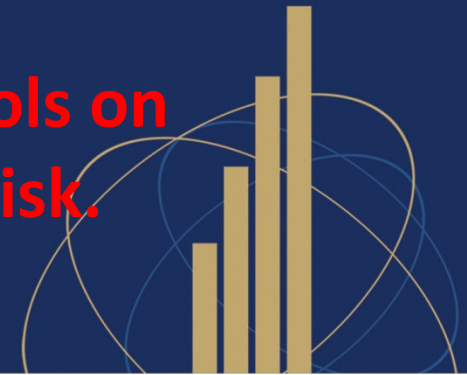




Assessing the impact of internal controls on inherent risk to arrive at the residual risk.



CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

SAQA Recognised Professional Body

REGULATORY FRAMEWORK - CONSTITUTION



SEC 152 prescribes objects of municipalities

(1) The objects of local government are—

- (a) to provide democratic and accountable government for local communities;
 - (b) to ensure the provision of services to communities in a sustainable manner;
 - (c) to promote social and economic development;
 - (d) to promote a safe and healthy environment; and
 - (e) to encourage the involvement of communities and community organisations in the matters of local government.
- (2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

SEC 195 further prescribes basic values and principles governing public administration.

REGULATORY FRAMEWORK - MFMA



Section 62 of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 63, 64 & 65 of the MFMA determines that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Section 63, 64 & 65 of the MFMA determines that the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, debtors and revenue, creditors and payments as may be prescribed.

Section 67 when transferring municipal funds to other organisations or bodies, the accounting officer must be satisfied that the organization or body implements effective, efficient and transparent financial management and internal control systems to guard against fraud, theft and financial mismanagement.

DEFINE RISK

Risk

- An uncertain future event that could influence the achievement of the Municipality's strategic and business objectives.
- The possibility of an event occurring that will have an impact on the achievement of municipality's objectives.
- Measured in terms of impact and likelihood

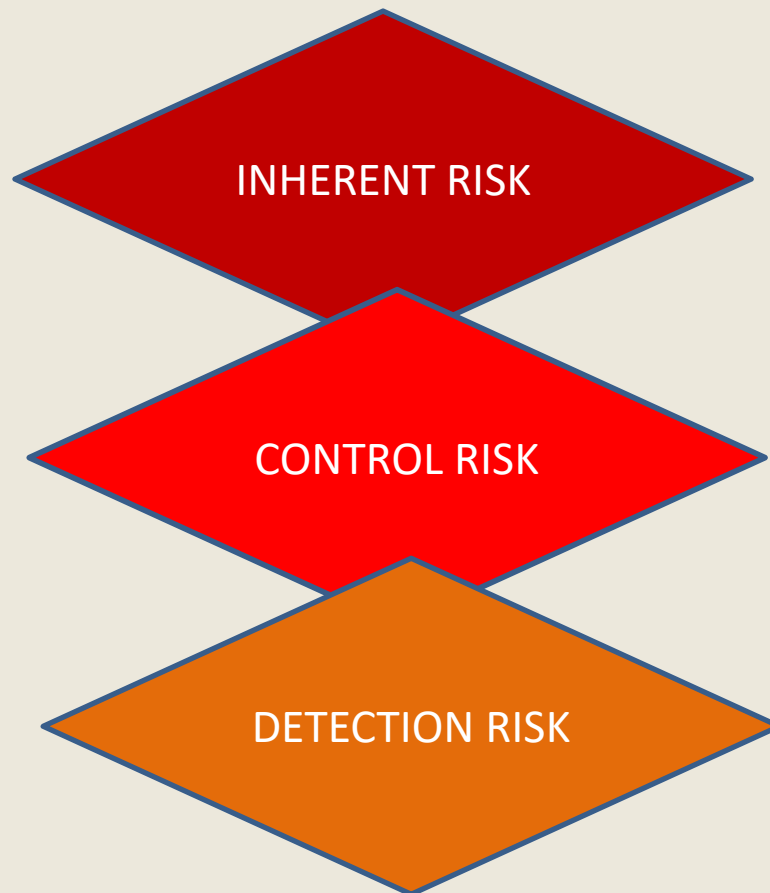
Risk appetite

- The level of risk that a municipality is willing to accept.

