



Online Webinars

INTERNAL CONTROLS

"8 POWERFUL SESSIONS"

THURSDAYS
05 MAY - 30 JUNE, 2022
10:00 AM - 12:00 AM

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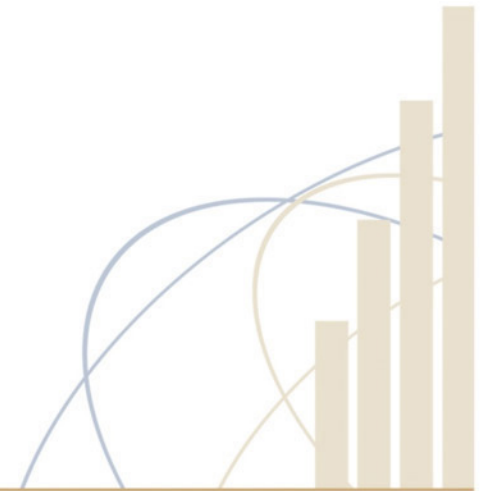
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TOPIC: MONITORING THE EFFECTIVENESS OF INTERNAL CONTROLS

Presented by:

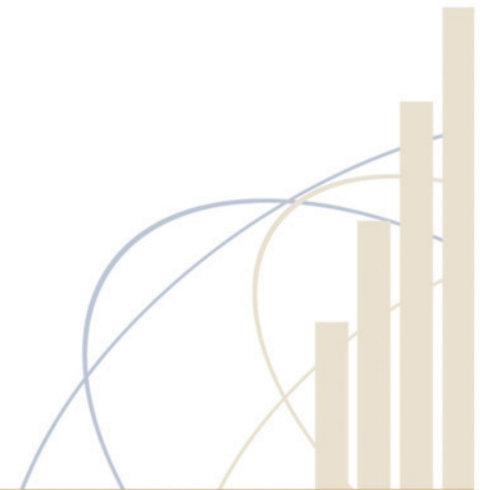
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30 JUNE 2022



Contents

- ✓ **Definition of control**
- ✓ **Control Processes**
- ✓ **Elements of a control**
- ✓ **Types of controls**
- ✓ **Risk Management Cycle**
- ✓ **Definition of risk**
- ✓ **Risk Identification and assessment**
- ✓ **Control Environment**
- ✓ **Achieving effective controls**
- ✓ **Implementation of controls**
- ✓ **Evaluation of controls**
- ✓ **Control Effectiveness**
- ✓ **Developing action plans**



Controls

Control is defined as any action that is taken by the organisation's board and management to enhance the likelihood that the set organisational objectives and goals will be achieved.

Controls are therefore the processes and/or functions that the Executive Management has put in place.

Implementation and/or management of controls is therefore management's responsibility and not that of assurance providers.

The purpose of control processes is to support employees in the organisation with the management of risks and achievement of the set objectives.

Control processes are expected to ensure:

- **The integrity and reliability of financial and operational information.**
- **Efficient and effective use of resources.**
- **Safeguarding of assets.**
- **Compliance with laws and regulations when taking actions and decisions on behalf of the organisation.**

Elements of a Control

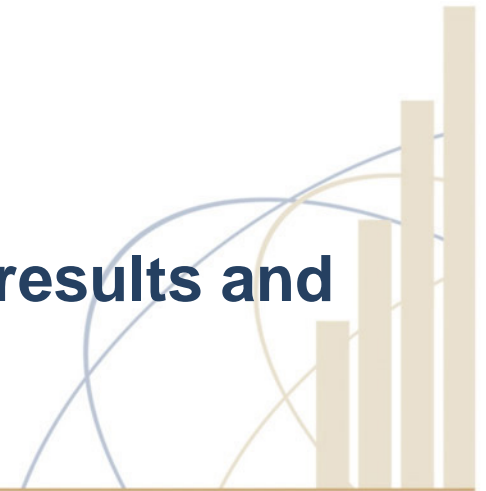
Establishing standards for the operation to be controlled.

Measuring performance against a pre determined standard.

Examining, observing and analysing deviations.

Implement corrective action.

Reassess the standards based on past results and experience obtained.



Types of Control

Pre-emptive: these refer to YES/NO controls where approval to continue is required. For example: activities may not proceed to the next step until a test is passed.

Preventive: these refer to steering controls. The controls predict results and take corrective action before the process is completed.

