RISK MANAGEMENT BEYOND REGISTERS: DRIVING PREVENTATIVE CONTROL ENVIRONMENTS

Enhancing proactive measures to mitigate potential risks

Ms Bawinile Gwala CA(SA) | Board Member

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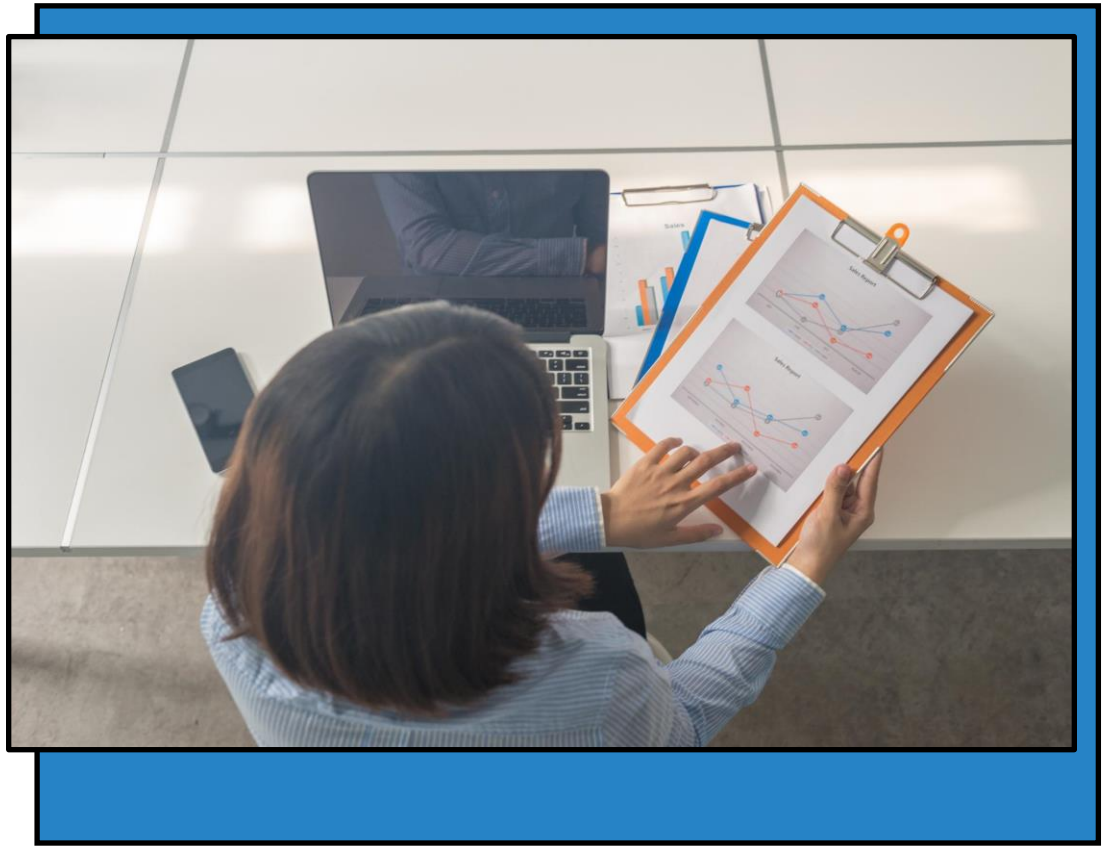
RISK MANAGEMENT BEYOND REGISTERS

- Limitations of Risk Registers
  - Traditional risk registers focus on documentation but do not effectively reduce audit findings or service failures.
- Shift to Preventative Control
  - Emphasizing operational and preventative control environments over compliance-driven risk cataloguing.
- Execution Over New Frameworks
  - Focusing on better execution of existing risk management practices rather than introducing new frameworks or legislation.
- Embedding Controls in Processes
  - Embedding risk controls in systems, processes, and behaviors to prevent risks from materializing.



