# An Internal Control System of Value to the Driving Licence Testing Centre of the Madibeng Local Municipality

C Alers\*

Department of Public Administration and Management University of South Africa

#### **ABSTRACT**

The purpose of this article is to assess the critical components of an internal control system that need to be considered when designing an internal control system at the local sphere of government. This article argues that internal control is deeply rooted in the processes set to provide reasonable assurances that the needs of society will be met effectively while complying with applicable laws. Further, this article maintains that an internal control system comprises of the control environment, risk assessment, control mechanisms, information and communication, and monitoring. To comprehend the importance of an internal control system at the local sphere of government, the Driving Licence Testing Centre of the Madibeng Local Municipality is used as the case under study and specifically the issuing of driving licences. However, the problem is that despite the importance of the components of an internal control system, the effective and efficient application thereof is lacking at the Driving Licence Testing Centre of the Madibeng Local Municipality. A qualitative research design was followed and mixed data gathering instruments were used to answer the research question: 'Which components need to be considered when designing an internal control system for the Driving Licence Testing Centre of the Madibeng Local Municipality?'. In addition to the literature review, the empirical findings validated the components needed to be considered. The article concludes that although the existing internal control system of the Driving Licence Testing Centre of the Madibeng Local Municipality has benefits, it is often faced with challenges and features that may affect it negatively.

### INTRODUCTION

In the doctoral study by Alers (2018), the components of an internal control system when issuing driving licences were investigated as part of a broader study about the development and implementation of methods and procedures when issuing driving licences at the Madibeng Local Municipality (MLM). In an article 'Developing Driving Licence Standard Operating Procedures: The Case of Madibeng Local Municipality' based on the doctoral study, Alers and Ferreira (2019) presented a framework for the development of driving licence standard operating procedures and made recommendations on how to develop standardised methods and procedures. However, the doctoral study would have been incomplete if the development of standard operating procedures was described without a discussion of the implementation thereof as part of an internal control system. Therefore, this follow-up article reviews an internal control system that could be of value to the local government sphere, specifically the Driving Licence Testing Centre of the MLM (hereafter referred to as the MLM DLTC). The following research question is consequently answered in this article: 'Which components need to be considered when designing an internal control system for the MIM DITC?'.

This article consents that standard operating procedures is an internal control mechanism and argues that internal control is a regulatory management task that is interwoven with the total task execution process. Therefore, internal control is not static and should not be separated from the everyday tasks of public officials. Internal control thus has an ongoing nature and should be practised continuously. It is not a simple systematic process but is indeed comprehensive as it takes place before and during the execution of a task as well as after the task has been completed (Fourie 2007:736). It is also claimed that the functioning of an internal control system in the public sector, as defined by Visser and Erasmus (2015:278), is determined by a number of components, including the control mechanisms designed and adopted by the management of the government institution to provide reasonable assurance that the relevant objectives will be achieved while preventing, detecting and correcting any adverse events. Moreover, the following primary components of an internal control system form the basis of the literature review and the empirical data and findings presented in this article: the control environment, risk assessment, control mechanisms, information and communication, and monitoring.

The significance of this study is found in the conceptualisation of the internal control system of the MLM DLTC that involves various components designed to promote, govern and check on the performance of the Centre. It became clear that although the internal control system of the MLM DLTC has certain advantages, it is often faced with challenges and features that may affect it negatively.

A deductive approach is followed by conceptualising the concepts 'internal control' and 'internal control system', before embarking on the research design and methodology and refined descriptions of the data analysis. The article is concluded with appropriate findings and recommendations.

#### CONCEPTUALISING INTERNAL CONTROL

Internal control comprises of manual and electronic systems as well as the procedures and processes implemented to minimise the risks to which an organisation might be exposed to as a result of negligence, organisational weaknesses, fraud or any other irregularities. Internal control contributes towards the promotion of public accountability, since it provides an assessment, evaluation and report on illegalities, irregularities and ineffectiveness in the operational and financial areas of an organisation (Diamond 2016:374 & 379; Nzewi 2017:3).

Control as a regulatory management task is regarded as one of the foundation processes of public management and can be defined as a process designed to provide reasonable assurance about the achievement of objectives. Furthermore, internal control is a process that seeks to ensure compliance with applicable laws and regulations, promote reliability of financial and managerial reporting and coordinate the effectiveness of operations so that institutional objectives are implemented and pursued according to plan (Ijeoma & Nzewi 2016:62).

The following objectives are pursued to realise the aim of internal control:

- Endorsing effective and efficient operations and programmes.
- Validating reliable financial and operational reporting.
- Promoting sound and useful management information.
- Detecting, managing and preventing risks.
- Protecting institutional interests, resources and assets from losses.
- Evaluating the level of performance and productivity.

The need to demarcate the broader work environments within which public officials have to operate, as well as the need to identify the way in which the officials individually and collectively must pursue their responsibilities, necessitate internal control in public institutions. Internal control is utilised to determine whether resources and assets are managed as prudently as possible and whether services are of an acceptable standard. In essence, internal control assists management to evaluate institutional progress, or the lack of it, to eventually achieve the institution's objectives with the minimum resources. Indeed, the scope of internal control is relatively wide to include all operational and managerial activities. It is thus fair to state that internal control cannot exist in isolation, but functions alongside other well-founded administrative functions and processes. For example,

to exercise control successfully, it is important to determine minimum standards against which performance can be measured. This is done by means of standard operating procedures. Furthermore, the monitoring of an internal control system includes the review of existing procedures, while standard operating procedures also need to be developed for the effective implementation of each of the internal control mechanisms (Arwinge 2013:42).

