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Linking internal controls to the risks to the risks in the strategic and operational risk register

- **Objectives of local government in terms of Chapter 7 of the Constitution (Section 152);**

  - **To provide democratic and accountable government,**
  - **To ensure the provision of services in a sustainable manner,**
  - **To promote social and economic development,**
  - **To promote a safe and healthy environment, and**
  - **To encourage the involvement of communities and community organisations in local government matters.**

What is strategy?

- Strategy as a process focuses on decision-making in reaching results,
- It favours certain issues above others/therefore it is a power-game having a specific outcome in mind,
- It has a broader more complex democratic complex consisting of the outcome of interactions (mostly subtle) between a number of stakeholders, and
- It is an on-going reinterpretation of stakeholders in their collective understanding of their public objectives.

Strategy and strategic management – cont…

- **Strategic management is the convergence/bringing together the different strategies thereby ensuring that results are achieved,**

- **Strategic management focuses on the coordination of processes that are guided by the multiple stakeholders,**

- **There is a difference between policy and strategic plan, even though they share similar characteristics (a policy consists of broad statements outlining problem areas and envisaged interventions, and the strategic plan takes its cue from such policies and takes it further by mapping realistic actions based on the available budget).**

A risk is any threat or event that is currently occurring, or that has a reasonable chance of occurring in future, which could undermine the institution's pursuit of its goals and objective.

What is risk: is that level of danger from an adverse event and there is a chance of that event occurring.

IGNORING THE RISK DOESN'T MAKE IT GO AWAY!!!!!

Risk Management – cont…

Risk Management is the discipline of identifying, monitoring and limiting risks. In some cases, the acceptable risk may be near zero. Risks can come from accidents, natural causes and disasters"

In laymen's terms it means: risk management is the process of identifying and managing those things that could prevent your organisation from achieving its objectives.

Risk management includes: safety, security, disaster management, business continuity, insurance and internal audit.

Risk Management – cont…

Why do we need risk management?

- **Corporate governance:**
- ❑ **Past experiences and stakeholders do not want to be caught off-guard,**
- ❑ **Corporate governance places accountability for risk management with the accounting officer (municipal manager),**

- **Planning and organisation:**
- ❑ **The greatest value of risk management can be gained during planning process,**
- ❑ **It is important that outer year planning consider the assessment of risks and mitigation strategies.**

Risk Management – cont…

- **Continuous risks assessment:**

- ❑ **The risk profile is continually changing,**
- ❑ **The risk management plan must be able to systematically identify new and emerging risks and must give the assurance that existing risks are being addressed in the best possible way given the current challenges and pressures on resources,**
- ❑ **So often, change is beyond management's control, however, the risks it creates must be managed.**

Risk Management - cont…

Legislative framework of Risk management

- **Sections 62(1)(c), 165 (2)(b)(iv) of the MFMA (56 of 2003,**
- **Section 47 of the Disaster Management Act (57 of 2002),**
- **Occupational Health and Safety Act (85 of 1993), and**
- **Hazardous Substances Act (15 of 1973).**

Risk Management – cont…

7 Steps in the risk management process:

- **Establish the context,**
- **Identify the risks,**
- **Analyse the risks,**
- **Evaluate the risks,**
- **Treat the risks,**
- **Monitoring and review the risks since they are dynamic and fluid, and**
- **Communicate and consult.**

Risk Areas: are commercial, legal, economic, financial, technology, operational, political, human resource, OH&S, environmental, etc.

Internal control

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Internal control as a process is effected by council, management and officials, and it is designed to provide reasonable assurance regarding the achievement of objectives in terms of:

- **Effectiveness and efficiency of operations,**
- **Reliability of financial reporting,**
- **Compliance with applicable laws and regulations, and**
- **Reliability and integrity of financial information and financial reporting.**

Internal control – cont…

A system of control consists of 5 interrelated components:

- **Control environment,**
- **Risk assessment,**
- **Control activities,**
- **Information and communication, and**
- **Monitoring.**

Internal control – cont…

- **Internal control starts with a strong control environment,**
- **Management is the owner of internal control,**
- **Internal control is a finance thing,**
- **Internal control should be built into the business processes,**
- **Internal control makes the right things happen the first time, and every time, and**
- **Internal controls provide reasonable assurance, not absolute assurance that objectives will be achieved.**

Internal Control – cont…

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The management and reduction of risks are supported by actions, policies and procedures that are carried out properly and timeously through:

- **Approvals,**
- **Authorisations,**
- **Verifications,**
- **Reconciliations,**
- **Segregation of duties,**
- **Security of assets,**
- **Performance reviews, and**
- **Information system controls.**

Internal control – cont…

Benefits of internal control systems:

- **Reducing and preventing errors in a cost-effective manner,**
- **Ensuring priority issues are identified and addressed,**
- **Protecting employees and resources,**
- **Providing appropriate checks and balances, and**
- **Having more efficient audits, resulting in shorter timelines, less testing and fewer demands on staff.**

Linking internal controls to the risk register

See addendum – City of Ekurhuleni's infrastructure management challenges as highlighted by Jerome J Patience

Thank You!

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