



Online Webinars
**INTERNAL
CONTROLS**

"8 POWERFUL SESSIONS"

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

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INTERNAL CONTROLS

CIGFARO
Eastern Cape Session
12 May 2022

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Overview

- What is internal control?
- Who is responsible for putting in place internal controls?
- Key Local Government Legal Architecture.
- The Results of Poor Internal Controls
- Current Controls being utilised in municipalities.
- Where to from Here?
- Recommendations.
- Closure

What is Internal Control?



- Internal controls help to assure that public funds are **administered** and **expended** in compliance with applicable statutes and regulations.
- That funds are **used for purposes** for which **they were authorized and intended**; and that there is accurate reporting regarding the use of those funds.
- **Current situation**-Public internal control is being used as a tool for **preventing, detecting and responding** to corruption.
- **Problem Statement**-In absence of internal controls, municipalities can end up with **weak systems** such as **poor financial management** and the will of doing the work.

Who is responsible for putting in place internal controls?



- **Municipalities:**

- Council,
- Sub-committees of Council (MPAC, Audit Committees, Portfolio Committees)
- Internal Audit function,
- Accounting Officer and Senior management.

- **SALGA**

- Consequence and Accountability Framework.

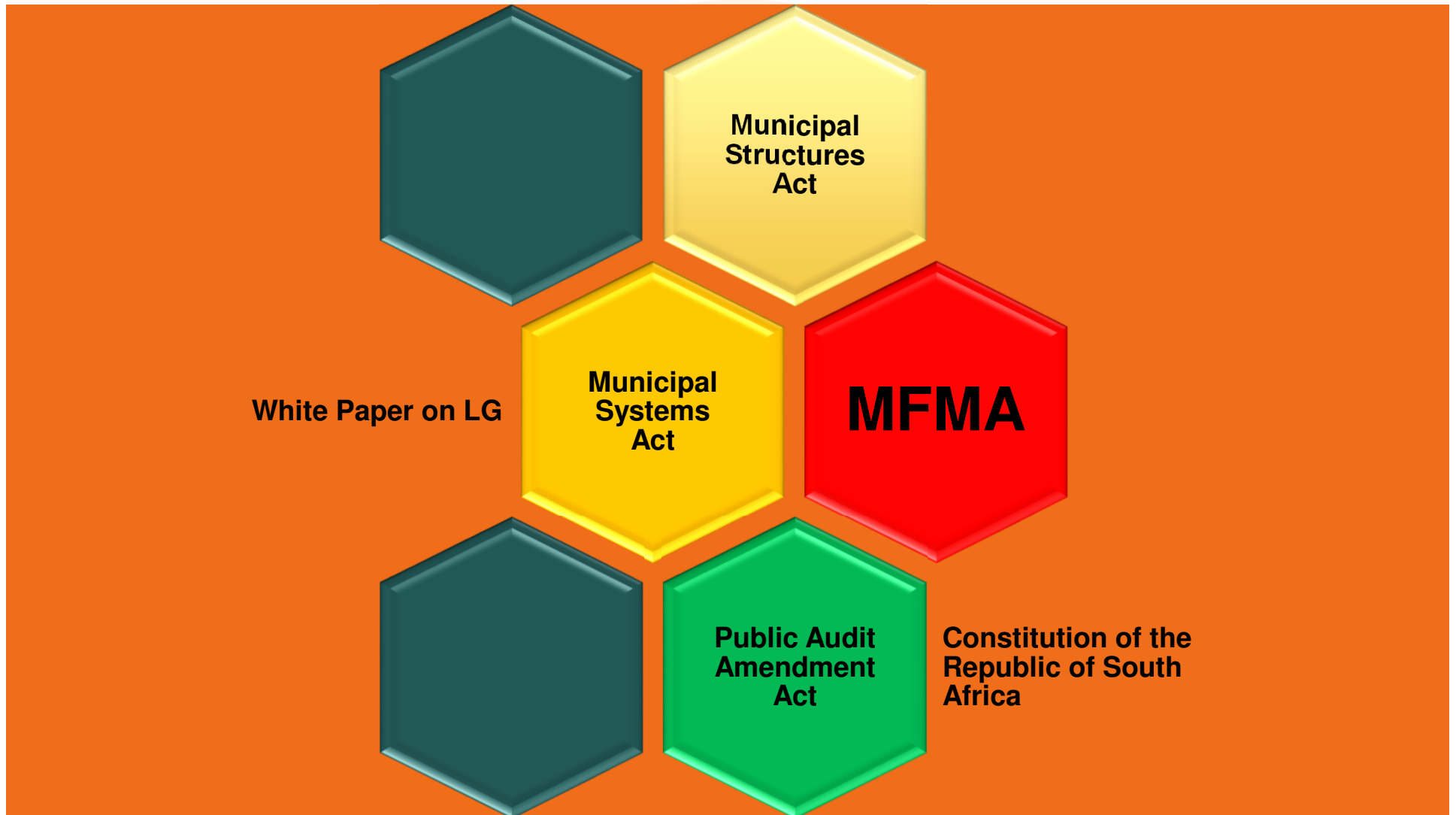
- **National Treasury**

- MFMA, which includes Financial Misconduct Regulations.
- Minimum Competency Regulations.

Who is responsible for putting in place internal controls?

- **COGTA:**
 - Municipal Systems Act
 - Municipal Structures Act
 - Minimum Competency Regulations
- **AGSA:**
 - Public Audit Act and Amendments