## Internal control as process

A 'process' may be defined as a collection of activities that requires one or more types of input and creates an output of value. Building on the definition that internal control is established by management to ensure compliance with laws and regulations, promote reliable reporting and coordinate the effectiveness of operations, it can be argued that the internal control process comprises of a collection of organisational measures and mechanisms that produce assurance that all financial and operational objectives are in place to meet the organisation's objectives. Internal control can thus be viewed as a fundamental and basic process that does not solely relate to accounting and financial matters, but also produces an assurance of the reliability of information and safeguarding of the organisational assets (Visser & Erasmus 2015:278 & 279).

The initial phase in the internal control process is to define specific and measurable accomplishments to be achieved within a specified time and under specific cost constraints. Hence, control prior to the execution of a task entails the design and acceptance of organisational objectives as well as the drafting of standard operating procedures that will be used as measures to assess the achievement of objectives. The procedures need to clearly formalise what is to be accomplished, who will be involved, when the activity will be completed and what and how many resources will be utilised to provide a basis for an ongoing monitoring process. The second phase in the control process involves the actual implementation of internal control to establish whether progress is being made towards achieving institutional objectives. Deviations from standard operating procedures formulated during the first phase of the control process are identified, and remedial measures are issued to ensure that anticipated results are achieved. It entails the comparison of actual performances with the expected outcomes. This allows for the identification of differences or performance gaps (Visser & Erasmus 2015:280–282).

The third phase in the control process is to determine the reasons for discrepancies between actual and expected conditions by reviewing differences, assessing productivity levels and identifying neglected tasks. In essence, this involves collecting information about various operational activities and determining the basic reasons for deviations from predetermined methods and procedures. The

detailed analysis of the reasons for differences links up with the fourth phase that is, recommendations for corrective actions (Pickett 2001:81). Control after execution primarily involves the issue of instructions of how to correct deviations from standard operating procedures and other set standards to ensure that similar errors and deviations do not re-occur. The final phase in the control process includes follow-ups and constant feedback. This is in effect a means to check the effectiveness of the suggested corrective actions and the manner in which the actions had been taken. Furthermore, provide recommendations of how to correct errors and deviations. Internal control after the execution of a task entails preparing reports on the internal control system applied in the organisation. This final step includes a detailed description of any weaknesses of the internal control system as well as ways of improving the latter in the individual control mechanisms, that is, the monitoring and evaluation of the internal control system.

### CONTEXTUALISING AN INTERNAL CONTROL SYSTEM

Designing and implementing an internal control system is a legal requirement for national and provincial government departments as well as for municipalities. According to Section 38 of the Public Finance Management Act 1 of 1999 (PFMA), the accounting officer of a national or provincial department must ensure that an effective, efficient and transparent internal control system is implemented. The implementation of a control system is obligatory or disciplinary steps would be taken against any official who undermines the system. Concerning local government, Section 67 of the Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that any local municipality must implement and manage an internal control system to guard against fraud, theft and financial mismanagement. In terms of auditing an institution's internal control system, Section 6(2)(e) of the PFMA, assigned the responsibility to the National Treasury to investigate any internal control system in any government department, public entity or other constitutional institution. Municipalities may also be investigated by the National Treasury in terms of Section 5(2)(d) of the MFMA. Furthermore, a provincial treasury is obliged to monitor compliance with the MFMA as stipulated in Section 5(4) of the MFMA (PFMA 1999: Section 6(2)(e) & Section 38; MFMA 2003: Section 67).

It is clear from the above that legal requirements necessitate the implementation of an internal control system. Other factors that stimulate the need for an internal control system include: complexity of tasks; scope of delegations; frequency of errors; consequences and potential costs of errors; management style and a change in the organisational structure. In a rapidly changing environment, internal control becomes significantly more important. Changes in management, the staff composition and computer systems often result in a fundamental

redesign of an internal control system. External changes, such as demands from stakeholders and partnerships with other significant role players, may also lead to the implementation or the redesign of an internal control system. If change is not managed well in the organisational structure and other organisational systems, it may pose a threat to maintain an effective internal control system (Pickett 2001:223). Without an accurate internal control system, reliable and relevant financial and management information will not be accessible to make informed decisions. Consequently, effective financial and management reporting will be lacking. An internal control system thus provides the public managers with vital information to determine whether the institution's activities operate according to predetermined plans, policies and procedures.

Moreover, an internal control system produces accurate information to enable proper and appropriate corrective actions, where necessary. An internal control system should be logical in nature to effectively contribute to improved individual and institutional performance. When logically constructed, a control system stimulates productivity and growth as well as greater independence and responsibility among management and its subordinates. The prerequisite is that most employees have to accept the control system as useful and helpful in reaching the institution's objectives. An internal control system thus reduces potential losses and expenses, but only when a variety of interrelated internal control mechanisms operate such that the benefits outweigh the cost of implementing it. To minimise the costs during the design and implementation of a control system, only the least possible control mechanisms needed to achieve desired results, should be applied. The components of an internal control system are elaborated on in the following section.

