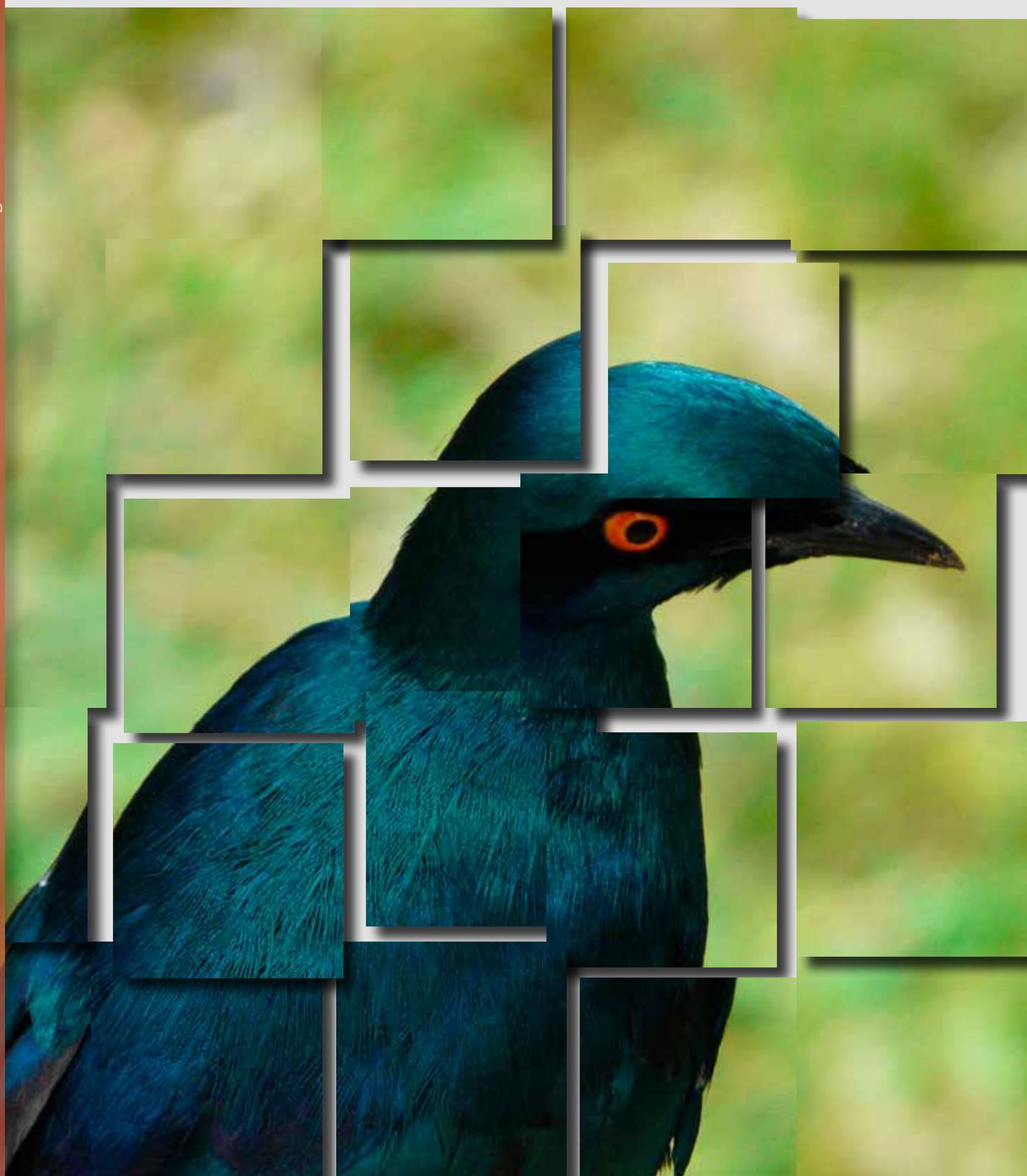# Regional Secretariat Backstopping – Monitoring and Evaluation of Internal Controls

Facilitators' Handbook
April 2014

SULGO

better lives through better services

The United Republic of Tanzania

Support to Local Governance Processes (SULGO) in Tanzania
Project: Strengthening internal controls at sub-national level

Summary Guide
Part B

Regional Secretariat Backstopping – Monitoring and Evaluation of Internal Controls

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Foreword

Tanzania's local government budgets account for over 25 per cent of the total national budget – and the proportion is increasing. This trend mirrors the responsibilities that have so far been transferred to LGAs over the past decade under the national decentralisation by devolution policy. At the same time, LGAs are facing ever-increasing demands for quality services and for strict adherence to regulations and transparency, pushed by, amongst others, the National Audit Office as seen in the critical audit opinions it issued to various LGAs.