AGSA SNAPSHOT – THE REALITY BEHIND REPEAT FINDINGS

- Systemic Irregular Expenditure
  - Irregular expenditure of R63.37 billion highlights widespread non-compliance with procurement and financial rules across government.
- High-Impact Auditee Failures
  - 85% of irregular expenditure is from entities with major resources and capacity, showing significant control failures.
- Fruitless and Wasteful Spending
  - R2.57 billion lost due to poor decisions and weak contract management, increasing 49% year-on-year.
- Material Irregularities Impact
  - 266 material irregularities caused estimated losses of R14.3 billion, showing serious financial and public impact.

WHAT THESE OUTCOMES REALLY MEAN

- Reframing Compliance Issues
  - Irregular and wasteful expenditures are symptoms of deeper execution failures, not mere compliance anomalies.
- Weak Internal Controls
  - Repeat audit findings show risks are known but controls are poorly implemented or overridden.
- Diffused Accountability
  - Accountability is spread across functions, causing limited consequences for recurring non-compliance.
- Need for Proactive Prevention
  - Improving reports will not help unless processes and behaviors are redesigned for prevention.

THE LIMITATIONS OF RISK REGISTERS

- Static and Periodic Updates
  - Risk registers are often static documents updated periodically, limiting their impact on daily operations.
- Disconnect in Risk Ownership
  - Ownership often lies with risk units rather than line managers, causing a gap in risk control implementation.
- Focus on Description Over Control
  - Registers describe risks but rarely link them to preventative controls or accountability mechanisms.
- Awareness Without Behavior Change
  - Awareness of risks does not inherently prevent repeated failures or change behavior effectively.

DEFINING A PREVENTATIVE CONTROL ENVIRONMENT

- Concept of Preventative Controls
  - Preventative controls stop errors and non-compliance before they occur at decision-making points.
- Examples of Preventative Controls
  - Examples include approval limits, budget checks, duty segregation, and supplier validation embedded in systems.
- Non-Technical Components
  - Effective controls also require accountability, ethical leadership, and consistent consequence management.
- Cultural Shift in Organizations
  - Embedding controls shifts culture from explaining failures to actively preventing them.

THE COSO FRAMEWORK AS A REFERENCE POINT

COSO Framework Overview

COSO is a widely accepted model with five key components defining effective internal control environments.

Public Sector Application

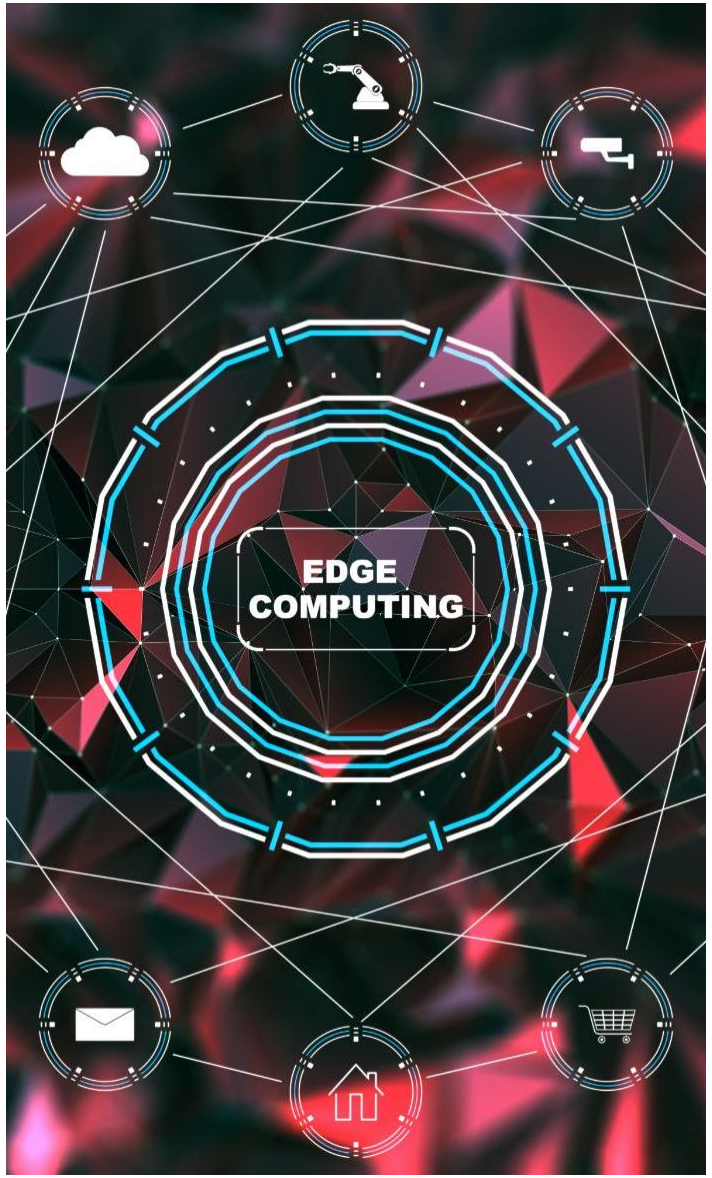
Public institutions often excel in risk assessment but face challenges in control activities and monitoring.