# Components of an internal control system

The components that management should consider when designing and maintaining an internal control system are interrelated and include the control environment, risk assessment, control mechanisms, information and communication, and monitoring.

#### Control environment

The control environment comprises of the standards, processes and structures that top management implements for internal control. A control environment represents the philosophy of the organisation's top management about commitment, integrity and ethical values. Management's view of authority, responsibility and accountability is also embedded in the control environment. The latter environment can be considered as the foundation on which, as well as the umbrella under which the other components of internal control thrive. If this foundation is strong, the entire system of internal control will be effective and efficient so that the organisation's

objectives can be reached timeously (Kgomo & Plant 2015:87–89; Committee of Sponsoring Organizations of the Treadway Commission (CSOTC 2015a:Online).

In a positive and well-communicated control environment, operational activities work smoothly towards set goals. A clear statement of goals must thus be set by management because it forms the basis for the dispersal of institutional resources. Hence, roles and responsibilities must be agreed upon from the outset of establishing an organisation's structure. The primary reasons for unconstructive control environments include unrealistic objectives, vague role definitions, a lack of integrity and ethical values, inadequate reporting lines as well as the recruitment and retention of incompetent individuals (CSOTC 2015b:Online).

#### Risk assessment

The concept of risk can be explained as a measurement of uncertainty and is measured in terms of effect (impact) and likelihood. Risks include those factors that prevent the achievement of an organisation's goals. Internal control has always had a direct relationship with risk assessment and risk management. Areas in which the consequences of errors will most likely result in failure for the organisation need to be identified and prioritised as a matter of urgency. Once risks are identified, management should consider its significance, the probability of its occurrence and the management thereof. Furthermore, a strategy and procedures must be developed to manage these risks to direct and prioritise the internal control processes and mechanisms (Fourie 2007:739 & 740; PFMA 1999:Sections 51(1)(a) & 76(4)(b)).

The requirements for effective risk assessment can be summarised as follows (CSOTC 2015b:Online):

- Understand the organisation's aim and objectives.
- Identify the risks that prevent the achievement of the objectives.
- Assess the risks, including the likelihood and potential effect of specific risks.
- Develop and implement strategies to address the identified risks.
- Monitor and evaluate the risks and the strategies in place to address risks.

Risk management is the total process of identifying, assessing, controlling and mitigating risks that may adversely affect operations and the achievement of an organisation's goals and objectives. Risk management thus aims at minimising the adverse effects of losses and uncertainties associated with risks and non-compliance with methods and procedures. The identification of high-risk areas is included in risk management.

#### Control mechanisms

Control activities or mechanisms are the structures, policies and procedures that help to ensure that management's directives are executed and take place

throughout the organisation, at all levels and in all functions. The control mechanisms include a range of mechanisms such as (Auditor-General 2015:Online):

- Organisational structure.
- Segregation of duties.
- Written policies and procedures.
- Physical and mechanical control.
- Authorisation and approval.
- Accounting controls.
- Training of staff.
- Supervision.
- Management.
- Information and communications technology.

A single control mechanism would seldom suffice to meet an institution's objectives. A combination of control mechanisms or complementary control mechanisms thus comprises an entire internal control system. There must be synergy between the different internal control mechanisms so that management's directives are executed, risks are reduced and objectives are met. For an organisation to implement the above listed internal control mechanisms effectively, it must have, among other requirements, relevant, valid, reliable and timely information and communication of internal and external circumstances and events that may affect the organisation (CSOTC 2015b:Online).

#### Information and communication

The significance of information and communication in general, and the consequence of producing relevant, timely, reliable and high quality information for decision-making purposes, is essential for effective internal control. An internal control system functions as an information feedback system in which information is conveyed so that managers are able to make informed decisions. Determining the direction for the flow of communication in the control system depends largely on the organisation's goals. Within the context of internal control in the public sector, one of the most challenging aspects of communication facing public officials is ensuring that all role players, such as the accounting officer, audit committee, internal audit function, Auditor-General and the National Treasury and provincial treasuries, receive the correct information timeously. Effective communication thus directly influences the success of the internal control system.

Information needs to be identified, captured, distributed and used in an organisation so that the staff is able to complete their internal control responsibilities. From a broader perspective, information and communication programmes used within an organisation, should enable managers and staff to execute their tasks and transactions effectively. Concerning information and communications

technology, auditors need not only to audit an institution's information systems, such as computers and network hardware and software and satellite systems, but also utilise technology to advance the audit process (Visser & Erasmus 2015:292).

## Monitoring

Internal and external factors, such as a surge in policies and procedures, new and changing public demands and developments in information technologies, place increasing pressure on organisations to change. Subsequently, the organisation's standard operating procedures and internal control processes will need to change if it is to remain relevant and effective. Therefore, a specific management component needs to provide assurance that the internal control activities and mechanisms used in the organisation remain adequate and effective over time. Monitoring must assess the performance of the internal control systems over time (CSOTC 2007:i).