Key Local Government Legal Architecture



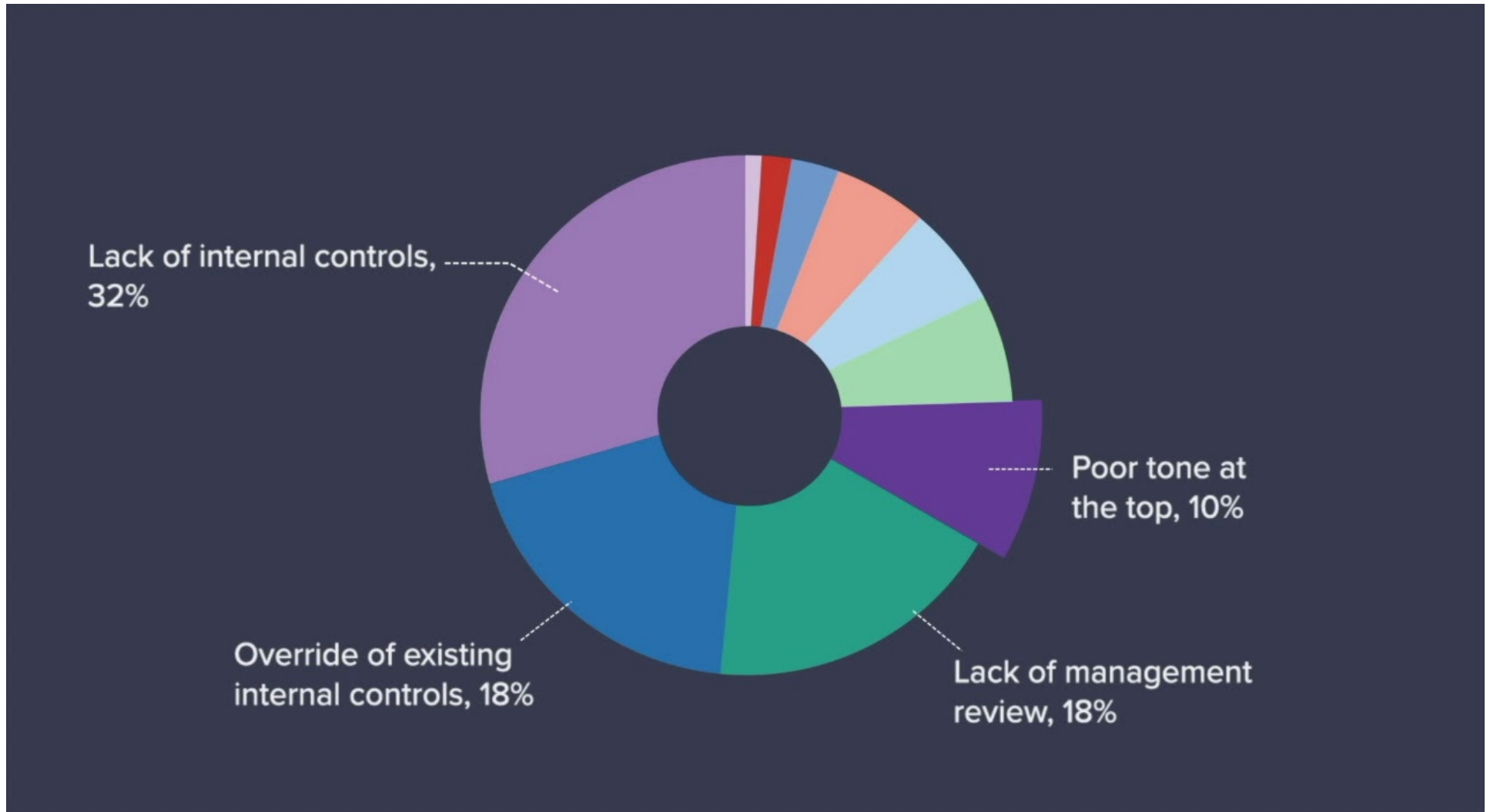
The Results of Poor Internal Controls



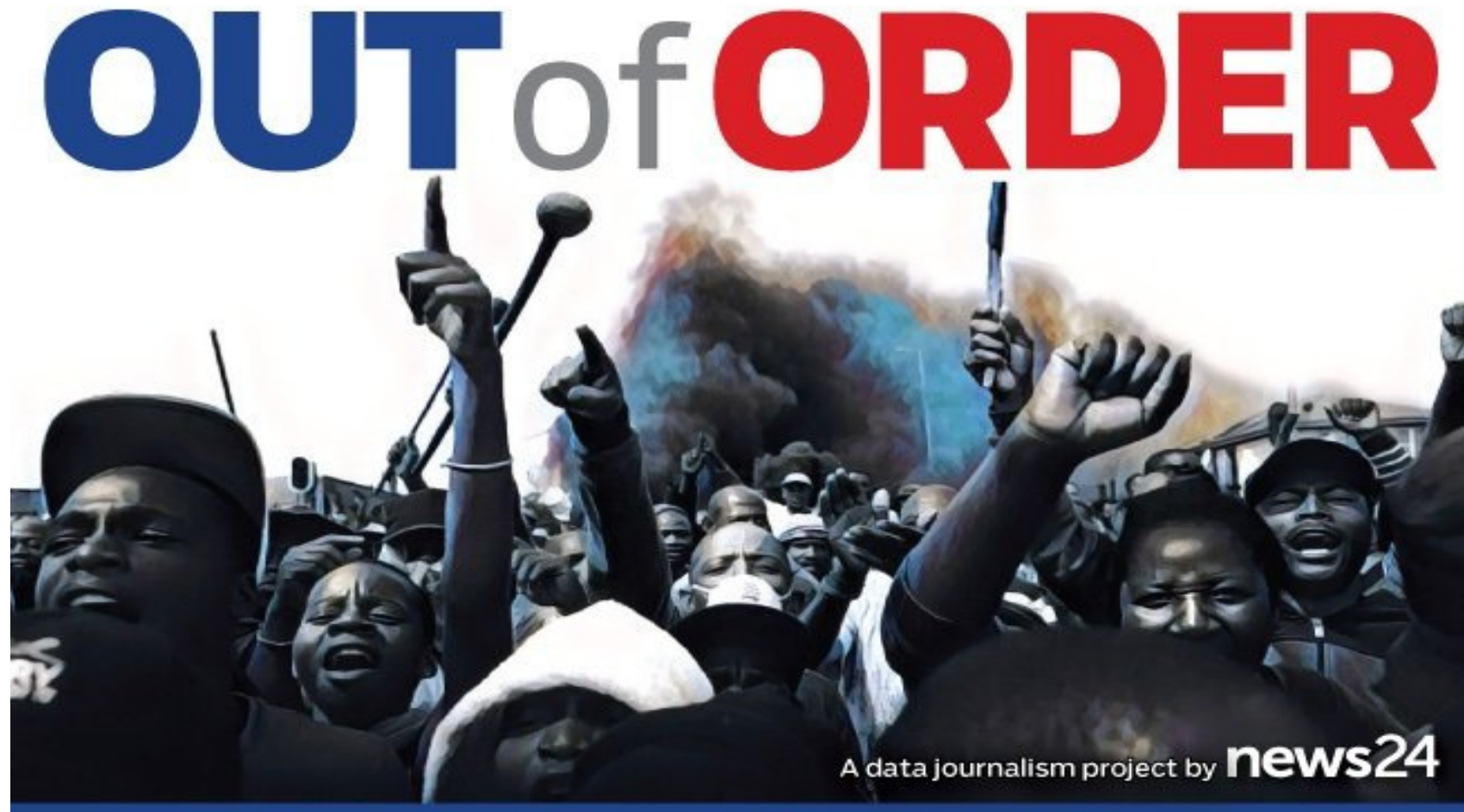
When a municipality operates without an effective system of internal controls, **employees complete job tasks in an environment without the assurance of personal safety.** This leads to high rates of employee dissatisfaction, absenteeism and low rates of employee retention.