Principles-Based and Adaptable

COSO's principles-based design allows flexible application without complex technical requirements.

Diagnostic Lens for Execution

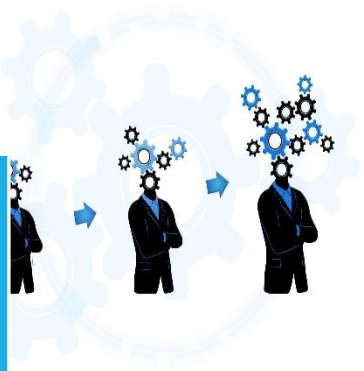
Using COSO highlights execution challenges rather than lack of guidance in control environments.



WHERE CONTROL FAILURES TYPICALLY OCCUR

Control Activity Weaknesses

- Control activities are often poorly designed, manual, or easily overridden, especially in high-risk areas like supply chain and projects.

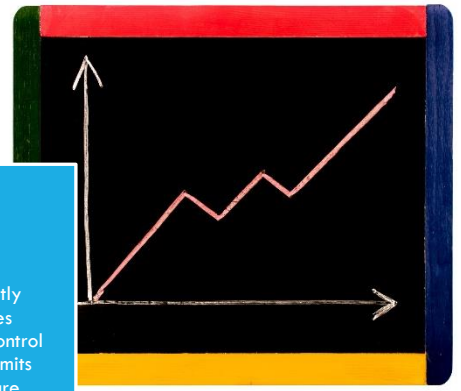


Retrospective Monitoring

- Monitoring tends to be retrospective, relying on audits and quarterly reports instead of real-time exception alerts.

Inconsistent Consequence Management

- Failure to consistently apply consequences allows repeated control breakdowns and limits accountability culture.



PRACTICAL ACTIONS TO STRENGTHEN PREVENTION

Link Risks to Controls

Explicitly connect key risks to preventative controls and assign ownership to operational managers for accountability.

Prioritize High-Risk Processes

Focus on redesigning controls for high-risk areas like procurement and payroll, emphasizing automation where feasible.

Embed Controls into Systems

Integrate controls into systems to reduce manual checks and increase consistency in everyday operations.

Real-Time Monitoring and Consequences

Use real-time monitoring and exception reporting, and apply consequence management consistently to reinforce accountability.

PERSPECTIVE FROM BOTH SIDES OF THE AUDIT

Dual Audit Perspectives

Auditors see repeat findings as lack of responsiveness, while operations identify system and process challenges causing failures.

Root Causes of Control Failures

Control failures often result from system limitations, complex processes, and unclear ownership within operations.

Bridging Insight and Execution

Effective control environments require collaboration between auditors, management, and governance focused on prevention.

RECLAIMING ACCOUNTABILITY AND PUBLIC CONFIDENCE

Restoring Public Trust

Public trust declines when failures repeat despite recommendations, highlighting the need for real accountability.

System Redesign for Prevention

Accountability is strengthened when systems and processes are redesigned to prevent repeated failures.

Preventative Control Environments

Investing in prevention reduces losses, enhances service delivery, and demonstrates stewardship of resources.

Leadership Commitment

Strong leadership commitment to execution is essential for sustainable improvement and public confidence.