway. Solution is ready.

3.2.3 (b) Initiatives – In progress [Yellow]

| NO.	INTERVENTION	LINK TO AUDT FINDINGS	DUE DATE	STATUS INDICATOR
9.2	WIP. Discontinue the use of two accounts. Clearing WIP balances. Income received in advance to be used from henceforth.	17; 18		
10.3	SCM Compliance to Legislation. Deviations > R1 million to be reported accordingly.	62	Effective immediately	
11.4	Effective management and maintenance of assets / property	51	Ongoing	

3.3 Snapshot – ICT AIP progress [Management]

Snapshot on the High Level AIP – as reported by Management

Status	No. of Initiatives	% Status
Completed	23	64%
Not yet due & In- progress	9	25%
Not yet due & Not yet started	4	11%

Detailed initiatives are outlined on Section 3.3.2

ARC • LNR
Excellence in Research and Development
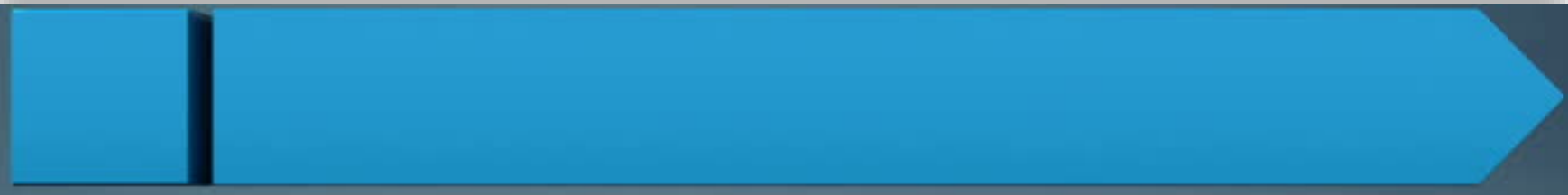
3.3.1 ICT High-level audit findings per area

Audit Findings per Area
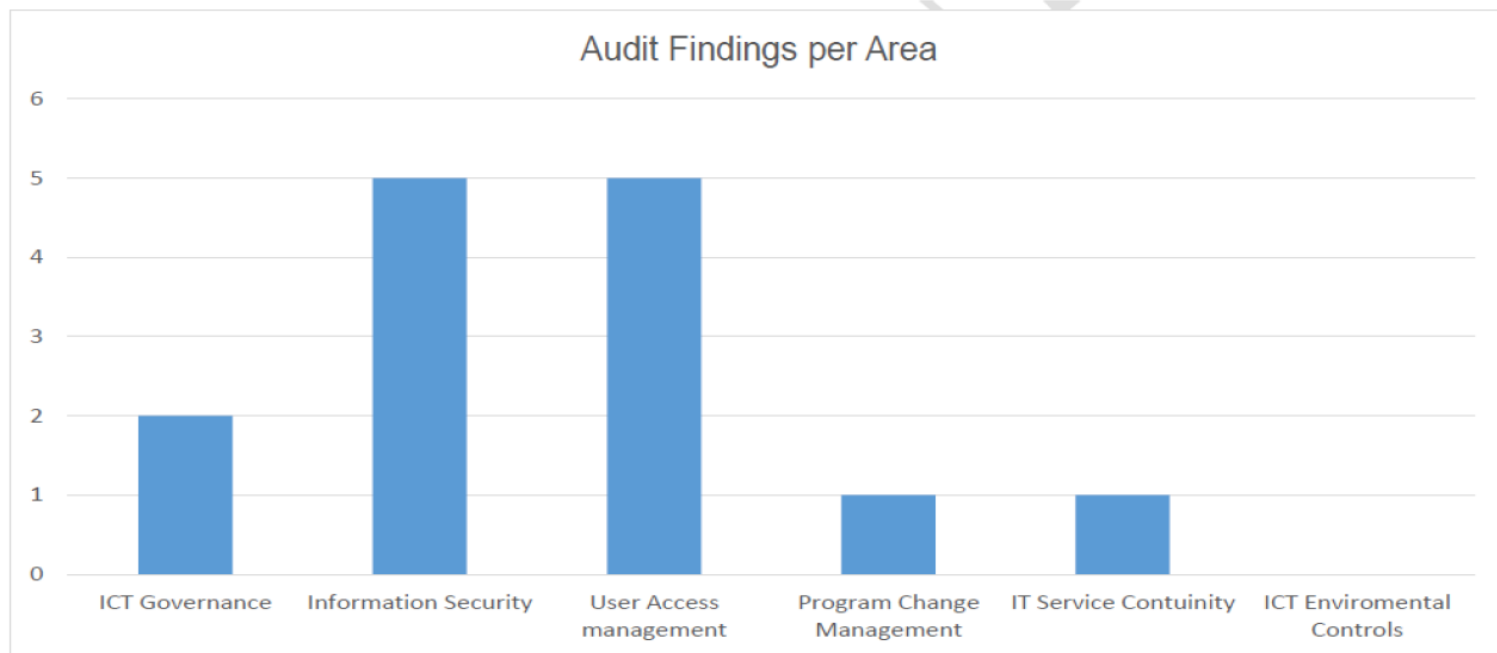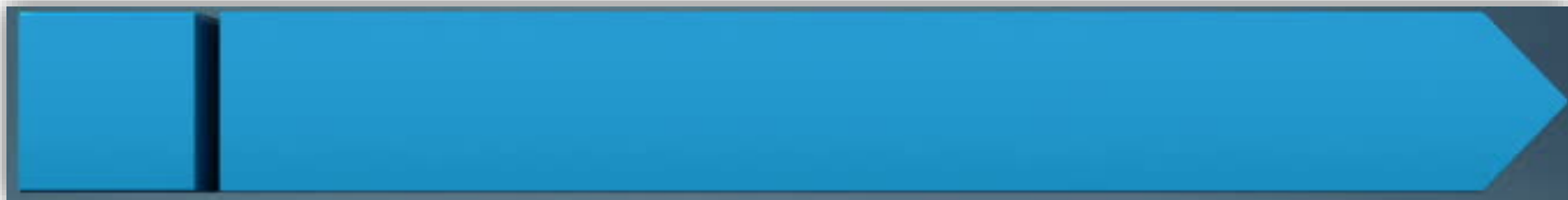
3.3.2 (a) ICT AIP Progress

