Regional Secretariat Backstopping – Monitoring and Evaluation of Internal Controls

Participants' Handbook
April 2014

SULGO
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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

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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

Introduction to the Participants' Handbook

Background Information

This Participants' Handbook on Monitoring and Evaluation of internal controls by Regional Secretariats (RS) has been developed as part of the Project "Strengthening internal controls at sub-national level" under the GIZ Programme "Support to Local Governance Processes" (SULGO). The project's objective is: "The internal control mechanisms at selected Local Government Authority (LGA) level in the two partner regions of the programme, Mtwara and Tanga, are reinforced". The project supports the Tanzanian Local Government Reform Programme as one of the major national strategies promoting the decentralization process.

The project covers four (4) key thematic areas, namely (1) risk management; (2) accounting and administrative controls; (3) internal audit techniques and (4) functioning of audit committees. Each thematic area has its own coaching material in the form of one Participants' and one Facilitators' handbook. In addition, a Participants' and Facilitators' handbook has been developed for RS staff for the monitoring and evaluation of internal controls at LGA level.

The coaching curriculum for each of the thematic areas was developed based on the coaching needs assessment of beneficiaries, documentary review on CAG audit reports, management letters and on the study "Priority Entry Points to Strengthen Accountability and Internal Auditing at District level" from 2012.

Use of the Participants' Handbook

This handbook has been developed during the coaching programme in order to guide the Local Government Management Service Section staff of the Regional Secretariats in carrying out monitoring and evaluation of LGAs' internal controls.

After the coaching has ended, the handbook can be further used as reference and guidance document, e.g. for clear definitions of technical terms, for step-by-step explanations of processes, for checklists or for the correct use of templates and reporting formats.

In addition to the coaching participants, the handbook was also developed for Local Government Management Service Section staff of other RS as a self-learning kit.

Overview of Session Layout and Design

The Participants' Handbook covers six main coaching sessions. The layout of each session is composed of an introduction, learning objectives, definitions if appropriate, the session content, some hints and review questions. On successful completion of the six sessions, staff members of the Local Government Management Service Sections will be able to perform clearly their roles and responsibilities.

The coaching sessions have a duration ranging from thirty minutes up to two hours, with the average being one hour. They will be delivered in the form of one-on-one sessions, focus group discussion and peer-to-peer learning sessions.

Session 1

1. Description of Internal Controls

1.1 Introduction

More than ever, citizens are demanding the very highest level of accountability from Local Government Authorities (LGAs) officials for their stewardship of public resources. The Regional Secretariats (RSs) are playing a big role of providing support and supervision of LGAs. To be able to provide effective support and supervision services to LGAs, RS officials should have technical capacity to carry out their functions to ensure that LGAs produce reliable financial and operational information on a timely basis to its stakeholders.

These objectives can only be achieved within the framework of the LGAs' sound and comprehensive system of internal control.

1.2 Session Objectives

This session is designed to provide a preliminary understanding of key definitions of basic concepts relating to accounting and administrative controls. It is expected that at the end of this session the participants will be able to:

‣ 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 Session content

1.3.1 What is an internal control system?

> In the LGA context, an internal control system can be defined as a process, effected by the Council, including the Council Management Team (CMT) and other personnel, which is designed to provide reasonable assurance regarding the achievement of council objectives in the following areas:
>
> ‣ Effectiveness and efficiency of operations;
>
> ‣ Reliability of financial reporting;
>
> ‣ Safeguarding of resources;
>
> ‣ Compliance with applicable laws and regulations.

‣ An internal control system is a set of related control components working together to control all of the LGAs functions. Internal controls include both accounting and administrative controls that are applicable within the LGAs;

- Examples of such control components are:
  - Policies, guidelines, and laws applicable to LGAs;
  - Procedures for performing different processes and tasks in the LGAs;
  - Expected behaviours by code of conduct and other aspects that are applicable within the LGAs.

To achieve internal control, five essential components of internal control must be in place and must function together well. These five components are illustrated by the COSO (i.e. Committee of Sponsoring Organizations of the Tread Way Commission).

- Control Environment:
  - This is the internal environment of the entire LGA. It is the most important aspect of LGA's internal control system;
  - It includes the values, ethics, culture and commitment of the LGA management;
  - It influences the control consciousness of LGA's staff;
  - It is composed of the following elements:
    - Personal and professional integrity and ethical values of the LGA's management and staff;
    - Tone at the top (or management philosophy and operating style);
    - Commitment of top management on control, ethics and quality;
    - The organizational structure and related human resource policies and practices.
- Risk Assessment: Risk management is the identification of threat to the organisation, its assessment or measurement and the decision on how to respond to it by establishing relevant controls.
- Control activities:
  - Control activities refer to all policies and procedures that help ensure management's directives are carried out;
  - Control activities fall into four categories:
    - Performance reviews;
      Example: Independent checks on performance by a third party, or verifications, comparing actual vs. budgets, bank reconciliations etc.);
    - Information processing;
      Example: Control of quality of input of data, processing and output;
    - Physical controls;
      Example: Storage of assets or information under lock and key against theft, fences etc.;
    - Segregation of duties: Duties are divided among people to prevent error or inappropriate action;
      Example: Responsibility of authorizing transactions, recording them, and handling related assets are divided to different LGA officials.
- Information and Communication:
  - Effective information and communication is vital for the LGA to run and control its operations;
  - LGA management needs access to relevant, complete, reliable, correct and timely communication related to internal as well as external events.

