



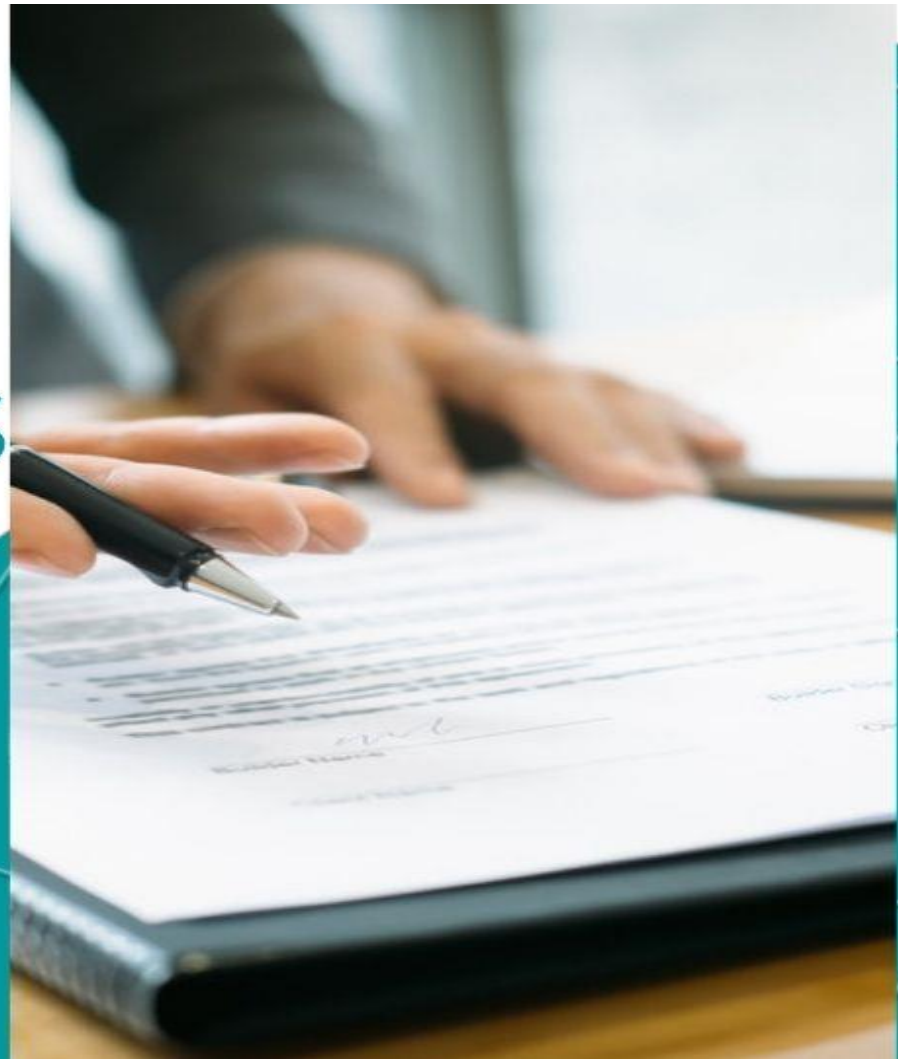
Online Webinars
**INTERNAL
CONTROLS**

"8 POWERFUL SESSIONS"

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

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Online webinar: Internal controls

- ✓ **Week 1:** Linking internal controls to the risks in strategic and operational risk register
- ✓ **Week 2:** Designing controls to reach the control objectives
- ✓ **Week 3:** Choosing the correct control technique and control activities
- ✓ **Week 4:** Assessing the impact of internal controls on inherent risk to arrive at the residual risk
- ✓ **Week 5:** Implementing controls and change management
- ✓ **Week 6:** Monitoring the effectiveness of internal controls