An organisation's internal control system must be monitored regularly to assess whether control mechanisms are effective and operate as intended. Ongoing monitoring occurs through routine managerial activities, such as supervision, reconciliations and performance evaluations. Monitoring may also occur through internal evaluations or audits as well as by external sources, such as the Auditor-General. Deficiencies found during monitoring must be reported to the relevant employees, and severe insufficiencies reported to top management. Continuous monitoring is thus necessary, primarily because previously monitored controls tend to deteriorate over time. In summary, the following principles reinforce the monitoring framework (Arwinge 2013:50):

- Ongoing monitoring assists management to determine if the components of internal control continue to function effectively over time.
- Internal control weaknesses should be identified and communicated in a timely manner to management, as appropriate.

## **Evaluating an internal control system**

When evaluating an internal control system, it must first be determined whether the objectives of the control system are consistent with the organisational objectives. Should this be in order, it must be established whether the control system's composition is sound and operational, and it has been designed to ensure compliance with internal or external requirements. Apart from the mentioned tasks, it must also be determined whether the control system is operating as intended and the control mechanisms can accomplish their intended purposes. This analysis includes the attitude of management, organisational structures, personnel, delegations of authority, policies, methods and procedures, budgeting and reporting (Visser & Erasmus 2015:281).

One of the primary responsibilities of an internal audit function is to monitor and evaluate the suitability and usefulness of the internal control mechanisms. However, evaluations may also be conducted by external auditors from the office of the Auditor-General. Nonetheless, deficiencies found by either the internal audit function or the Auditor-General should be communicated to the head of the institution or the chief accounting officer. Concerning audits conducted by the Auditor-General, internal control is evaluated against three key areas, namely: leadership, financial and performance management and governance. Appropriate action plans to address internal control deficiencies are assessed concerning leadership, while daily and monthly reconciliations are reviewed together with financial and performance management. The internal audit unit and the audit committee are evaluated against key areas of governance to determine whether they are adequately resourced and whether they perform their legislated duties and promote accountability and service delivery (Auditor-General 2016:Online).

Moreover, the internal and external auditors and the public managers must also monitor the effectiveness of the control mechanisms by evaluating audit findings promptly and deciding on appropriate action in response thereto. Recommendations of how to correct identified deficiencies are generally incorporated in evaluation reports. Included in these reports is a detailed description of system weaknesses and the most suitable approach to these. The areas in which standard operating procedures are excessive and inadequate will also be described. Managers and the accounting officer are expected to correct the identified deficiencies and suggest improvements to the internal control system (Visser & Erasmus 2015:280 & 281).

Organisations have historically relied on manual controls to identify unusual activities and transactions. However, improvements in technology have meaningfully changed the outlook of monitoring and evaluating internal control systems from an auditor's perspective. With the advent of time, changes in technology encouraged the decentralisation of control in organisations (Maleka 2016:166). As in the case with manual control mechanisms, technology controls support the notion that rigidly enforced compliance with policies and procedures need to be replaced by flexible and innovative control processes (Qwabe 2014:195–198).

## RESEARCH DESIGN AND METHODOLOGY

Any motor vehicle driver needs to be in possession of a valid and officially issued piece of paper or driving licence card to drive legally on a public road. Driver fitness tests include written and practical driving licence examinations and a vision test. In the local sphere of government, DLTCs are primarily responsible to examine and test applicants for learner and driving licences, and professional

driving permits. However, the implementation of the National Road Traffic Act 93 of 1996 and the National Road Traffic Regulations of 2000 at operational level at the MLM DLTC is crippled by a deficient internal control system. Therefore, the provision of driver fitness and related licencing and transport services remains a key challenge for the MLM.

The MLM DLTC is registered and graded as follows by the North West Provincial Government in terms of Section 24 of the NRTA of 1996:

Table 1: Registration details of the MLM DLTC

Registered name:	Madibeng Local Municipality Driving Licence Testing Centre
Infrastructure number:	00012152
Grading:	Grade A
Physical address:	Bernard Street, Brits

**Source:** (Authors' interpretation)

The Centre is equipped and authorised to examine and test applicants for learner and driving licences of any code; substitute a driver's licence of any code with the new format driving licence card; and issue new and duplicate learner licences, driving licence cards, and professional driving permits (Lelaka 2017).

In this study, a qualitative research design was followed to determine the ideas and opinions of the employees about which components need to be considered when designing an internal control system. Mixed data gathering instruments, a questionnaire and personal interviews, were used to collect the data from the MLM DLTC.

# Sampling procedures

The researcher selected knowledgeable participants who issue driving licences at the MLM DLTC and knowledgeable participants who implement internal control mechanisms to complete the questionnaire. A total of 56 information-rich individuals were sought. The security guards at the entrances of the DLTC were excluded from the sample because they do not have the required knowledge to issue driving licences. Of the questionnaires 47 were completed and returned. The responses to the questionnaire are illustrated in Figure 1.

Furthermore, the sample was designed such that four participants were identified for the follow-up personal interviews. This sample comprised of the management representative and three well-experienced supervisors at the MLM DLTC.

25 20 20 Number of responses 17 15 15 15 13 11 10 5 5 5 1 1 0 **DLTC** DLTC front-line Management eNaTIS Examiners for cashiers representatives supervisors employees driving licences Responses to questionnaire Number of questionnaires distributed Number of questionnaires resturned

Figure 1: Responses to questionnaire

**Source:** (Author's interpretation)

Each step in the process to issue driving licences is linked to a specific occupational category. The respondent's occupational category was therefore considered to create a holistic overview of the process to issue driving licences at the MLM DLTC. The sample distribution by occupational category is illustrated in Figure 2.