The effectiveness of LGAs' internal control systems determines not only how public funds are used but also the extent to which local governments are becoming the drivers for development as they are expected to be. Further advancements in the national decentralisation process depend heavily on the way LGAs control the resources they are entrusted with. LGAs' internal control systems also play a key role with respect to the legitimacy of the state because local governments are the institutions closest to the ordinary citizens. Hence, the way the LGAs actually use their resources has a big impact on the public's opinion and perception of the performance of the government as a whole. In the context of rising tensions within a transforming society, the importance of strong LGA internal control systems cannot be overemphasized.

Several government bodies such as the Prime Minister's Office for Regional Administration and Local Government (PMO-RALG), Regional Secretariats (RSs), and the Office of the Internal Auditor General are required to capacitate LGAs in the area of internal controls. Yet, developing capacities for nearly 170 LGAs constitutes an enormous task in addition to the challenges already being encountered as the LGAs attempt to cope with recently introduced higher national standards, such as those relating to risk management or to accrual accounting.

PMO-RALG and GIZ, in close collaboration with the Office of the Internal Auditor General, launched an initiative to assist selected district, municipal and city councils and corresponding Regional Secretariats (RS) in the application of and adherence to internal controls standards and regulations. The focus of this initiative was on learning-by-doing, capacitating public servants through coaching on-the-job, and on formulating respective methods of capacity development at sub-national level.

The present book is a direct outcome of the coaching and forms part of a series that covers the four thematic areas of Accounting & Administrative Controls, Risk Management, Internal Audit and Audit Committees in the councils, as well as the backstopping role of Regional Secretariat in monitoring and evaluation of LGAs' internal controls. Each of the areas comprises two books: a participants' handbook for the public servant for reference, and a handbook for facilitators tasked with capacitating staff from LGAs or RSs.

We wish the users of the present book interesting and stimulating reading and hope that it helps to perform better their tasks.

Achim Blume

Head of GIZ Governance Programmes Tanzania

Table of contents

List of Abbreviations

CAG	Controller and Auditor General
CIA	Council Internal Auditor
CMT	Council Management Team
CT	Council Treasurer
COSO	Commission of Sponsoring Organisations
EA	External Audit
GIZ	Gesellschaft für Internationale Zusammenarbeit
HoD	Head of Department
IA	Internal Audit
IAD	Internal Audit Department
IAU	Internal Audit Unit
ICIAP	Internal Controls Improvement Action Plan
ICQ	Internal Control Questionnaire
LAAM	Local Authority Accounting Memorandum
LAFM	Local Authority Financial Memorandum
LGA	Local Government Authority
LGM	Local Government Management Services
MDAs	Ministries, Departments and Agencies
MTEF	Medium Term Expenditure Framework
PFA	Public Finance Act
PMO-RALG	Prime Minister's Office Regional Administration and Local Government
RS	Regional Secretariat
SMART	Specific, Measurable, Achievable, Relevant, Time-bound
SULGO	Support to Local Governance Processes Programme
VFM	Value for Money

Session 1

1. Description of Internal Controls

1.1 Introduction

This being the first session, welcome the participants and introduce the session as follows:

▸ Display the title of course "Regional Secretariat Backstopping – Monitoring and Evaluation of Internal Controls" in a PowerPoint or any visual aid;

▸ Welcome the participants to the coaching sessions as a whole and the first session (i.e. introduction to internal control).

> **!** Consider to use an "ice-breaker" (a little informal joke e.g. about your hobby or team). This will help to ease the tension in the session. But be careful not to offend anyone.

1.2 Session objectives

This session is designed to give a preliminary understanding of key basic or definitional issues relating to accounting and administrative controls. It is expected that at the end of this session the participants will:

▸ Define an internal control system;

▸ Understand the difference between accounting controls and administrative controls;

▸ Understand the objectives of accounting controls and know the differences between the types of accounting controls and their importance in the accounting process;

▸ Understand the objectives of administrative controls and the potential weaknesses in relying on the administrative controls.

1.3 Type of session and estimated duration

This is a combined session, including a presentation by the facilitator, brainstorming and group work. The session should take about one hour to be completed.

1.4 Methodology

1.4.1 Presentation

After the presentation of session objectives the coach proceeds with a brief presentation of the following (participants to refer to the Participants' Handbook, chapter 1.3)

▸ What are accounting controls?

▸ Types of internal controls;

▸ Good accounting control system;

▸ Administrative controls.

1.4.2 Brainstorming session

The facilitator poses a few brainstorming questions to establish the participants' basic level of understanding, e.g. (summarize the responses on a flipchart):

▸ What do you understand by the term internal control?

▸ What is the objective and importance of internal controls in RS/LGA financial management?

▸ Give examples of controls at your RS/LGA.