3. Choosing the correct control technique and control activities



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Week 3: Presenter

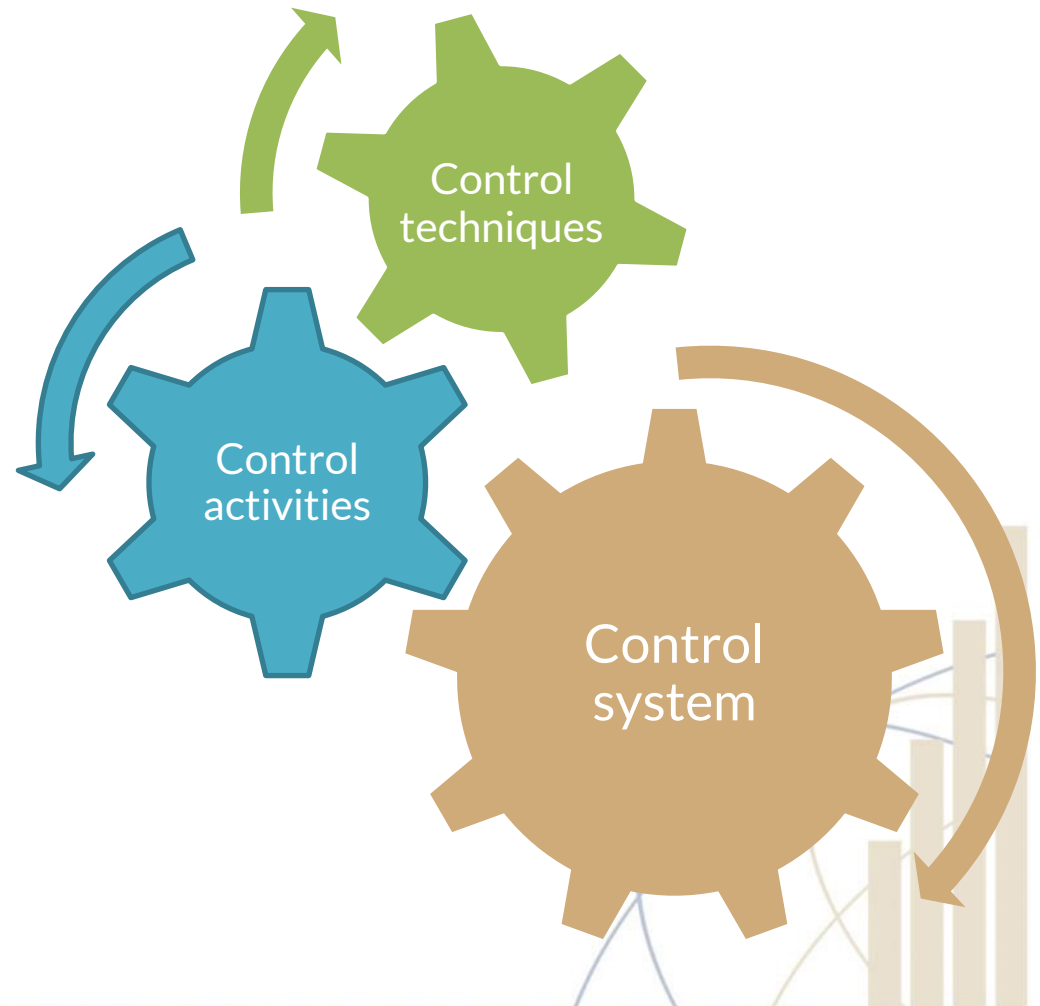
Noeline Slogrove

[B Com, MBA, Post-grad Diploma in Risk,
Fellow member of Inst. Directors, Member of IRMSA]



Week 3: Outline

- ✓ Internal control system
- ✓ Internal control techniques
- ✓ Internal control activities
- ✓ Choices, choices
- ✓ Discussion of your questions



Internal control system

Quick recap of
Week 1

5 Interrelated components:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring



Internal control system – Control environment

Components of the control environment

- Communicating and enforcing integrity and ethical values throughout the municipality
- Commitment by management to employ competent staff
- Participation by those charged with governance
- A management philosophy and operating style that embraces leadership, sound judgement and ethical behaviour
- An organisational structure that provides a clear framework within which proper planning, execution, control and review can take place
- Policies and procedures that clearly define authority, responsibility and reporting relationships throughout the municipality
- Sound human resources policies and practices that result in the employment of competent and ethical staff provide training and development and fair compensation and benefits
- A correctly implemented and enforced system of delegations