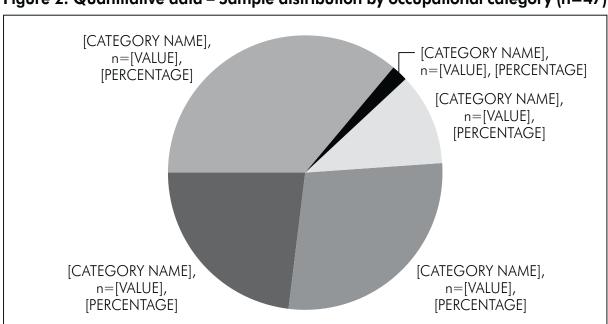


Figure 2: Quantitative data – Sample distribution by occupational category (n=47)

**Source:** (Author's interpretation)

## **QUANTITATIVE DATA ANALYSIS**

Since the implementation of an internal control system is a legal requirement for municipalities, the question arises: 'Which components need to be considered when designing an internal control system for the MLM DLTC?' The control environment, risk assessment, control mechanisms, information and communication, and monitoring was expounded upon in the above sections as the primary components of an internal control system. However, it is necessary to test the quality of the components at the MLM DLTC. Consequently, the aim of the questionnaire was to establish the quality of the minimum required components to design an internal control system for the MLM DLTC.

The respondents were requested to consider whether the quality of the components is fit for its purpose. The questionnaire presented five statements and the respondents had to select a number between 1 and 5: 1 = Quality is very poor, 2 = Quality is poor, 3 = Quality is acceptable, 4 = Quality is good and 5 = Quality is very good. (In this context, the term poor implied that the quality of the control mechanisms is bad).

The statements to which the respondents were requested to respond are listed below:

- C1: Guidelines and minimum standards for the implementation of internal control mechanisms.
- C2: Risk assessment processes and risk management structures.
- **C3**: Control mechanisms, such as policies, balancing procedures and supervision that ensure management's directives are carried out.
- C4: Information and communication channels are clear and accessible to all employees.
- C5: Monitoring and evaluation by management to assess the internal control system.

General trends in the responses from the different occupational categories is discussed briefly. The following summary of the general responses to the individual statements was acquired by applying the One-way Analysis of Variance (ANOVA) model on Statistical Package for the Social Sciences (SPSS).

It is apparent that no major differences exist between the opinions of the respondents of the following occupational categories, namely: 'Management representatives' (3.40), 'DLTC supervisors' (3.40), 'DLTC front-line employees' (3.15) and 'Examiners for driver licences' (3.04). However, the responses from the group 'eNaTIS cashiers' (2.93) revealed that the cashiers at the Centre perceive the quality of the components of the internal control system much lower than the other occupational categories.

An analysis of the data related to each of the five statements follows below.

Table 2: Means and standard deviations

SPSS descriptives Components of an internal control system										
	N	Mean	Standard deviation	Standard error	95% Confidence interval for mean		mor	num		
					Lower bound	Upper bound	Minimum	Maximum		
Management representatives	1	3.40					3	3		
DLTC supervisors	5	3.40	.510	.228	2.77	4.03	3	4		
DLTC front-line employees	13	3.15	.384	.107	2.92	3.39	2	4		
eNaTIS cashiers	11	2.93	.467	.141	2.61	3.24	2	4		
Examiners for driving licences	17	3.04	.597	.145	2.73	3.34	2	4		
Total	47	3.09	.504	.073	2.94	3.24	2	4		

**Source:** (Author's interpretation)

#### Guidelines and standards for internal control mechanisms

The control environment can be regarded as the foundation on which the other components of internal control are built and includes the governance and management functions of an organisation. It focuses largely on the actions of those responsible for designing guidelines for the implementation and monitoring of internal control in the organisation. Well-communicated guidelines for the implementation of internal control mechanisms ease the achievement of organisational specific goals (Kgomo & Plant 2015:87–89). Statement C1 (Guidelines and minimum standards for the implementation of internal control mechanisms) intended to establish the quality of the DLTC's guidelines and minimum standards for the implementation of internal control mechanisms from MLM DLTC employees and management. Of the respondents 7% (n=3) selected very poor while 19% (n=9) revealed that the quality is poor. However, 40% (**n**=19) of the respondents held that the guidelines, requirements and minimum standards are acceptable, but neither poor nor good. Only 25% (n=12) held that the quality of the minimum standards for the implementation of internal control mechanisms is good, while 9% (n=4) revealed that it is of very good quality. The majority of the respondents (40%) were undecided and revealed that the guidelines for the implementation of internal control measures is adequate and of average quality. Consequently, it could not be established whether the quality of the guidelines is good. It can be inferred that there is room for improvement of the guidelines, requirements and minimum standards. Moreover, poor guidelines for the implementation of internal control mechanisms may lead to insufficient monitoring and evaluation of the internal control system.

## Risk assessment processes and risk management structures

Statement C2 (*Risk assessment processes and risk management structures*) tested whether the risk assessment processes and risk management structures require revision and improvement. The results revealed that 13% (*n*=6) of the respondents selected very poor while 19% (*n*=9) held that the quality of the risk assessment processes and risk management structures is poor. A total of 28% (*n*=13) of the respondents selected acceptable, while 21% (*n*=10) selected good. The remaining 19% (*n*=9) of the respondents held that the quality of the risk assessment processes and risk management structures is very good. It can be inferred that the risk assessment processes and risk management structures of the MLM DLTC require minimum revision to eventually guarantee improved internal control at the DLTC. This inference is based on 40% of respondents who selected either good or very good.