Risk management

- A systematic and formalised process instituted by the municipality to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the municipality's objectives.
- Enhances service delivery (IIA, 2020).

AUDIT RISK MODEL



INHERENT RISK

- The risks to the municipality in the absence of any deliberate management interventions / control measures / actions management might take to alter either the risk's impact or likelihood.
- Therefore, it the impact that the risk will have on the achievement of municipal objectives if the existing controls are not considered.
- The risk of a material misstatement in a municipality's financial statements without considering internal controls.

CONTROL RISK

- Control risk is defined as the risk which tends to surface when the internal controls in place have failed, and the financial statements have missed highlighting the failures of internal controls.
- Control risk is the chance that financial statements are materially misstated because of failures in a municipality's system of internal controls (Reciprocity, 2020).
- Control risk is considered to be high where the municipality does not have adequate internal controls to prevent and detect instances of fraud and errors in the financial statements

(<https://accounting-simplified.com/audit/risk-assessment/audit-risk/>).

DETECTION RISK

- Detection risk is the possibility that an auditor will not locate a material misstatement in a municipal's financial statements.
- This is particularly likely when there are several misstatements that are individually immaterial, but which are material when aggregated.
- The outcome is that an auditor would conclude that there is no material misstatement of the financial statements when such an error actually exists, which would then lead to the issuance of an erroneously favorable audit opinion.

(<https://accounting-simplified.com/audit/risk-assessment/audit-risk/>).

RESIDUAL RISK

The remaining exposure after control measures/process improvements / remedial actions were implemented or taken into consideration.



RISK MITIGATION STRATEGIES

ACCEPT/RETENTION

AVOID

TRANSFER

REDUCE



INTEGRATED RISK MANAGEMENT



A coordinated risk management effort is crucial for proper implementation of a municipal risk mitigation strategy.

An integrated risk management strategy with clear and unambiguous objectives:

- (1) Assists risks management role-players in making informed decisions.
- (2) Promotes an innovative culture
- (3) Ensures adequate control measures.

RISK MANAGEMENT ROLE-PLAYERS



- SERVICE DELIVERY BENEFICIARIES
- COUNCILLORS
- ACCOUNTING OFFICER
- EXECUTIVE DIRECTORS INCLUDING CFO AND COO
- SENIOR DIRECTORS / DIRECTORS / DEPUTY DIRECTORS
- ADMINISTRATORS INCLUDING POL OFFICIALS
- INTERNAL AUDITORS / EXTERNAL AUDITORS
- AUDIT COMMITTEE
- RISK MANAGEMENT COMMITTEE
- RISK MANAGEMENT OFFICIALS
- NATIONAL TREASURY / PROVINCIAL TREASURY
- OTHER STAKEHOLDERS

INTERNAL CONTROLS

Internal controls are processes put into place by management in order for a municipality to operate efficiently and effectively to achieve its goals and objectives.

Managers often regard internal controls as the purview and responsibility of accountants and auditors.

All municipal stakeholders are responsible for developing, implementing, monitoring and reviewing of internal controls. (Integrity Bulletin, 2016).

INTERNAL CONTROLS

The purposes of internal controls are to:

- (1) Protect assets;
- (2) Ensure that records are accurate;
- (3) Promote operational efficiency;
- (4) Achieve organizational mission and goals; and
- (5) Ensure compliance with policies, rules, regulations, and laws (Integrity Bulleting, 2016).

TYPES OF INTERNAL CONTROLS

Different risks and environments require different controls.