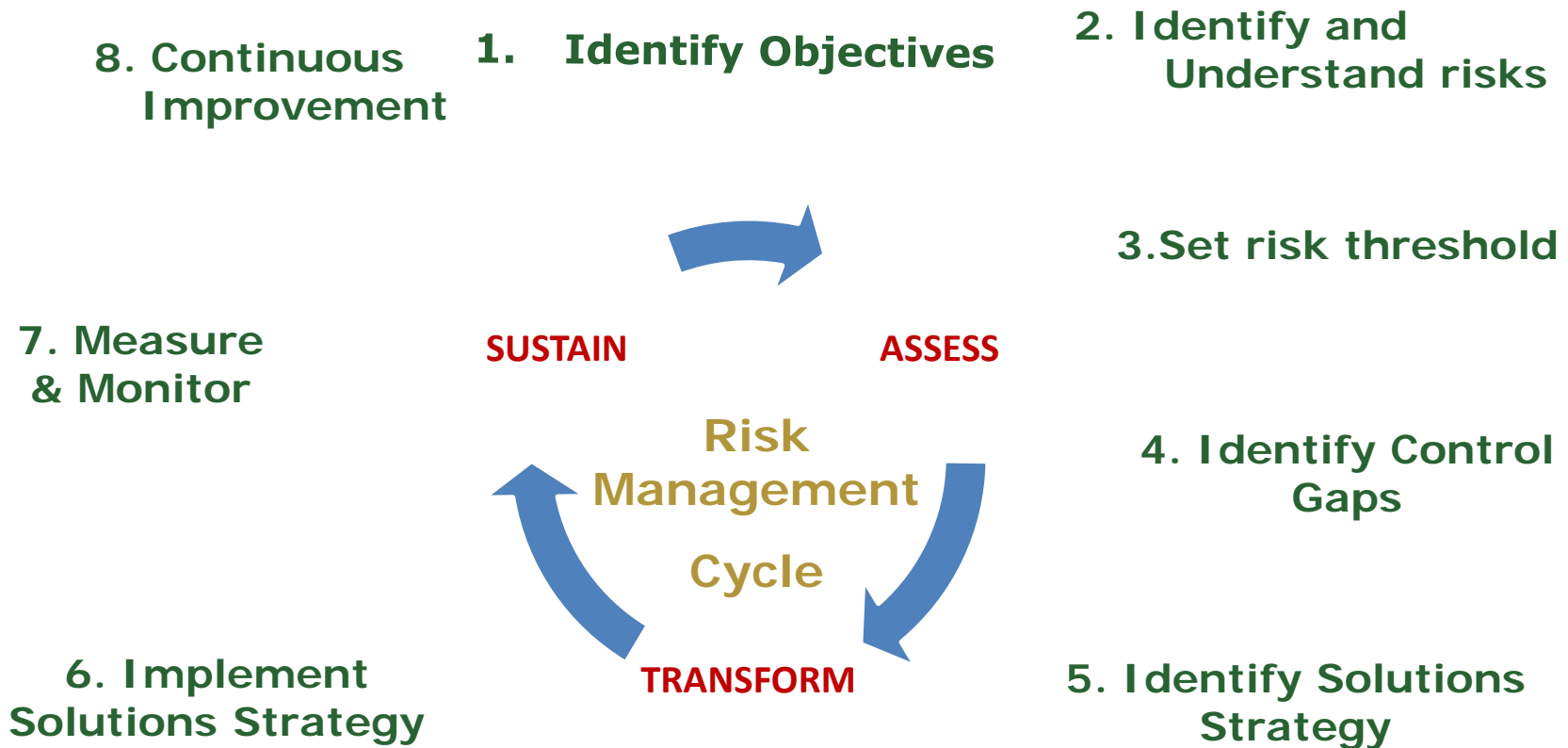
Detective: these measure the results and compare to a set standard before a control action is taken. The control action will eliminate the same deviation in future.

Types of Control

Corrective: monitor that the control is working according to the specifications.

Adaptive: these types of controls initiate alternative courses of action to be taken.

The process owner/ manager will select the type of control to be applied on a case by case basis to ensure that the appropriate control type is applied.



What is a Risk?

- "Effect of uncertainty on objectives; - risk is often expressed in terms of a combination of the consequences of an event (including changes in circumstances) and the associated likelihood of occurrence." **(ISO 31000).**
- "Any threat or event that is currently occurring, or that has a reasonable chance of occurring in the future, which could undermine the institution's pursuit of its goals and objectives." **(Public Sector Risk Management Framework).**
- "The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measure in terms of impact and likelihood." **(The Institute of Internal Auditors- IIA)**

Risk Identification and Assessment

“Identification of events or threats that can impact on the achievement of objectives and assessing them by analysing their impact and likelihood. The process is as follows:

1. Confirm strategic goals/objectives;
2. Identify events or threats (risks) that can impact on the attainment of objectives;
3. Identify risk factors (contributing factors) that can contribute to the risk materialising, or have the potential to contribute to the risk materialising;
4. Identify risk consequences (impact);
5. Rate the risks on the probability of occurrence and the impact thereof in the absence of mitigating controls (Inherent Risk);
6. Identify existing controls in place to mitigate either the probability of the risk occurring or the impact thereof;
7. Re-rate the risks taking into account the effects of existing mitigating controls (Residual Risk); and
8. Determine future risk treatment plans for control improvement purposes and allocate a specific owner for these actions, as well as an implementation date.