- Monitoring Activities: Monitoring of the internal control system is necessary to help ensure that control remains tuned to the changed objectives, environment, resources and risks.

1.3.2 What are Accounting Controls?

> Accounting controls comprise of all methods and procedures that are concerned mainly with, and relate directly to, safeguarding of assets and reliability of the financial records in the LGAs.

1.3.3 Objectives of Accounting Controls

- Specific objectives with regard to accounting controls are:
  - Transactions are recorded accurately;
  - Transactions are recorded at the appropriate value;
  - Only properly authorized transactions are input and accepted;
  - Transactions are recorded in the appropriate period (i.e. financial years, month, or quarter);
  - All valid transactions are recorded;
  - Sufficient documentation is retained to substantiate recorded transaction and are verifiable for audit;
  - The components of transaction are appropriately allocated and classified to the proper financial statement items (i.e. assets, liabilities, revenues, expenses etc.).

1.3.4 Types of Accounting Controls

There are three types of accounting controls, namely preventive controls, detective controls, and corrective controls:

- Preventive controls help to prevent potential problems when an activity is performed, for example:
- The segregation of accounting duties;
  - Regulations requiring proper authorization or documentation;
  - Physical control over LGA's assets.
- Detective Controls discover the occurrence of adverse events such as operational inefficiency; they act as enforcement to identify existing undesirable activities, as well as simply to test whether the preventive controls are being effective, for example:
  - Reviews, analyses, audits, and other investigative procedures;
  - Physical inventory checks of LGA's assets and financial resources;
  - Bank reconciliations etc.
- Corrective controls remedy problems (i.e. error and irregularities) discovered through detective controls.

1.3.5

1.3.6 Features of a good Accounting Control System

Within accounting controls, as with other internal control system the following features should to be present:

▸ Good audit trail of transactions: An audit trail is a chronological record, set of records, and/or destination and source of records that provide documentary evidence of the sequence of activities that have affected at any time a specific operation, procedure, or event.

▸ Sound personnel policies and competent employees: A good Human Resources policy and objective judgement to recruit employees, regular review and discussion with employees about their performance.

▸ Separation/segregation of duties: Separation/segregation of duty has an objective of prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific process among multiple users, e.g. handling an asset, recording a transaction, approving and authorization of payment.

▸ Physical protection of assets and financial resources: Assets with a certain value should be safeguarded in closed rooms and a few people will have the keys to these rooms, financial resources should be safeguarded in a safe.

▸ Internal reviews of controls by internal audit: The internal audit unit will review the setup of internal controls and report if the system of internal control is effective or there are deficiencies to be addressed.

▸ Timely performance reports.

▸ Regular judgements have to be given about performance and will be brought under attention of management on a timely base to be able to improve performance as soon as possible.

These features are also the basis for the LGA's control policies and guidelines as will be discussed in the next section.

1.3.7 Administrative Controls

> Administrative controls are defined as those measures that control operations, processes and transactions up to the point of authorization; they promote operational efficiency. Examples of administrative controls include:
>
> ▸ Documenting an entity's organizational structure;
>
> ▸ Developing personnel recruiting and hiring policies;
>
> ▸ Establishing written codes of conduct for employees.

An effective plan for administrative controls should contain the following at minimum (note that some features were also mentioned under accounting controls):

▸ An organizational structure:

  • Administrative controls include determining the segregation of duties among departments and employees;

  • This means deciding which departments are authorized to conduct particular activities and developing independent verification systems;

- The organizational structure defines the lines of authority and responsibility between different functional departments (e.g. for planning, procurement, accounting, human resource and administration etc.).

▸ Written policies and procedures:

- Policies and procedures let everyone know what is expected of them, how they should perform their job duties, and what the consequences are if they do not perform them as required;

- While policies are established by the Council to direct operations and establish clear limits and authority, procedures are developed by the LGA management; they describe how to do a job.

> **!** Be aware that the government manuals and guidelines you are using are up to date. You can ascertain that on the last modifications of the manual. If there are no modifications you cannot rely on a correct use of the manual. The LGA organisation is dynamic and subject to changes, these changes will influence the written procedures in a manual.

▸ System of authorization:

- It ensures transactions such as payments and asset acquisition are properly authorized before they occur;

- It also gives a proper design for the flow of information will provide an accurate audit trail through the accounting process.

> **!** Be aware that just a signature gives no assurance that the transaction is authorized by the right person. The use of signature stamps and the use of faxed or scanned signatures is no assurance either.

▸ Reporting:

- The reports of LGA activities (financial and others) should be reported to the persons in charge of the LGA's various functions as shown in the organizational chart of the LGA;

- Each Head of Department (HoD) receives reports that fully cover controllable expenses of all operations for which the HoD is responsible;

- The reporting process goes upward --- summarization through the LGA lines until full scope of operations is compiled in a single report at the highest level.