## Internal control activities/mechanisms

The control activities or mechanisms include the policies and procedures designed to ensure that management directives are executed throughout the organisation. Examples of specific control mechanisms include the organisational structure, segregation of duties, written policies and procedures, physical and mechanical control, authorisation and approval, accounting controls, training of staff, supervision, management as well as information and communications technology (Auditor-General 2015:Online). Statement C3 (*Control mechanisms, such as policies, balancing procedures and supervision ensures that management's directives are carried out*) endeavoured to establish whether the control mechanisms ensured the execution of specific management functions.

A total of 13% (**n**=6) of the respondents selected very poor while 21% (**n**=10) revealed that the quality of the control mechanisms utilised to execute management's directives at the MLM DLTC is poor. A total of 36% (**n**=17) of the respondents held that the quality is acceptable. Only 19% (**n**=9) of the staff was convinced that the quality of the control mechanisms, such as policies, balancing procedures and supervision is good, while 11% (**n**=5) selected very good. If a grand total of 34% held that the quality of the internal control mechanisms is very poor or poor, and 36% of the respondents revealed that the quality is average, it can be concluded that the implemented internal control mechanisms at the MLM DLTC is of poor quality.

In summary, a total of 34% of the respondents held that the quality of the internal control mechanisms is very poor or poor, while 36% revealed that the quality is average. It can thus be concluded that the internal control mechanisms of the MLM DLTC is of poor quality. It can be inferred that the standard of the internal

control mechanisms lacks excellence. Inadequate control mechanisms could probably result in poor customer service in the absence of minimum standards.

#### Information and communication channels

An underlying feature of providing accurate and relevant information at the right time to the relevant role players, implies that information and communication systems include prescribed procedures for the recording, processing and reporting of financial transactions as well as maintaining accountability for assets, liabilities and equity (Tshiyoyo 2017:177–182). Statement C4 (*Information and communication channels are clear and accessible to all employees*) tested whether the information and communication channels at the MLM DLTC conform to the requirements and minimum standards. Moreover, statement C4 also tested whether communication at the Centre is clear and the employees can access the necessary information sources with ease.

Of the respondents 11% ( $\mathbf{n}$ =5) selected very poor (very bad) while 21% ( $\mathbf{n}$ =10) revealed that the quality is poor and not good. A total of 28% ( $\mathbf{n}$ =13) held that the quality of information and communication at the MLM DLTC is acceptable or satisfactory. The majority of the respondents revealed that the quality is high. A total of 23% ( $\mathbf{n}$ =11) of the respondents selected good while a total of 17% ( $\mathbf{n}$ =8) of the staff was convinced that the quality of the information and communication channels is very good, clear and accessible to all employees. This implies that information and communication channels at the MLM DLTC are perceived to be effective.

## Monitoring and evaluation of internal control system

The monitoring and evaluation of an internal control system is the process of assessing the continued effectiveness of the individual control mechanisms and recommend necessary remedial action when required. Monitoring can either be ongoing or performed as a once-off evaluation exercise. Either way, monitoring and evaluation must be effective for an internal system to operate as required (Arwinge 2013:50). Against this background, statement C5 (*Monitoring and evaluation executed by management to assess the internal control system*) measured the quality of the processes followed to assess the internal control activities and mechanisms at the MLM DLTC.

In this instance, 7% ( $\mathbf{n}$ =3) of the respondents held that the quality is very poor, while 21% ( $\mathbf{n}$ =10) revealed that the quality of the monitoring and evaluation executed by Centre management to assess the internal control system, is poor. The majority of the respondents held that the monitoring and evaluation executed by management is adequate, while 40% ( $\mathbf{n}$ =19) selected acceptable. Of the respondents 19% ( $\mathbf{n}$ =9) were convinced that the quality is very good while 13% ( $\mathbf{n}$ =6) held it is good. Since the majority of the respondents selected 'Quality is acceptable', it cannot be concluded that the quality of the monitoring

and evaluation executed by management to assess the internal control system is either bad or good. It can be inferred that the respondents were not convinced that monitoring and evaluation at the MLM DLTC is executed as required.

## **QUALITATIVE DATA ANALYSIS**

Due to the wide range of internal control mechanisms at the MLM DLTC and to complement the responses to the questionnaire, more information was required to reach the aim of the study. Personal interviews were consequently directed at the management and supervisors until saturation of data occurred and the research question was answered in full.

## Management

Manager A was requested to respond to the question: "Please elaborate on the implemented internal control mechanisms at the DLTC". It was revealed that Manager A viewed the DLTC's internal control system as fundamental to assure the reliability of information captured on eNaTIS as well as safeguarding of the Centre's assets. He also confirmed that the implementation of standardised procedures leads to fewer errors in performing routine tasks. Based on Manager A's response, it is found that the sound execution of duties results in improved customer service and better public service delivery.