▸ What do you understand by the terms risk, risk management and their relationship to internal control?

▸ What are accounting controls and what are the objectives of accounting controls?

▸ What are administrative controls and how do they relate to or differ from accounting controls?

All participants engage in a discussion/debate on each other's responses.

1.4.3 Technical input

After the questions and answers, proceed to give a brief explanation targeting the gaps in the participants' responses with regard to the session objectives.

1.4.4 Group work

Divide the participants into groups. Ask the participants to discuss on the following statements/questions:

> **Group exercise**
>
> There are three types of accounting controls, namely preventive controls, detective controls, and corrective controls. Briefly describe each of these controls. Which of these accounting controls are common business in your LGAs and in which of these controls are you participating?

Each group should select a chairperson and a presenter who will present group findings to the plenary.

Groups should be provided with flipcharts and marker pens to use.

> **!** The Facilitator should emphasize the importance of the right use of the Participants' Handbook.

Session 2

2. Importance and Objective of Internal Controls, Roles and Responsibilities

2.1 Session objectives

By the end of the session the participants should be able to:

▸ Understand the objectives and application of internal control systems;

▸ Appreciate the importance of internal controls;

▸ Understand the link between internal control and risk management.

2.2 Type of session and estimated duration

This session is a combination of an initial presentation, plenary discussion, group work and a brief introduction on risk management.

▸ This session should be completed in about one hour.

2.3 Methodology

2.3.1 Brief presentation

After the presentation of the session objectives, the coach proceeds with a brief presentation of the following (participants to the Participants' Handbook, chapter 2.3):

▸ Objective and application of internal control systems in LGAs;

▸ Link between internal controls and risk management.

2.3.2 Plenary discussion

The facilitator allows participants enough time to discuss the following:

▸ What is internal control and why is a good system of internal controls important for an organization?

▸ What are the four objectives of internal control in RS/LGAs?

▸ Who is responsible for a good system of internal controls in RS/LGAs?

2.3.3 Group work

Divide the participants into groups. Ask the participants to discuss on the following:

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Group exercise

What kind of errors and mistakes have you observed in your RS? Were the errors and mistakes due to weaknesses in the internal control system? How does your management react and self-solve such problems?

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Each group should select a chairperson and a presenter who will present group findings to the plenary. Groups should be provided with flipcharts and marker pens to use.

2.3.4 Brief facilitator's introduction on risk management

The facilitator gives a short introduction on risk management. The facilitator indicates that in session 5 the subject risk management will be discussed in details.

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! The facilitator should make it clear that all the managers/officials in each RS/LGA are responsible for functioning internal control systems.

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Session 3

3. Monitoring of Internal Controls

3.1 Session objectives

By the end of the session the participants should:

▸ Understand the importance of a sound monitoring process within the LGA;

▸ Understand the difference between periodic check-ups and focused reviews;

▸ Know how to perform monitoring of internal controls using results of the LGA's self-assessments;

▸ Understand the importance of the involvement of the CMT in the internal control monitoring process;

▸ Understand the importance of a monitoring report and be aware of the contents of such a report.

3.2 Type of session and estimated duration

This session is a combination of an introduction by the facilitator on the several methods of monitoring, group work and a summary discussion on the group work.

▸ The session should be complete in one hour and thirty minutes.

3.3 Methodology

3.3.1 Presentation

After the presentation of session objectives, the coach proceeds with a brief presentation of the following items (participants to refer to the Participants' Handbook, chapter 3.3):

▸ What are periodic check-ups?

▸ Internal control self-assessment procedures and how to perform them;

▸ The six basic methodologies for control self-assessment;

▸ The difference between focused reviews and other self-assessment procedures;

▸ The importance of monitoring reports and the difference between annual monitoring reports and occasional monitoring reports;

▸ Internal control improvement plan why and the contents.

3.3.2 Group Work

Divide the participants into groups and ask the participants to discuss on the following statements/questions:

▸ Involvement of top/senior management in monitoring internal controls is important. Is top/senior management of your RS/LGAs interested and involved in monitoring internal controls? Can you give examples from the last two years in which top management showed interest so that actions were taken?

▸ Ask the participants about the difference between an annual monitoring report and an occasional monitoring report. The participants should give examples of occasional circumstances in which an occasional monitoring report should be issued.

▸ What happens if in an annual monitoring report critical remarks are made about the LGA's compliance with applicable laws and regulations?

▸ If the safeguarding of the LGA's assets requires further segregation of duties, how can these be implemented?

Each group should select a chairperson and a presenter who will present group findings to the plenary. Groups should be provided with flipcharts and marker pens to use.

The group presentations should be followed by a plenary discussion during which the facilitator spells out the relevant statements.