1.4 Review Questions

▸ What are administrative controls and how do administrative controls relate/differ from accounting controls?

▸ Give examples of administrative control procedures in authorizing payments at your LGA.

▸ What are signs for weak administrative controls in an LGA?

▸ How do accounting controls relate to the overall LGA's internal control system?

▸ What key features need to be present in an accounting control system? Give examples.

Session 2

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

2.1 Introduction

Citizens should be assured that the system of internal control within an LGA is sound and comprehensive. The roles and responsibilities between the stakeholders in the internal control system should be clear to the citizens. The system of internal controls and the technical capacity of the RS officials within the system of internal control should, as much as possible, prevent abuse and fraud with tax payers money or guarantee that abuse and fraud can be detected in due time and that the LGA's objectives can be achieved in an economical, efficient and effective manner (3E's).

2.2 Session Objectives

This session is designed to provide a preliminary understanding of the overall objectives and the importance of a sound internal control system. It is expected that at the end of this session the participants will be able to:

‣ Understand the objectives and application of internal control systems;

‣ Appreciate the importance of internal control;

‣ Understand the link between internal control and risk management.

2.3 Session content

2.3.1 Objectives and application of internal control systems in LGAs

‣ The overall objective of internal controls is to provide assurance that the LGAs will achieve their strategic and operational objectives.

‣ Controls are needed in order to prevent, detect or correct errors and mistakes that may happen in LGA's operations.

‣ With the best of intentions, LGA staff may make mistakes. The mistakes may be errors in the end results of their work; or sometimes, without the best intentions, some staff deliberately falsify.

‣ In this case therefore, any LGA wishing to conduct its operations in an orderly and efficient manner and to produce reliable financial accounting information, both for its internal use and for its stakeholders, the LGA needs internal controls to minimize the effects of these possible human failings.

‣ When such controls are implemented within the LGA systems they are described as internal controls.

‣ Therefore, internal controls, taken together, facilitate the effectiveness and efficiency in operations by enabling the LGA to respond appropriately to significant strategic,

operational, compliance and other risks to achieving its objectives, and to ensure the quality of internal and external reporting.

Internal controls have the following objectives:

▸ To ensure ethical, economical, efficient and effective execution of operations:

  • The entity's operations should be orderly, ethical, economical, efficient and effective. The terms economical, efficient and effective are also known as the 3Es, the necessary components in achieving value for money (VFM);

▸ To ensure the production of reliable reports so as to fulfil accountability obligations:

  • Accountability is the process whereby LGAs and individuals are held responsible for their decisions and actions, including their stewardship of public funds, fairness, and all aspects of performance. This will be realized by developing, maintaining and making available reliable and relevant financial and non-financial reports to stakeholders.

▸ To ensure compliance with applicable laws and regulations:

  • Laws and regulations define the collection and spending of public money and the way of operating.

▸ Resources and assets are safeguarded against loss, misuse and damage:

  • Resources in LGAs generally embody public money and their use in the public interest requires special care. Therefore, controls should be embedded in each of the activities related to managing the entity's resources from acquisition to disposal;

  • Safeguards are usually against loss, misuse and damage due to waste, abuse, mismanagement, errors, fraud and irregularities.

2.3.2 Link between internal control and risk management

Circular no.12 of 2012/13 issued by Treasury requires all public sector organizations including LGAs to institute a risk management framework in their organizations. The Government has issued guidelines for developing and implementing an institutional risk management framework in the public sector (2012). It includes the Government's policy statements and implementation requirements.

The Institute of Internal Auditors defines risk management as:

> A process for identifying, assessing, managing, and controlling potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

The concept is based on the following principles:

▸ Whatever the LGA's mission may be, its achievement will face all kinds of risks;

▸ Risk is the possibility of an event occurring that will have an impact on the achievement of LGAs' objectives. Therefore risks should be managed;

▸ The task of the CMT is to identify and respond to these risks in order to maximize the likelihood of achieving the entity's mission;

▸ In order to respond to the risk, specific internal controls are set up that address the risk in question.

‣ In its backstopping role, the RS has the responsibility to monitor the effectiveness of risk management processes in the LGAs.

‣ The RS should monitor the implementation of institutional risk management frameworks in LGAs. It is recommended that the RS should receive copies of quarterly risk management implementation reports from the LGAs to facilitate the monitoring task.

2.4 Review questions

‣ Mention the four objectives of internal control in LGAs;

‣ Explain the link between internal control and risk management;

‣ Give an example of internal procedures and regulations in your LGA that amounts to controls.

Session 3

3. Internal Controls Monitoring

3.1 Introduction

Monitoring of the internal control system is necessary to help ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

3.2 Session objectives

This session is designed to give a preliminary understanding of the overall objectives of the importance of internal controls monitoring. It is expected that at the end of this session the participants will be able to:

‣ 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.