- (1) Preventive and detection controls
- (2) Hard and soft controls
- (3) Manual and automated controls
- (4) Key and secondary controls

INADEQUATE CONTROL MEASURES

Lack of adequate control measures may have a negative impact on strategic risks:

STRATEGIC RISK	OUTCOME
REPUTATION	PERCEPTION- INVESTORS AND STAKEHOLDERS
GOVERNANCE	COMMUNITY UNRESTS INCLUDING CONSTANT PUBLIC PROTESTS
FINANCIAL	REVENUE, DEBTORS AND CREDITORS MANAGEMENT
SERVICE DELIVERY	SERVICE DELIVERY BENEFICIARIES
PERFORMANCE	FRAUD AND CORRUPT ACTIVITIES

IMPACT OF FAILED CONTROLS

Bank Fraud in Enid, Oklahoma

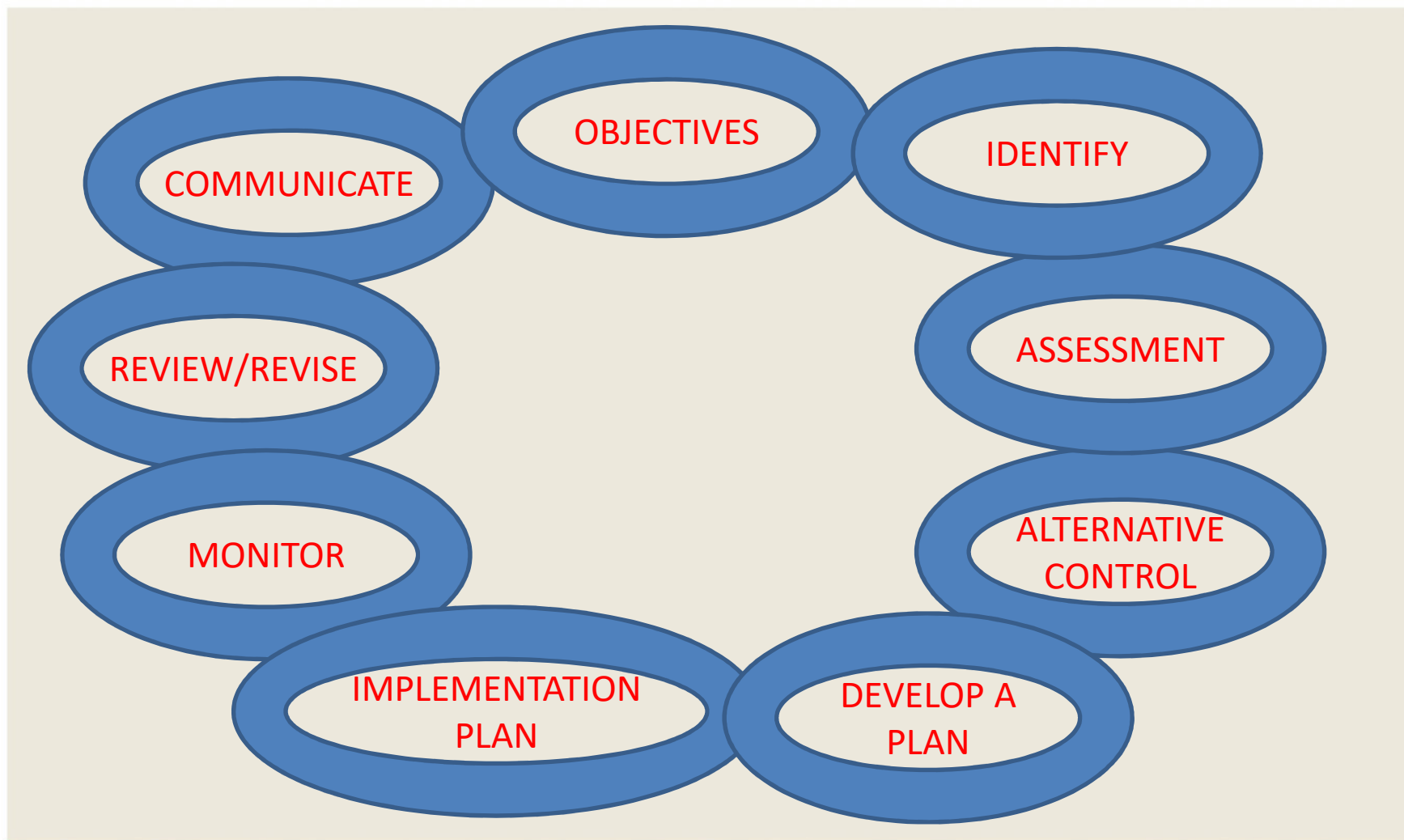
The retired mayor of Enid, Oklahoma, Mr Ernst Currier, had a job as a loan officer and then as a senior vice president at Security National Bank (He was holding two positions).