Risk Rating

Impact/Severity Scales

Impact/Severity	Meaning	Value
Critical	Potential for critical or significant financial loss, potential for permanent disruption, death, key critical requirements not adhered to, very serious current legal implications (high risk of successful legal challenge with long-term implications for the entity as well as employees), loss of shareholder and public confidence	5
Major	Potential for major financial loss, current and/or on-going occurrence, potential for serious legal implications (e.g. risk of successful legal challenge with substantial implications for the entity), major impact on reputation	4
Moderate	Potential for high financial loss exposure, high frequency of occurrence, possible on-going disruption of business activities, moderate legal implications, moderate impact on reputation.	3
Minor	Potential for medium financial loss, minor disruptions, minor legal implications, minor impact on reputation.	2
Insignificant	Potential for low financial loss, low frequency, no material disruptions, no legal implications, unlikely to impact on reputation.	1

Risk Rating

Likelihood/Probability Scales

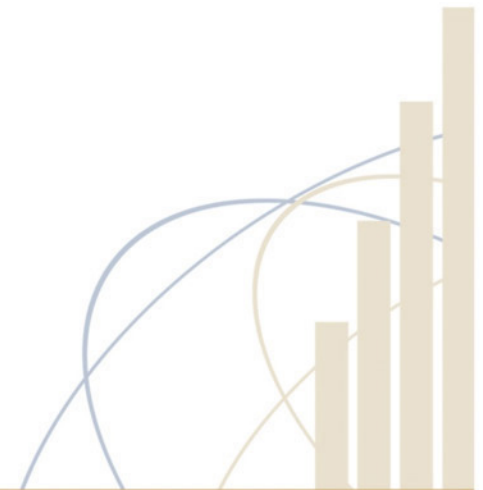
Likelihood / Probability	Meaning	Value
Common	Is currently occurring or expected to occur in future. Likely to occur many times/regularly	5
Likely	Will probably occur in most circumstances. Likely to occur sometimes	4
Moderate	Might occur at some time in the future. Unlikely, but could occur.	3
Unlikely	Is not expected to occur or have a material implication on the entity. Very unlikely that the event will occur.	2
Rare	May occur in exceptional circumstances with immaterial implication the entity. Almost inconceivable that the event will occur	1

Control Environment

“The tone of an organisation, that sets the basis for how risk is viewed and addressed by an entity’s people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate”.

An effective internal control environment consists of at least TEN different aspects that should all be present and functional. These are:

1. Governance oversight
2. Risk management philosophy
3. Risk management culture
4. Ethics, values and integrity
5. Management operating style
6. Policies and procedures
7. Risk-taking propensity of executives
8. Risk appetite levels
9. Risk tolerance thresholds
10. Commitment to competence



Control Adequacy Scales

Control Adequacy Factor	Meaning	Value
Very Good	The risk is effectively controlled and managed, but in some regards over-controlled.	5
Good	Majority of risk exposure is effectively controlled and managed.	4
Satisfactory	There is room for some improvement in the control system	3
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies.	2
Unsatisfactory	Control measures are ineffective.	1

Achieving effective Controls

Sawyer defines control as the implementation of all means created in an organisation to direct and govern its activities to ensure that objectives are achieved.

Means of control are:

- **Organisation: This is an approved structure or roles assigned to employees to ensure that the organisation goals are achieved. Individual responsibilities and accountability should be defined clearly as per the delegations of authority.**

Achieving effective Controls

- **Policies:** The organisation policy should conform to laws and regulations and state the principles that guide appropriate action to be taken. Policies should be clear and communicated and accessible to all employees.
- **Procedures:** These are methods undertaken to perform activities that are in line with the policies. Care should be taken to ensure that the procedures are not duplicate and conflicting but rather simple and not expensive to implement.

Achieving effective Controls

- **Employees:** People hired should possess the necessary qualifications and experience to do the job. The performance should be regularly reviewed to ensure that all the requirements of the job are being met.
- **Accounting:** As a means of control, accounting provides financial control over the organisations activities and resources utilised. The Accounting done and financial reports produced should meet the needs of managers and aid in decision making.
- **Reporting:** Organisation reports produced should be accurate, clear, simple, economical and timely to allow for effective management functions and decision making. Performance reports should show comparison to predetermined standards.