The findings of the questionnaire revealed that uncertainty exists of the monitoring and evaluation conducted by management to assess the internal control system. This raised the follow-up question: "Please explain how monitoring and evaluation is undertaken to assess the internal control system at the Centre". In his response, Manager A raised challenges relating to monitoring and evaluation; lack of staff and limited time were mentioned. These challenges as well as the divided responsibility of monitoring between the management of the MLM and the management representative at the Centre, could be some of the reasons for the uncertainty regarding monitoring and evaluation at the DLTC. Furthermore, monitoring and evaluation of the Centre's internal control system should include the review of existing procedures. Thus, standard operating procedures need to be developed for the effective implementation of each of the internal control mechanisms.

# **Supervisors**

As a follow-up question, the supervisors were asked to respond to the question: "Please elaborate on the quality of the guidelines for the implementation of internal control at the DLTC". Supervisor A reflected on authorisation and approval as

an approach to detect and prevent risks at the Centre. Supervisor A's answer can be linked to the arguments held by Diamond (2016:376) and Mofolo (2015:896) that authorisation and approval are protective control measures that guard an organisation against illegal and dishonest actions. Supervisor B accentuated the implemented physical controls at the Centre. Based on the response by Supervisor B, it is revealed that the physical controls at the Centre, including the security guards, are primarily responsible for protecting institutional resources and assets from losses as underscored by Pickett (2001:155). Supervisor C's response focused on accounting controls. Supervisor C expressed the same perception held by Mofolo (2015:893) that financial and accounting controls ensure that an institution's transactions are valid and recorded completely. The value of the balancing and reconciliation controls of the MLM DLTC must not be underestimated because it contributes towards transparent and accountable activities at the Centre.

It became clear during the data analysis that the respondents were not convinced that monitoring and evaluation at the MLM DLTC is executed as required. Consequently, the following question was also posed during the personal interviews: "Is there reference to policy documents and records in the standard operating procedures? If not, is there a need to include a list of the relevant policy documents in standardised procedures?" Despite the fact that the existing procedures do not refer to the Acts and Regulations, the three supervisors were unanimous in listing the relevant policy documents and records.

In essence, the interviews with the supervisors confirmed that internal control at the MLM DLTC assists them to supervise the staff so that driving licences are issued as prescribed by legislation. From the variety of topics addressed in their responses, the supervisors also confirmed that the internal control mechanisms cannot exist in isolation, but need to function alongside other administrative functions and processes.

## FINDINGS AND RECOMMENDATIONS

The implementation of standard operating procedures as an internal control mechanism was explored in this article by critically reviewing an internal control system that is of value to the MLM DLTC. In summary, the responses to the questionnaire applied the following components of an internal control system: control environment, risk assessment, control mechanisms, information and communication, and monitoring at the MLM DLTC, and respond to the research question: 'Which components need to be considered when designing an internal control system for the MLM DLTC?' The following findings and recommendations are revealed:

• **Control environment**: The guidelines, requirements and minimum standards for the design and implementation of the Centre's internal control system are

- acceptable but not necessarily poor or sound. It was also established that the MLM DLTC's internal control environment must provide an assurance of the reliability of information captured on eNaTIS. As a solution, the implementation of standardised procedures will lead to fewer errors when undertaking routine tasks and will ultimately result in improved service delivery.
- Risk assessment: The risk assessment processes and risk management structures at the MLM DLTC require revision to guarantee improved internal control at the Centre. It is, therefore, recommended that management invests in a total process to identify, assess, control and mitigate risks that may affect operations adversely at the Centre.
- **Control mechanisms**: In general, the current internal control mechanisms at the MLM DLTC, are of poor quality. There is thus room for improvement in the guidelines for the implementation of internal control mechanisms, due to insufficient instructions of how to implement the process. It is further recommended that action be taken to impede the lack of monitoring and evaluation at the Centre. It is also proposed that the DLTC management prioritise this concern and implement remedial action. Authorisation and approval are protective control measures that protect an organisation against illegal and dishonest actions. It is recommended that authorisation and approval procedures be optimised to ensure that the resources are utilised effectively and efficiently. To be specific, it is suggested that the DLTC management accept full responsibility to monitor control-related policies and procedures to ensure that the institution's internal control system continues to function as intended. Also, potential risks revealed by any of the internal control mechanisms must be monitored closely to ensure that it is corrected and resolved timeously.
- **Information and communication**: The information and communication channels at the MLM DLTC are perceived to be effective.
- Monitoring: Uncertainty exists of the monitoring and evaluation conducted by management to assess the internal control system at the Centre. Furthermore, the responsibility of monitoring the DLTC is divided between the management of the Municipality and the management representative at the Centre. Clear delineation of duties should be set in this regard. In addition, authorisation and approval are necessary to ensure that the resources are utilised in the interest of the MLM and the public.

Although the internal control system of the MLM DLTC has benefits, it is faced with challenges that may affect it negatively. In essence, the components of the internal control system at the Centre should be re-conceived so that, among other objectives, errors and non-compliance with legislation, policies, and methods and procedures are minimised.