Session 4

4. Evaluation of Internal Controls

4.1 Session objectives

It is expected that at the end of this session the participants will understand:

▸ How to evaluate internal controls, what are the most important evaluation methods and how to recognize if there are missing internal controls;

▸ The importance of Internal Control Questionnaires (ICQs) and how to develop them;

▸ The content of the evaluation report.

4.2 Type of session and estimated duration

▸ This session is a combination of the facilitator's introduction to the several methods of evaluation of internal controls, group work and plenary discussion.

▸ This session should be completed within one and a half to two hours.

4.3 Methodology

4.3.1 Introductory presentation

After the presentation of session objectives the coach proceeds with a brief introduction to the evaluation methods (participants to refer to the Participants' Handbook, chapter 4.3).

4.3.2 Group work

Divide the participants into groups and ask them to work on the following:

Group exercise

Fill in the ICQ for your own RS/LGA/department. Especially the Yes or No questions should be answered, but ask the participants to deal with all questions of the ICQ. The facilitator should get enough copies of the ICQ forms (see appendix A of the Participants' Handbook).

Each group should select a chairperson and a presenter who will present group findings to the plenary.

4.3.3 Plenary discussion

Discuss the following questions with the participants:

▸ Why is it necessary/important - to determine/allocate - roles and responsibilities with respect to RS/LGA's internal controls?

▸ In the Participant's Handbook, chapter 4.3.1, it is stated that linking internal controls to individual performance is necessary – why is this so?

▸ One of the evaluation methods for internal controls mentioned in the Participants' Handbook, chapter 4.3.1, states that - providing for transparency and accountability and periodically reporting to LGA's stakeholders is necessary. Why?

Session 5

5. Monitoring, Evaluation and Reporting of RS/LGAS Risk Management

5.1 Session Objectives

It is expected that the participants will be able to:

‣ Understand the role of RS in monitoring LGA risk management processes;

‣ Monitor implementation and compliance to risk management framework by the LGAs;

‣ Review risk treatment implementation reports;

‣ Advice LGAs on risk management process improvements.

5.2 Type of session and estimated duration

This session is a combination of an introduction of the facilitator to the different types of reporting with examples, group work and plenary discussion.

‣ This session should be completed within one hour.

5.3 Methodology

5.3.1 Introductory definitions and statements

After the presentation of session objectives the coach proceeds with a brief introduction of the following items (participants to refer to the Participants' Handbook, chapter 5.3).

‣ Different types of reporting;

‣ Priority of risk and reporting levels;

‣ Example of a Risk Implementation Report.

5.3.2 Group Work

Divide participants in groups and ask the participants to discuss on the following:

> **Group exercise**
>
> What can be the reasons for risk profile changing?
> How can you be sure that risk management is effective?
> Which elements are stipulating the priority-based reporting?
> What are in your opinion the most risky areas?

Each group should select a chairperson and a presenter who will present group findings to the plenary. Groups should be provided with flipcharts and marker pens to use.

5.3.3 Plenary discussion

Engage the participants in a discussion around the following questions:

‣ What is the purpose of a Risk Register and who is responsible for the contents?

‣ Who is responsible for review/evaluation of the Risk Management Framework?

‣ In most RS/LGAs the internal audit unit is given the role of championing and coordinating risk management activities. Do you think there is any problem with this role, especially when the internal audit unit is also required to evaluate the effectiveness of the risk management activities in the LGA? What would you suggest do be the best arrangement?

Session 6

6. Monitoring and Evaluation Follow up

6.1 Session objectives

It is expected that at the end of this session the participants will:

▸ Understand the follow-up mechanism;

▸ List the key elements of the Internal Control Action Plan (ICIAP);

▸ Understand the responsibilities for implementing the recommendations of the evaluation report.

6.2 Type of session and estimated duration

This session is a combination of an introduction of the facilitator on the follow-up mechanism within RS/LGAs, group work and plenary discussion.

▸ This session has an approximate duration of one hour.

6.3 Methodology

6.3.1 Introductory session

After the presentation of session objectives the coach proceeds with a brief introduction to the following (participants to refer to Participants' Handbook, chapter 6.3 and Annex).

▸ Follow up mechanism;

▸ Responsibility for implementing the evaluation report recommendations.

6.3.2 Group work

Divide the participants into groups. Ask the participants to draft an Internal Controls Improvement Action Plan (ICIAP) for their LGA.

Each group should select a chairperson and a presenter who will present group findings to the plenary.

6.3.3 Plenary discussion

Allow participants sufficient time to discuss the following:

▸ You are the Assistant Administrative Secretary of the LG Management service section. One of LGAs had a very critical Evaluation Report. After one month you discovered that the LGA did not produce an ICIAP. How do you proceed?

▸ What may be needed to implement the recommendations of the evaluation report?

▸ What can be the bottlenecks for implementing the recommendations of the ICIAP?