3.3 Session content

3.3.1 Monitoring Techniques

Periodic check-ups

The RS LGM Section must schedule periodic check-ups of the LGA's internal control systems. It is recommended that such check-ups be performed on a quarterly basis. An example of such a review is the financial benchmarking performed across LGAs. They facilitate a comparison on how well the LGA is performing when compared to its peers.

Periodic check-ups are necessary because the internal control environment can change rapidly due to new technologies used in the LGA or changes in the organizational structure. An assessment of the effectiveness of internal controls by using tools such as checklists or questionnaires **(see the questionnaire in Appendix A),** can provide assurance on financial and operational processes in the LGA.

Focused Reviews

Focused reviews are studies of applied research, narrow in scope, that seek to identify the degree to which the LGA is meeting its policies, standards and mandates.

Examples of focussed reviews are:

‣ Reviews on targets set by the LGA;

‣ Reviews on ICT performance;

‣ Reviews on special categories of income or expenses.

Reports of focused reviews shall be submitted to the Council within the time frames identified in the Work Plan. A report of a focused review shall include:

‣ The purpose of the review;

‣ The methodology used; and

‣ Findings with recommendations for corrective actions.

Adhoc Inspection

RS may perform monitoring of controls on an adhoc or needs basis. This happens when there is a specific event that calls for immediate intervention. Examples of such events include fraud allegations, staff complaints on major issues or public outcry on certain matters.

Support Supervision

In its backstopping role, the RS need to conduct visits to LGAs not only to point out deficiencies in the internal control systems but also to assist the LGA in rectifying the situation. RS staff may coach the LGA staff in specific areas of notable weaknesses and monitor the implementation of recommended action by looking at how the actions actually implemented.

Use of LGAs self-assessments

Internal control self-assessment procedures are important because they allow the CMTs of the LGAs to assess the effectiveness of the risk management and internal control processes in their own departments.

There are a number of ways an internal control self-assessment can be implemented. Its key feature is that the tests and checks are made by staff whose normal day-to-day responsibilities are within the department or unit being assessed.

During these internal control self-assessments, IT systems and operational processes should be assessed on a regular basis. Benefits claimed for internal control self-assessment include creating a clear line of accountability for internal controls, reducing the risk of fraud and the creation of an organization with a lower risk profile.

LGAs should encourage self-assessments and develop instructions to carry out these self-assessments. Reports about self-assessments should be submitted to the RS.

The two common techniques for performing the assessment are:

‣ Workshops, that may be but do not have to be independently facilitated, involving some or all staff from the department being tested;

‣ Surveys or questionnaires completed independently by the staff.

On completion of the assessment, each internal control process may be rated based on the responses received to determine the probability of its failure and the impact if a failure occurred. These ratings can be mapped to produce a file, showing potential areas of vulnerability.

Six basic tools for self-assessments can be identified:

‣ Internal Control Questionnaire (ICQ) self-audit;

‣ Customized questionnaires;

‣ Internal control guides;

‣ Interview techniques;

‣ Internal control model workshops;

‣ Interactive workshops.

3.3.2 Involvement of top management

'Tone at the top' means management philosophy and operating style exhibited by LGA's top management. If the LGA's top management in the LGA believes internal control is important others will sense that and will respond by observing the controls established.

The LGA's management is primarily responsible for:

‣ Establishing and maintaining internal controls in the LGA and ensuring their proper functioning and effectiveness.

‣ However, council management performance is subject to oversight by the Regional Secretariat through the Local Government Management Section, which in respect to internal controls has the ultimate responsibility for ensuring that:

  • LGA Management fulfils its internal control duty;

  • LGA Management does not override established internal controls.

‣ The Local Authorities Financial Memorandum (2010) specifies that, in relation to the LGA's internal control system, the Finance Committee of the Council approves all written procedures for proper control of finances.

‣ The LGA Director and the Treasurer shall support the system of internal control through:

  • Assignment of specific responsibilities to individual officers;

  • Production of an organisation chart showing lines of reporting and supervision;

  • Division of responsibilities of related operations between several offers;

  • Introduction and implementation of appropriate computerized accounting systems;

  • Periodic rotation of staff;

  • Establishment of systems that provide internal checks.

3.3.3 Monitoring report

The monitoring report is the main RS mechanism for assessing the internal controls within the departments. It allows the LGA management and council to understand if the LGA operations are conducted in a correct manner.

A difference should be made between annual monitoring reports and occasional monitoring reports. CMT of LGAs can request for an occasional monitoring report if there are circumstances asking for it. The annual monitoring report is a standard procedure.

Monitoring reports assess:

‣ Are the internal control policies in the departments effective and efficient and are they achieving the objectives set by the LGA's senior management and the Council?

‣ Is the financial and operational reporting by the different departments reliable?

‣ Are the resources safeguarded?

‣ Is there compliance with applicable laws and regulations?

‣ Are the targets set in the Medium Term Expenditure Framework (MTEF) and budget being achieved?