## **CONCLUSION**

The purpose of this article was to explore the critical components that need to be considered when designing an internal control system at the local sphere of government, specifically the MLM DLTC. Based on the insights obtained by conceptualising 'internal control' and 'internal control system' and by the analyses and findings of the empirical research, recommendations could be made to the MLM on the critical components that need to be considered when designing an internal control system. The significance of this study is thus found in the conceptualisation of the essential components of the internal control system of the MLM DLTC: the control environment, risk assessment, control mechanisms, information and communication, and monitoring. The researcher established that the design and implementation of the Centre's internal control system are acceptable but not necessarily poor or sound. The researcher also found that improved internal control can be achieved by reviewing the risk assessment processes and risk management structures at the MLM DLTC. Another finding was that the internal control mechanisms at the MLM DLTC are of poor quality. Therefore, the quality of the internal control mechanisms lack excellence. Then, since the information and communication channels are perceived effective, these available channels should be used to drive change and improvement in the implementation of the internal control system. Lastly, the uncertainty that exists about the responsibility of monitoring the DLTC must be addressed by a clear delineation of duties in this regard.

#### NOTE

\* This article is partly based on the doctoral thesis of Dr C Alers. The doctoral thesis is entitled: *The Development and Implementation of Methods and Procedures of Issuing Drivers Licences in the Madibeng Municipality.* The degree was conferred in June 2018. Dr Alers was supervised by Prof G M Ferreira and the late Prof D J Brynard at the University of South Africa. For more information on the development and implementation of standard operating procedures, the reader is advised to consult the original thesis.

#### REFERENCES

Alers, C. and Ferreira, G.M. 2019. Developing Driving Licence Standard Operating Procedures: The Case of Madibeng Local Municipality. *Administratio Publica*. 27(1).

Arwinge, O. 2013. Internal control: A study of concept and themes. New York: Physica-Verlag.

Auditor-General. 2015. *Generally accepted auditing standards (GAAS)*. (Online). Available at: https://www.agsa.co.za. (Accessed on 3 June 2019).

- Auditor-General. 2016. *Audit process: How to achieve a clean audit*. (Online). Available at: http://www.agsa.co.za/Home.aspx. (Accessed on 14 June 2019).
- CSOTC Committee of Sponsoring Organizations of the Treadway Commission. 2007. Internal control Integrated framework, guidance on monitoring internal control systems, Discussion document, 2007–2009. New York: AICPA COSO.
- CSOTC Committee of Sponsoring Organizations of the Treadway Commission. 2015a. *Internal Control Integrated Framework* (1992). (Online). Available at: www.coso.org.ic.htm. (Accessed on 30 March 2019).
- CSOTC Committee of Sponsoring Organizations of the Treadway Commission. 2015b. *Internal Control Integrated Framework (2013)*. (Online). Available at: www.coso.org.ic.htm. (Accessed on 30 March 2019).
- Diamond, J. 2016. Internal control and internal audit. In Allen, R., Hemming, R. and Potter, B.H. (Eds.). *The international handbook of public financial management*. New York: Palgrave Macmillan.
- Fourie, D. 2007. Financial control measures enhancing good governance. *Journal of Public Administration*. 42(7):733–743.
- Ijeoma, E. and Nzewi, O. 2016. Work procedures application in municipal government: Perspectives from local government employees in South Africa. *Journal of Public Administration*. 51(1):58–72.
- Kgomo, B. and Plant, K. 2015. Dimensions for the assessment of ethical leadership: An internal audit perspective. *Southern African Journal of Accountability and Auditing Research*. 17(2): 85–94.
- Lelaka, L. 2017. Management representative of the Driving Licence Testing Centre of the Madibeng Local Municipality. Personal interview. 11 April, Brits.
- Maleka, M.C. 2016. Strengthening Local Government: An application of e-governance. *Journal of Public Administration*. 51(1):165–174.
- MFMA Republic of South Africa. 2003. Municipal Finance Management Act 56 of 2003. Pretoria: Government Printers.
- Mofolo, M.A. 2015. Achieving clean audits: Key considerations for a sound internal control environment in South African municipalities. *Journal of Public Administration* 50(4):887–902.
- Nzewi, O.I. 2017. Managing municipal audit compliance through work procedures: A Theory of Planned Behaviour approach. *Southern African Journal of Accountability and Auditing Research*. 19:1–14.
- PFMA Republic of South Africa. 1999. Public Finance Management Act 1 of 1999, as amended by Act 29 of 1999. Pretoria: Government Printers.
- Pickett, K. 2001. Internal control: A manager's journey. New York: John Wiley.
- Qwabe, B.R. 2014. Integrated financial management information system in the South African government: A multidimensional framework. *Administratio Publica*. 22(3):186–201.
- Republic of South Africa. 1996. National Road Traffic Act 93 of 1996. Pretoria: Government Printers.
- Republic of South Africa. 2000. National Road Traffic Regulations of 2000. Pretoria: Government Printers.

Tshiyoyo, M. 2017. Assessing the Catalytic Role of the African Charter and the African Peer Review Mechanism in the Realisation of the Objectives set out in Africa Agenda 2063 and the SDGs. *African Journal of Public Affairs*. 9(8):173–185.

Visser, C.B. and Erasmus, P.W. 2015. *The management of public finance: A practical guide*. 6<sup>th</sup> ed. Cape Town: Oxford University Press.

## **AUTHOR'S CONTACT DETAILS**

#### **Dr Corlia Alers**

Department of Public Administration and Management P O Box 392 UNISA 0003 SOUTH AFRICA

Tel: 012 429 6286

E-mail: alersc@unisa.ac.za