Internal control system – Risk assessment

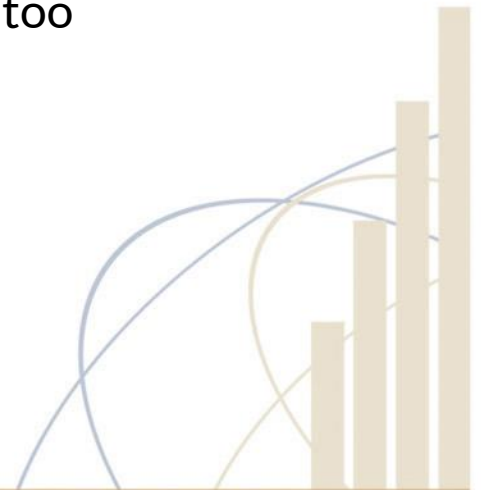
Typical risk factors impacting fair presentation of financial reporting

- Changes in the regulatory and operating environment
- Staff appointments, resignations and vacancies
- Significant and rapid changes in information systems
- Growth and expansion of operations
- Restructurings could impact segregation of duties
- New accounting pronouncements may impact the preparation of financial statements



Typical risk factors impacting fair presentation of financial reporting

- Information system and processes
- Internal communication: spread the message up, down and across functions
- Message from top management: We take internal controls seriously
- Role-players must understand their roles and responsibilities
- Communication with external stakeholders is essential too



Internal control system – Control activities

Policies and procedures that help to ensure that officials carry out internal controls

Two elements:
Policy
Standard operating procedure

To be effective, control activities must:

- Be the proper control in the right place to address the risk involved
- Function consistently according to plan throughout the period
- Be cost-effective
- Be comprehensive, reasonable and directly relate to the control objectives

Internal control system – Monitoring effectiveness

Ongoing monitoring by management

Specific evaluations by the internal audit unit

**Covered in the last
session in this series**



Internal control techniques

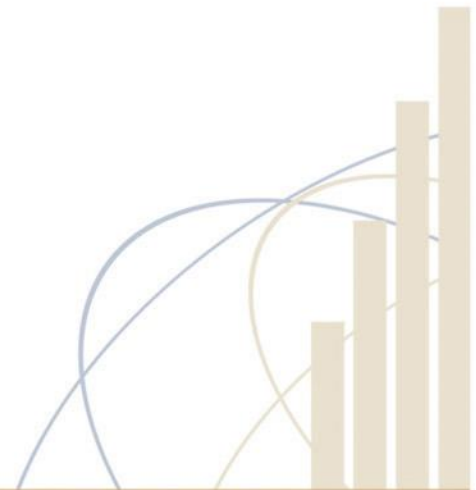


Internal control techniques

Preventative controls

Designed to limit the possibility or likelihood of an undesirable outcome

EXAMPLE: The human resources department sends out a calendar of payroll cut-off dates at the beginning of the financial year