Contents of a monitoring report are:

‣ Executive summary

‣ Introduction

- Description of the report's objectives and methodology applied
- Description of the internal control policies
- Monitoring findings
- Conclusions and recommendations

3.3.4 Internal control improvement plan

Internal controls need to be evaluated and improved to make the LGA's operation run more effectively and efficiently. For example, automating controls that are manual in nature can save costs and improve transaction processing. If the internal control system is thought of by executives as only a means of preventing fraud and complying with laws and regulations, an important opportunity may be missed. Internal controls can also be used to systematically improve performance, particularly in regard to effectiveness and efficiency.

In order to improve internal controls within the LGA, an internal control improvement plan can be compiled by the RS with the following content:

- Priorities for improving internal controls in the LGA;
- Measures to be taken;
- Responsibilities and time schedule for the implementation of the improvement measures.

3.4 Review Questions

- What is the difference between a periodic check-up and an adhoc inspection?
- Mention the main monitoring techniques and the six basic methodologies for control self-assessments.
- What is a focused review and what should be the contents in the report?
- What is the importance of the involvement of top management of the LGA in the internal control process and how can top management support the system of internal controls?
- What can happen if the 'Tone at the Top' is unsupportive of the internal control systems and what will be your actions?

Session 4

4. Evaluation of Internal Controls

4.1 Introduction

An evaluation of the internal control system is necessary to help ensure that the internal control system works continuously, is not overruled by individual actions and that the identified risks are being mitigated.

4.2 Session Objectives

This session is designed to provide LGAs with tools to carry out evaluations on internal controls. It is expected that at the end of this session the participants will be able to 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.

4.3 Session content

4.3.1 Evaluation principles for identifying the missing controls

Evaluating means to compare what is with what should be and then to work out what needs to be done as a result of this judgment.

The principles below represent good practice for evaluating and making recommendations for improving internal control systems. These principles are not formulated to design and implement an internal control system, for which other existing guidelines are referenced, but to facilitate the evaluation and improvement of existing internal control systems.

Supporting the LGA's objectives

Internal controls should be used to support the LGA in achieving its objectives by managing its risks, while complying with rules, regulations, and organizational policies. The organization should therefore make internal controls part of risk management and integrate both in its overall governance system.

Determining roles and responsibilities

The organization should determine the various roles and responsibilities with respect to internal controls, including the full council, management at all levels, employees, and internal and external assurance providers. It should further coordinate the collaboration among the different groups.

Fostering a motivational culture

The Council and CMT should foster an organizational culture that motivates council staff to act in line with the risk management framework and policies on internal control set by the governing body to achieve the organization's objectives. The tone and action at the top are critical in this respect.

Linking to individual performance

The CMT should link the achievement of the LGA's internal control objectives to individual performance objectives. Each staff within the LGA should be held accountable for the achievement of assigned internal control objectives.

Ensuring sufficient competency

The Full Council, Standing Committees and CMT should be sufficiently competent to fulfil the internal control responsibilities associated with their roles.

Responding to risk

Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

Communicating regularly

The CMT should ensure that regular communication regarding the internal control system, as well as the outcomes, takes place at all levels within the organization to make sure that the internal control principles are fully understood and correctly applied by all.

Monitoring and evaluation

Both individual internal controls as well as the internal control system as a whole should be regularly monitored and evaluated. Identification of unacceptably high levels of risk, control failures, or events that are outside the limits for risk taking could be a sign that an individual control or the internal control system is ineffective and needs to be improved.

Providing for transparency and accountability

The Full Council, together with CMT, should periodically report to the Regional Secretariat, respective Ministries and other stakeholders the updated LGA's risk profile as well as the structure and performance of the LGA internal control system.

4.3.2 Internal Control evaluation questionnaire

The Internal Control Questionnaires (ICQ) is a key tool used to evaluate the presence and adequacy of controls in the LGA processes.

‣ The ICQ should include YES or NO format questions on each expected control,
  • YES suggests the expected control is present, and
  • NO suggests that there may be a problem that needs to be explored further.

‣ The ICQ should cover the following areas:
  a) Administration
  b) Accounting/finance
  c) Specialized areas e.g. ICT, environment, procurement

Appendix A gives an example of an ICQ.

> **!** ICQ's should be tailor-made and can differ for each department or management level.

When filling in the ICQs, sometimes there may be a need to make remarks or even suggestions for improvement. In order to allow such remarks, sufficient space should be provided on the ICQ.

> **!** Part of internal controls is to get an opinion of the role of top management in the internal control system. This can be very tricky; be aware that top management may try to influence the outcome of the review.

4.3.3 Evaluation Report

The evaluation report should include the following items:

- The findings and deficiencies detected in the LGA's internal control system;
- Respective recommendations for improving internal controls;
- A list of planned and conducted evaluations in the LGA;
- A list of unscheduled evaluations, which were carried out;
- An indication on the status of implementing recommendations of previous evaluations in order to reduce deficiencies.

> **!** Evaluation reports should be sent to the proper authorities for comments. But it should be made clear, that asking for comments does not mean that the investigators will agree with the comments, critics etc. The responsibility for the report will stay with the investigators.
> - The comments of the proper authorities should be attached to the report.

4.4 Review Questions

- Mention the principles for good practice for evaluating and improving internal control systems.
- What is the purpose of an ICQ?
- What is the significance of the contents of the Evaluation Report and are there differences with the monitoring report?