- Lack of internal controls typically results in the lack of ability to track performance against budgets, forecasts and schedules.
- Unauthorized access to financial data and customer records, including sensitive information, results in security breaches
- Illegal transactions include theft or misappropriation of assets by employees, which may include falsification of records
- Employees may also take bribes to conceal theft.

How internal control weaknesses contribute to fraud



News 24 Article-Municipalities to be blamed



Current Controls being utilised in Municipalities



Detective controls are designed to find errors or problems after the transaction has occurred. Detective controls are essential because they provide evidence that preventive controls are operating as intended, as well as offer an after-the-fact chance to detect irregularities.

Detective controls include:

- Monthly reconciliations of departmental transactions.
- Review organizational performance (such as a budget-to-actual comparison to look for any unexpected differences).
- Physical inventories (such as a cash or inventory count).
- Performance Management System.

Where to from here?

Preventive controls aim to decrease the chance of errors and fraud **before** they occur, and often revolve around the concept of separation of duties. From a quality standpoint, preventive controls are essential because they are proactive and focused on quality.

Preventive controls include:

- Separation of duties (mainly in the SCM department).
- Pre-approval of actions and transactions (such as a Travel Authorization).
- Access controls (such as passwords and biometric report).
- Physical control over assets (i.e. locks on doors or a safe for cash/checks).
- Conduct Employees audit (ghost employees).
- Employee screening and training (continuous verification of employees' qualifications and increase employee knowledge).

Recommendations

Municipalities should consider:

- **Developing expenditure controls:** municipalities tend to have extensive and time-consuming control systems, often illustrated by the need for multiple approval signatures, which usually apply when payments are made rather than when expenditure is committed, and result in diffused accountability.
- **Strengthening internal audit:** most municipalities have weak internal audit functions, reflecting problems in both the scope of audit activity and poor allocation of roles between the lines of assurance, resulting in internal auditors also being part of first and second line control functions.
- **Strengthening external audit:** They are in a position to provide essential discipline for the management and operations of public organisations, and provide parliaments with assurance on the adherence to laws and regulations, the reliability of financial statements, and value for money in government expenditure.

Accountability Sayings

“Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws.”

Plato

“It is easy to dodge our responsibilities, but we cannot dodge the consequences of dodging our responsibilities.”

Sir Josiah Stamp



Thank
You!