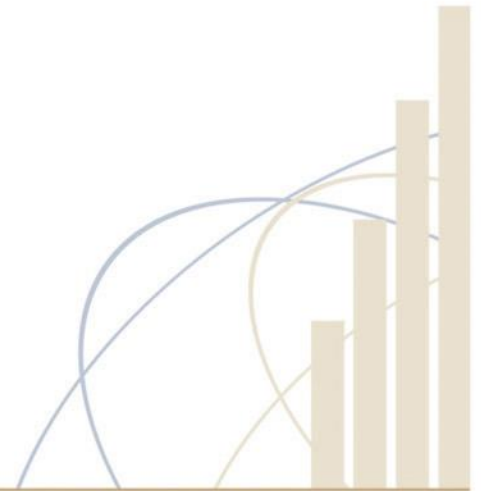


Internal control techniques

Detective controls

Designed to identify occasions where undesirable outcomes occurred

EXAMPLE: A bank reconciliation detects errors and omissions in the cash book

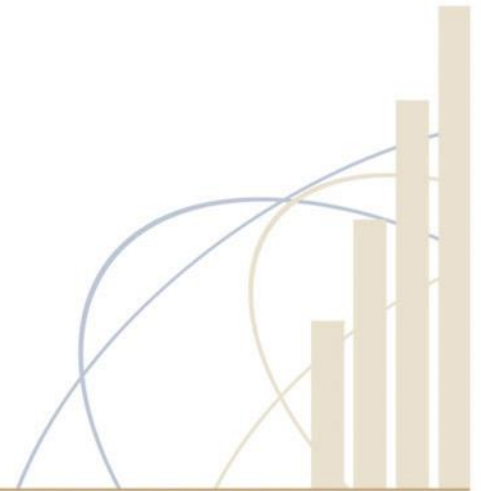


Internal control techniques

Designed to correct undesirable outcomes that occurred

Corrective controls

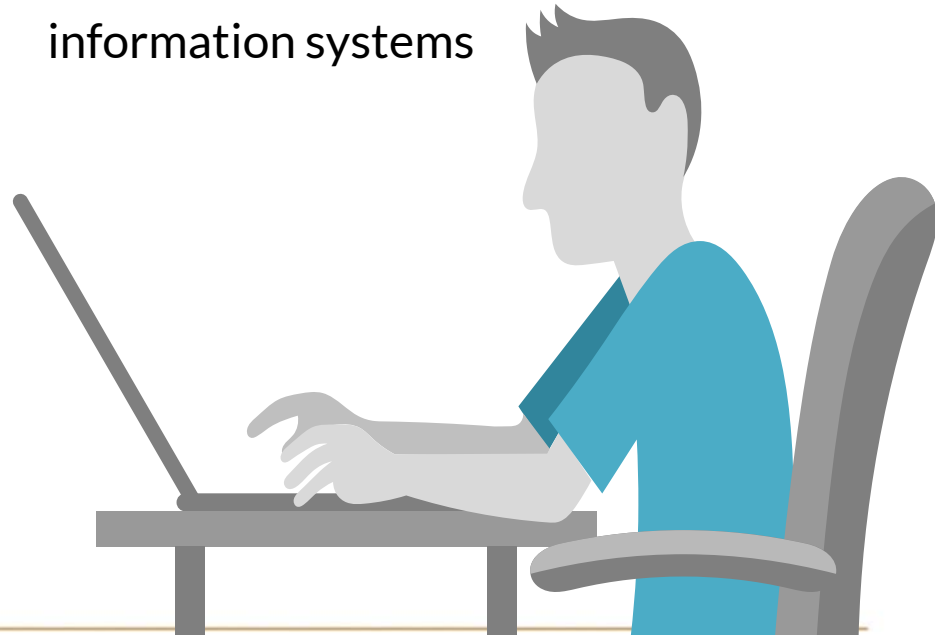
EXAMPLE: A disciplinary process to ensure consequence management



Internal control activities

Many control activities, for example:

- Approvals
- Authorisations
- Verifications
- Operating (Performance) reviews
- Physical safeguarding and security of assets
- Source document design
- Reporting
- Segregation of duties
- Isolation of responsibility
- Comparisons, reconciliations and control accounts
- Insurance
- Control over information systems



Internal control activities

Examples:

- Two people are required to release payments on the online banking system
- Important records must be stored in a lockable, fireproof safe. Only specific officials should have keys and access to the safe
- An accountant listing goods received notes at the end of the day may discover that certain goods received notes are missing by checking the numerical sequence of the documents
- Important information on a payment requisition is the name of the beneficiary. The payment requisition must have a clear space for recording the name of the supplier.
- When a supplier delivers goods to the municipality, the receiving clerk must count the goods received and sign the supplier's delivery note. The municipality keeps a copy of this delivery note.