Session 5

5. Monitoring and Evaluation Of LGA Risk Management Framework

5.1 Introduction

The Government of Tanzania has issued Guidelines for the implementation of the institutional risk management framework for all public sector organisations in Tanzania. It is mandatory for LGAs to implement the framework and ensure effective risk management processes.

The risk management framework needs to be dynamic and open for changes and improvements. RS has a role to support the implementation of the risk management framework through monitoring, review and evaluation of the LGA's risk management framework and the implementation of risk treatments.

5.2 Session Objectives

In this session, the RS role in monitoring and evaluation of LGA risk management processes is described. 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.

5.3 Session Contents

5.3.1 The Role of RS in monitoring LGA risk management processes

The RS has a role to support the institution and implementation of risk management in LGAs. Through backstopping services, coaching and advice to LGAs in risk management implementation, the RS ensures the quality and effectiveness of the risk management processes. Continuous monitoring is necessary to obtain assurance that risk management is effective and when further action is necessary.

5.3.2 Monitoring implementation and compliance with the Risk Management Framework

In monitoring implementation and compliance to risk management, the RS should ensure the following:

‣ That the Risk Management Framework exists in the LGA and that the Risk Policy, Governance Structure and Risk Procedures are in place;

‣ That the risk management documentations are well maintained, e.g. records are filed and responsibilities are clear for maintaining such documents at council and departmental level;

- That arrangements exist for updating the risk management documentation like Risk Registers and Action Plans;
- That the risk management process is consistent with the Action Plan.

The following issues should be continuously monitored:

- Is risk management culture evident in the LGA?
  - Have risks been identified, analysed and treatment plans prepared?
  - Is the Council's Risk Register and Treatment Action Plan well maintained?
  - Are quarterly implementation reports prepared?
- Is the risk management process appropriately formalized?
  - Is the Risk Management Framework approved by the council?
  - Are responsibilities for risk management appropriately defined?
  - Does the LGA actually use the risk management tools?
  - Is there effective reporting and follow up on risks within the LGA structure?

It is also advised that when monitoring and reviewing are combined, they should aim at ensuring that:

- Risks are being effectively identified and appropriately analysed;
- There is adequate and appropriate implementation of risk management strategies and controls;
- There is effective monitoring and review by management and executives to detect changes in risks and controls.

The results of such reviews should always be captured in a report on the findings and recommendations for improvement.

5.3.3 Review of Risk Treatment Implementation Reports

The Local Government Auditor will rely on the LGA Internal Auditor and the Risk Management Coordinator to gain insights on the risk management implementation status.

The risk reporting within the LGA should follow the requirements defined in the LGA's Risk Management policy and procedures/protocols.

RS should specifically monitor and review:

- Reports on specific priority risks;
- Reports on the status of implementing risk treatment actions plans;
- Report on the overall effectiveness of the risk management framework.

5.3.4 Priority-Based Reporting

An LGA should issue reports on the treatment of identified risks based on priority, including the management of these risks.

Table 1 below gives an example of a Risk Treatment Action Plan as it was developed during the coaching programme. It assesses the proposed treatment for each identified risk and specifies the person responsible (risk owner), the time frame during which the treatment should be carried out and how the risk treatment can be measured. The following example includes remarks to guide the risk owner in how to use the template.

The risk owners will submit the completed forms to the risk management coordinator who will in turn use the forms to develop the LGA risk management report, which will include his/her opinions and recommendations. It is this consolidated risk management implementation report that RS should use for monitoring the LGA risk management implementation.

Table 1: Example of a Risk Treatment Action Plan*

Risk title and ID	Proposed Treatment/Control Options	Person Responsible for Implementation of Treatment Options	Time-table for Implementation	How will this risk and treatment options be monitored
C:1 Diseases Outbreak	Routine vaccination (3000 animals to be vaccinated)	City livestock and fisheries Officer	July 2013 to June 2014	Number of animals vaccinated for each villages (Monthly reports, Quarterly reports)
C:2 Conflicts between farmers and live-stock keepers	Livestock infrastructure to be improved e.g. Dipping tanks, Charcoal Dams and Stock routes. Livestock grazing areas and Agriculture areas allocated to each ward.	City livestock and fisheries Officer	July 2013 to June 2014	Physical verification Number of infrastructure improved. Livestock and Agriculture areas located.
C:3 Unsustainable availability of Essential Medicines in Health Facilities	Appointment of personnel to focus on fund returns. Joint systems for requesting fund reimbursement. Monthly drug audit.	City Pharmacist	July 2013 to June 2014	Monthly and quarterly report. Monthly audit reports.
C:4 Shortage of medical equipment, supplies and reagents in health facilities	Budget for procurement of medical equipment, supplies and reagents for health service care. Effective management of equipment, supplies and reagents.	City Medical Officer	July 2013 to June 2014	Review of procurement plan quarterly. Physical verification of medical equipment, supplies and reagents. Report of inventory list.