In his bank job, he allegedly opened 61 fraudulent loans.

He used the identities of at least nine real people as well as eight fictitious people and stole about \$6.2 million.

Currier was arrested and charged with 33 felonies including misapplication of funds, unlawful proceeds, false personation, second-degree forgery and obtaining money by false pretenses (Oklahoma's News 4).

INTEGRATED RISK MANAGEMENT CYCLE



INTERNAL CONTROLS

The Above Integrated Risk Management Cycle Can Be Summarized As Follows:

CONTROL ENVIRONMENT

- Oversight, Proper organisational structures, competent staff, accountability

RISK ASSESSMENT

- Identify and analyze risks, evaluate fraud risk,

CONTROL ACTIVITIES

- Information Systems, Policies and Strategies

INFORMATION AND COMMUNICATION

Information sharing and regular communication with both internal and external stakeholders

MONITORING

- Evaluate and Review internal controls, communicate control deficiencies

CONTROL ACTIVITIES

Include the following:

Implementing **segregation of duties** where duties are divided (segregated) among different people, to reduce the risk of error or inappropriate actions.
No one person has control over all aspects of any financial transaction.

Making sure transactions are **authorized** by a person delegated **approval** authority when the transactions are consistent with policy and funds are available.

Ensuring records are routinely **reviewed** and **reconciled**, by someone other than the originator or requestor to determine that transactions have been properly processed.

Making certain that equipment, inventories, cash and other property are **secured** physically, counted periodically and compared with item descriptions shown on the register (University of California, 2022).

CONTROL ACTIVITIES

Include the following:

Providing employees with appropriate **training** and guidance to ensure that they:

- (1) have the knowledge necessary to carry out their job duties,
- (2) are provided with an appropriate level of direction and **supervision** and
- (3) are aware of the proper channels for reporting suspected improprieties.

Make use of Standard Operating procedure to promote uniformity

Ensure that municipal policies and operating procedures are formally communicated to policy implementers and other stakeholders (University of California, 2022).

INTERNAL CONTROL MATRIX

Risk and Control Matrix should be under pinned by the following basic internal control objectives:

- The reliability and integrity of information
- Compliance with policies, plans, procedures, laws and regulations
- The safeguarding of assets
- The economical and efficient use of resources
- The accomplishment of established objectives and goals for operations or programs (University of California, 2022).

NATIONAL ANTI-CORRUPTION

<https://youtu.be/BCTRLW0jyPs>

Promote and encourage active citizenry, whistleblowing, integrity and transparency in all spheres of society.

Advance the professionalisation of employees to optimise their contribution to create corruption free workplaces.

Enhance governance, oversight and accountability in organisations in all sectors.

Improve the integrity, transparency and credibility of the public procurement system.

Strengthen the resourcing, coordination, transnational cooperation, performance, accountability and independence of dedicated anti-corruption agencies.

Protect vulnerable sectors that are most prone to corruption and unethical practices with effective risk management.



Thank You!

Dr NC Ngxesha

01/06/2022



CIGFARO

Chartered Institute of
Government Finance, Audit & Risk Officers

www.cigfaro.co.za

SAQA Recognised Professional Body