Implementation of Controls

- **For internal controls to function effectively, all the means of control should be adhered to at all times.**
- **None adherence to a means of control employed by the organisation leads to a break in the controls which ultimately results in the objectives of the organisation not attained.**
- **To enhance effectiveness, the implementation of controls in the organisation should be consistent for all employees irrespective of their level in the organisation and for stakeholders irrespective of the benefits the organisation derives from them.**
- **For example: the same treatment should be given to employees in an organisation and a policy should not be mended to suit certain individuals. All set criteria should be met by all employees no matter the circumstances.**

The Chief Audit Executive (CAE) should develop an internal audit coverage plan that will produce sufficient information to evaluate the effectiveness of the control processes.

Co-ordination with internal (i.e. Risk Management Unit) and external (external auditors) assurance providers is necessary to avoid duplication of efforts.

Three considerations when evaluating controls are:

- **Where there significant weaknesses determined based on audit work performed.**
- **If there are, were improvements to controls made.**
- **Do the identified weaknesses lead to an unacceptable level of risk faced by the organisation.**

Control Effectiveness

Controls are the processes and/or functions that the Executive Management has put in place, and rely upon, to manage the strategic and significant risks.

Having established which controls management has in place to manage the identified risks/risk areas; the control effectiveness is then assessed.

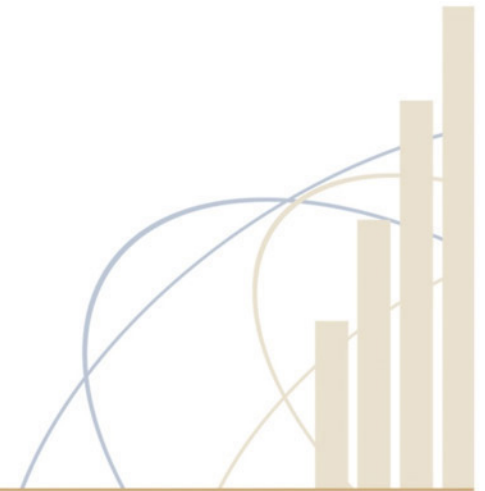
This is a measure of how well management perceives the identified controls to be working and effectively managing the risks.



Developing action plans

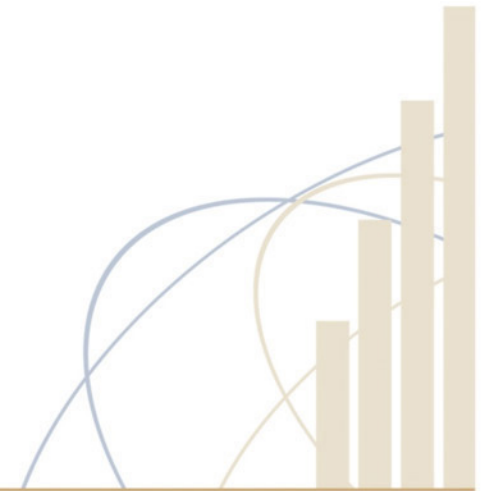
The process of developing options and actions to enhance opportunities and to reduce threats to the project objectives, which should be as follows:

- **Proactive, not reactive**
- **Appropriate to significance of risk**
- **Cost effective**
- **Timely**
- **Realistic within project context**
- **Agreed upon by all parties involved**
- **Assigned to / owned by a responsible person**

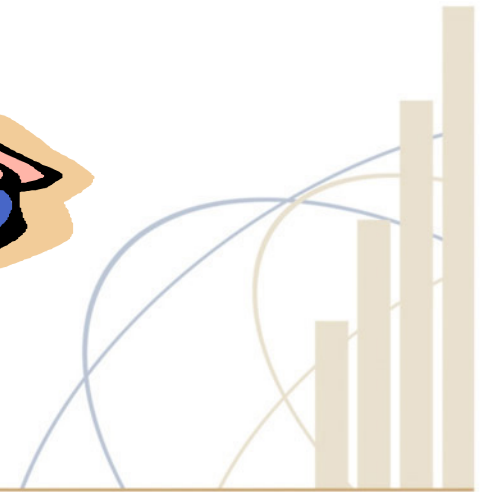


Conclusion

- **A control is regarded as effective if it reduces the risk exposures faced by the organization.**
- **Effective controls are consistently applied through out the organization.**

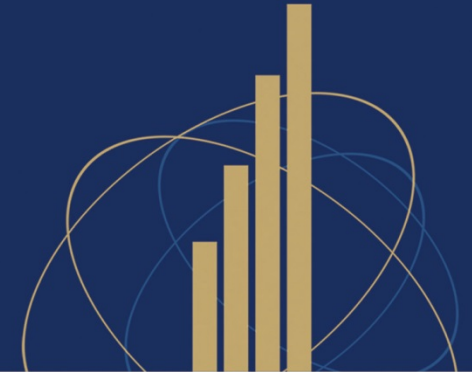


Questions





Thank You!



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