* Compiled by: Risk Management Coordinator – Asha Rashid. Date: 19/12/2013

5.3.5 Continuous Improvement of the risk management processes

RS must contribute to the continuous improvement of the risk management framework through daily monitoring activities and special reviews and evaluations.

Monitoring:

‣ Monitoring means continual checking, supervising, and critically observing the status in order to identify changes from the required or expected performance level.

Review/Evaluation:

‣ Reviews and evaluations are aimed at determining the suitability, adequacy and effectiveness of the risk management framework, risk management process and control measures.

‣ Risk management monitoring and review/evaluation are also performed by the LGA management, the internal audit section, external auditors and the Internal Auditor General Division.

5.4 Review Questions

1. What is the role of RS in the LGA risk management processes?

2. Describe the key areas of risk management review by the RS.

3. How can RS contribute to continuous improvement of the LGA risk management processes?

Session 6

6. Follow-up

6.1 Introduction

Each evaluation should be combined with follow-up actions in order to address the deviations from the plan as well as the weaknesses identified.

The findings in the evaluation report need to be discussed by the CMT and the staff members of the respective departments and units. The analysis of the report has to be followed by an improvement action plan for each concerned department.

6.2 Session Objectives

This session is designed to give RS staff a better understanding on the importance of follow-up actions after an evaluation. It is expected that at the end of this session the participants are able to:

‣ 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.

6.3 Session content

6.3.1 Follow up mechanism within LGAs

The CMT needs to be informed about the results of the evaluation of internal controls through the evaluation report and will be responsible for the follow-up on the recommendations.

One month after the finalization of the evaluation report, the management has to complete an ICIAP for all accepted recommendations. This action plan defines the baseline and targets against which future progress will be measured.

The ICIAP contains the following key elements:

‣ Agreed recommendations – list of recommendations, which will be addressed by the Council and for which the results and planned actions will be defined;

‣ Expected results – targets to be achieved in response to each recommendation. The expected results are defined by the responsible management unit. In line with the principles of results-based management, the expected results must meet the SMART criteria (specific, measurable, achievable, relevant and time-bound);

‣ Actions planned – planned actions intended to achieve the expected results. There may be more than one planned action for an expected result. They are identified by the Heads of Departments and units;

‣ Budget – funds required to implement the planned action. Note that many recommendations will have budgetary implications;

‣ Time frame – indicates the date by which the action is expected to be completed. Important is the judgement whether the proposed improvements can be realized within the timeframe of the recommendation.

6.3.2 Responsibility for implementing the recommendations of the evaluation

The CMT has the following responsibilities:

‣ To analyse the evaluation reports;

‣ To draft the management response and to guide the follow-up on the evaluation;

‣ To use the findings and recommendations of each evaluation for oversight and approval of the LGA's policy, strategy and programmes.

The Heads of the Departments and Units have the following responsibilities:

‣ To ensure the effective monitoring and evaluation of the implementation of internal controls;

‣ To identify clear results, develop measurable indicators and establish targets and baselines for the ICIAP in response to the evaluation recommendations;

‣ To promote organizational learning through the analysis and application of evaluation findings and recommendations in their departments and units.

The implementing of the recommendations will be audited by the Internal Audit Unit (IAU) or by external auditors.

6.4 Review Questions

‣ What is the importance of the ICIAP?

‣ What are the key elements of an ICIAP?

‣ What are potential bottlenecks in implementing the recommendations of the ICIAP?

Appendix A:
Evaluation Questionnaire/Check–List

Finance management benchmarks

Council

Date taken

Taken by

Contacts

N°	Name	Job description	LAAM		LAFM	
			Seen	Used	Seen	Used
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						
11.						
12.						
13.						
14.						
15.						
	LAAM	LAFM	Training manual	IPSAS		
Total copies seen during visit						

Review basic recording and books of prime entry

(Complete the table below, review all bank accounts)

Cash book

Account Name	Are Revenues Analysed Y/N Are they transferred to Control cash book on daily basis?	Are payments Analysed Y/N Are they transferred to Control cash book on daily basis?	Control Cash Book kept Y/N (LGA3/3)	Monthly Balances b/f and C/f Y/N	Running Balances Y/N	Date Written Up to	Date of last Bank Reconciliation	Date of last agreed to ledger	All CIT banked on 1st day of next month
1.									
2.									
3.									
4.									
5.									
6.									

Number of Council cheques on the General Fund Account dishonoured by bank in the last 3 months

Review maintenance of general ledgers

Are general ledgers maintained?		Yes	No	
Date to which fully posted (are they posted by means of journals?): _____				
Date of last trial balance: _____				
Number of months overdue: _____				
Does the trial balance-balance?		Yes	No	

Does the general ledger contain the features in the table below?