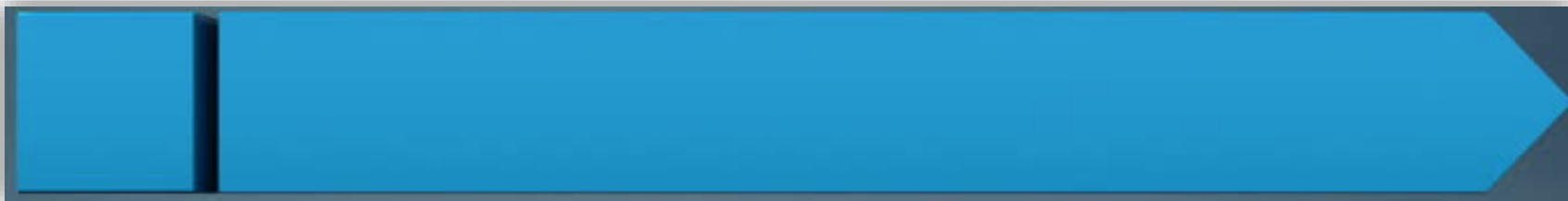| Audit finding	Completed	Not yet due (In Progress)	Not yet due & Not yet started
Information Technology Governance Framework not adequately designed regarding project management processes	1	1	n/a
Lack of Information and Technology Communication Technology Strategic plan	n/a	1	n/a
Password configuration settings are not aligned with user account management procedure.	1	n/a	n/a
Monitoring activities not performed on patch management	1	n/a	n/a

3.3.2 (b) ICT AIP Progress
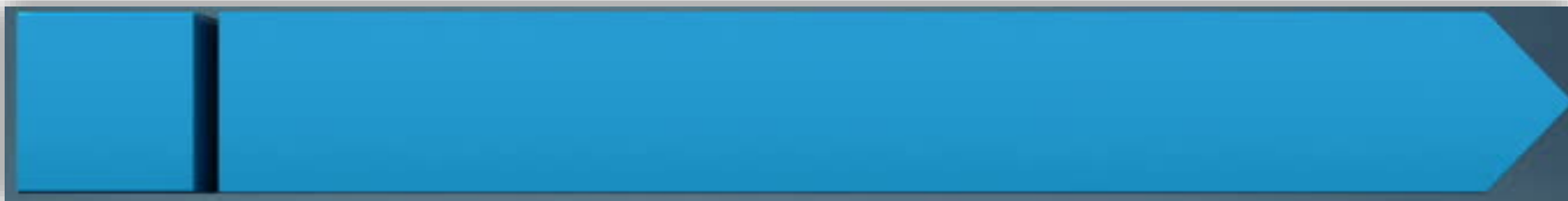
Audit finding	Completed	Not yet due (In Progress)	Not yet due & Not yet started
Firewall procedure not adequately designed	1	1	n/a
The firewall ruleset is not adequately designed.	1	n/a	n/a
The firewall intrusion prevention system report not reviewed	2	n/a	n/a
Weaknesses identified pertaining to the management of users.	1	n/a	n/a
Accounts on the Active directory, not monitored	n/a	1	4

3.3.2 (c) ICT AIP Progress
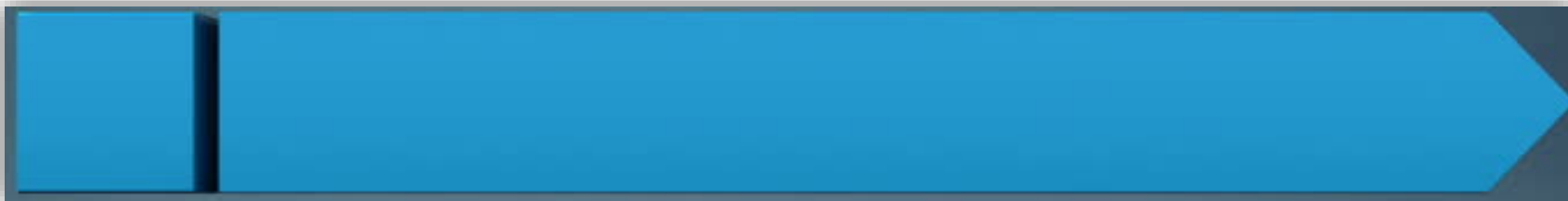
Audit finding	Completed	Not yet due (In Progress)	Not yet due & Not yet started
Weaknesses identified pertaining to the management of users ARCLAB	2	2	n/a
Weaknesses identified pertaining to the management of user accounts on Microsoft Dynamics	5	1	n/a
Weaknesses identified pertaining to the management of users accounts on VIP	4	1	n/a
Weaknesses identified – management of user accounts on the Bank EFT system	1	n/a	n/a

ARC • LNR
Excellence in Research and Development

3.3.2 (d) ICT AIP Progress

Audit finding	Completed	Not yet due (In Progress)	Not yet due & Not yet started
Evidence for the backup systems prior to update / upgrade not provided	2	n/a	n/a
Disaster recovery plan not tested during the period under review	1	1	n/a

ARC • LNR
Excellence in Research and Development

Thank you