Choices, choices

Factors to consider:

- Understand the risk (Refer to session 1 in the series)
- Benefits and disadvantages of each control technique
- Correct combination of control techniques
- Correct combination of control activities
- Some controls may address more than one risk / risk area
- Cost-effectiveness



Choices, choices

Preventative controls

**Pro-active
approach**

Benefits	Disadvantages
Deter or prevent undesired events	May support over-reliance on internal controls
Help prevent loss	If badly planned: employee apathy or frustration
	Inherent limitations such as collusion and management over-ride
	Sometimes not cost-effective

Choices, choices

Detective controls

**Reactive
approach**

Benefits	Disadvantages
Uncover existence of events that occurred	Prompt corrections are necessary – not always implemented
Serves as a deterrent for fraud and other irregular activities	Continuous operating expense that could be costly
Check on preventative controls	Does not prevent loss from occurring
Less expensive	
More reliable	

Choices, choices

Corrective controls

**Reactive
approach**

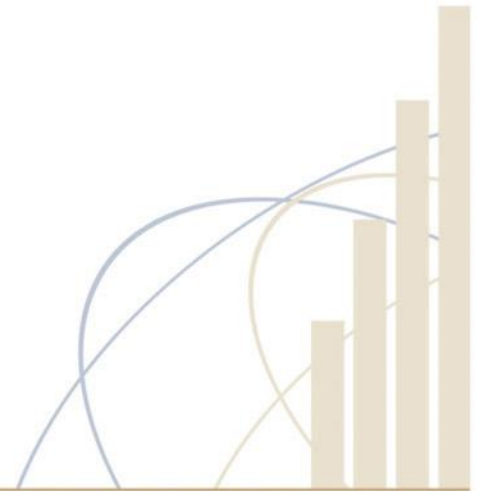
Benefits	Disadvantages
Specify the steps to solve the issue	Sometimes costly as minor incidents also need to be corrected
Ensure that activities are transparent	Focuses on the symptoms and not the causes
Empower teams	Investigations may take along time
Provide the foundation for future development of controls	Expense of investigations
	Possible litigation

Choices, choices - Example

Objective: Completeness of acquisitions and disposals

Risk: The municipality did not update records with acquisitions or expenditure and disposals during the year

Control techniques: Combination of preventative, detective and corrective techniques



Choices, choices - Example

Control activities:

Appropriate authorisations must support acquisitions and disposals.

The municipality must make acquisitions and disposals following supply chain management processes

Capital expenditure (including acquisitions) and disposal requests must be pre-numbered and reviews performed on missing requests

Compare internal and external supporting documents for new assets

Decide where
in the process
the control
activities
must be

Choices, choices - Example


Control activities: (Continued)

The municipality updates the fixed asset register at least monthly with approved capital-in-progress payments and disposal requests

Review the fixed asset register records all relevant information on disposals

Officials must compare monthly acquisition and disposal reports to the budget for reasonableness

Frequent physical asset verifications



Perform a cost-benefit analysis to decide on the best combination of controls

Questions?



5 Take-aways from this session

**Choose a
combination of
control
techniques**

**Perform a
cost-benefit
analysis**

**Monitor the
effectiveness
of internal
controls**

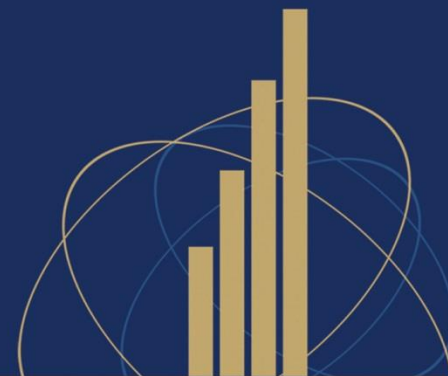
**Review control
activities
regularly**

**ACT FAST!
Implement
changes
when necessary**





Thank You!



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