	Ledger Name	Budget Amount on each A/C	Running Balance on Each A/C	Balance B/Fwd from past year	Separate page for each A/C
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

Does the Council maintain a Journal Register? 2012/13	Yes	No	
Does the register have the following features?			
▶ Journal No and date	Yes	No	
▶ Accounts to be debited and credited	Yes	No	
▶ Reasons for journalisation	Yes	No	
▶ The authorisation	Yes	No	
Who authorises journal entries (titles)? _____			

Assess efficiency of payment systems

Are all payments made by cheque except for those from petty cash? If not, what were the reasons forwarded for cash payments?	Yes	No	
Is any recurrent expenditure made from Misc. Deposit or Development account? Review cash books.	Yes	No	
How many signatories must there be on a cheque?			
Are there specified levels of authority for different cheque amounts?	Yes	No	
Does the council maintain a cheque register?	Yes	No	
Are cheque despatch books for each account available?	Yes	No	
Does the Council have a strong room/safe?	Yes	No	

Are payments vouchers prepared in line with sensible authorising procedures?
(please complete following questionnaire on 15 filed vouchers from the month before the current one)

Features	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Date															
Payee															
Voucher No															
Cheque No															
Account codes/Description															
Proof of check on estimates															
Signature of preparing officer															
Signature of approving officer															
Signature of checking officer															
Signature of authorising officer															
Signature of recipient															
Appropriate documents (LPO, GRN, Invoice, etc.)															
Is there evidence that tender procedures have been followed?															

Assess procurement systems

Is the Membership of the Council Tender Board as per Regulations?	Yes	No
Review minutes of the CTB. Are the procedures in operation Compliant with Regulations?	Yes	No
Are the authorisation levels compliant with Regulation?	Yes	No
Is a Monthly Report submitted to Finance Committee and copied to CAG office?	Yes	No
Review 5 major procurements to ensure procedures being followed.	1 Yes 2 Yes 3 Yes 4 Yes 5 Yes	1 No 2 No 3 No 4 No 5 No

Review accountable documents

Is the Accountable Documents Register kept up to date?	Yes	No
Who maintains it?		
Are required documents included (receipts books, receipts forms, including licences, permits, health fees, cheque books, LPO, licence forms, stores requisitions , invoices, revenue collectors cash books, revenue stamps, delivery notes, stickers	Yes	No
Is a separate page maintained for each type of document?	Yes	No
Are all blank documents all there? Physically inspect.	Yes	No
Are the returned documents all there? Physically inspect.	Yes	No
Review receipts books in evidence in the cashiers department against those issued per the register.	Yes	No
Are receipts of documents supported by supplier's delivery notes? Test check register (sources named by the Minister) – most documents are ordered from Gov't printer, check books from councils banker, licences from Ministry of Trade	Yes	No
When received, are they checked thoroughly in presence of the supplier to confirm that forms are serially numbered and consecutive?	Yes	No
Are all used documents returned? Review age of the issued items and obtain explanations for those in issue for grater than a month. Are all expired annual items (Dev't levy receipts e.g. returned)?	Yes	No
Does the internal Audit programme include a review of the register?	Yes	No
Has a loss report been written for the lost accountable documents? And have you communicated the same to the director and copied to CAG?	Yes	No

Assess revenue collection systems
Debtors ledgers

Note that debtors may be held for those revenue sources which may be invoiced.

Is the debtor's ledger maintained?	Yes	No	
If so for which sources of the revenue are they maintained?			1. .... 2. .... 3. .... 4. .... 5. ....
Are the following features used?			
▶ Receipts and invoices numbers entered	Yes	No	
▶ Running balances maintained	Yes	No	
▶ Balance B/fwd. from previous year	Yes	No	
▶ Separate page for each debtor	Yes	No	

When was the ledger last posted?				
When was the ledger agreed to a control account in the general ledger?				
Enter date of last aged analysis:				
Enter % of debtors which are Current	>30 days	>60 days	>90 days	>120 days
If no aging analysis, select 20 debtor ledger cards and analyse them and enter above				

Where are the ledgers maintained? (Council Offices, Wards):		
Is there a schedule of bylaws including all revenue sources in existence?	Yes	No
Is the assessment 'licence, property tax, service levy' carried out outside the Finance Dept., and 'billing, ledger and collection' within the Finance Dept.?	Yes	No
Collection done by Trade Officer?	Yes	No

List the revenue collection performance against budget for the 5 highest earning local revenue sources.

Source	Budget for year to date Tshs Millions	Actual to date Tshs Millions	Tshs Millions	% Collections
1.				
2.				
3.				
4.				
5.				

Assess revenue collection systems (Cont'd)
Revenue ledgers

Note that revenue registers may be held for those revenue sources which are not invoiced.

Are there revenue registers?	Yes	No
If so, for which source of revenue are they maintained?	1.	
	2.	
	3.	
	4.	
	5.	
Are the following features used?		
▸ Receipt numbers entered	Yes	No
▸ Running balance maintained	Yes	No
▸ page for each person	Yes	No
Is the register up to date? Enter date last posted:		
Where are the registers maintained?		

Receipt of collections

How frequently are collections handed over?		
From Headquarters Revenue Collectors to Main Cashier?		
From Service Outlet Staff and Villages to Ward Executive Officer?		
From Agents to Main Cashier?		
On the basis of the review of 20 receipts are the above procedures being followed?	Yes	No

The review of 20 receipts above should include at least 15 receipts issued to revenue collectors and wards to ensure that the amount receipted is fully supported by copies of the revenue collector's receipts and that these are in sequence.