



AUDITOR - GENERAL  
SOUTH AFRICA

# CIGFARO Audit & Risk Indaba Sharonne Adams – Head of Portfolio AGSA

The role played by internal audit  
and risk on MPACs





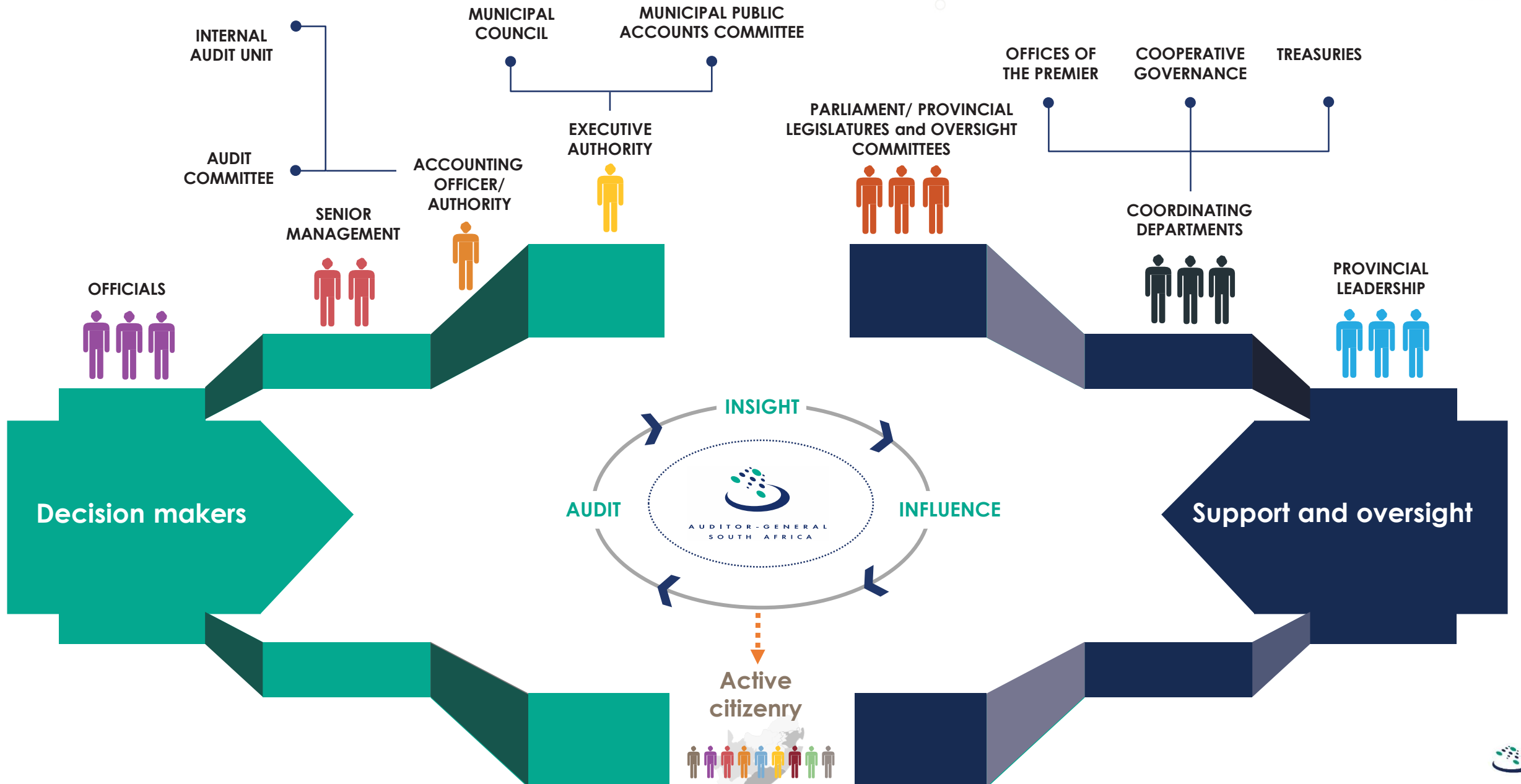
## MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence



## VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability





## Internal Audit

- Help **accounting officers and authorities execute their duties** by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation

## Audit Committee

- Advises accounting officer or authority, senior management and executive authorities on matters relating to **financial and performance management governance**

## Municipal Public Accounts Committee (MPAC)

- **Strengthens oversight arrangements** in municipality and ensures efficient and effective use of municipal resources

All assurance providers have a distinct role to play in the accountability ecosystem and need to ensure that opportunities are not lost due to inadequate coordination.

Although the assurance providers have different defined roles, their collective purpose is to promote good governance through contributions to transparency, accountability and good performance for the use of public resources.



## What the law says

### Legislation – Municipal Finance Management Act (MFMA)

Par .62(1)(c)(ii) of the Municipal Finance Management Act (MFMA) – **Accounting Officer** must take reasonable steps to ensure the municipality has and **maintains effective, efficient and transparent systems** of internal audit

Par. 165(1) and 165(2) of the MFMA detail the need for an internal audit unit, as well as the **roles and responsibilities of the internal audit unit:**

- Prepare **a risk-based audit plan** and an internal audit programme for each financial year
- Ensure the **annual audit plan and internal audit programme** are submitted to the **municipal council for approval**
- Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to financial , risk and performance management



An Audit Committee is an **independent committee** constituted to **review the control, governance and risk management within the Institution**, established in terms of section 166 of the MFMA

- **Review the annual financial statements** to provide the council of the municipality or municipal entity with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness, and its overall level of compliance with the MFMA
- **Carry out such investigations into the financial affairs** of the municipality or municipal entity as the council of the municipality or, in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request
- Respond to the municipal council on any **issues raised by the auditor-general** in the audit report

The audit committee is an independent advisory body that advises the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, on financial, risk and performance management matters.



## What the law says

### Legislation – MFMA and Municipal Systems Act (MSA)

Various sections of the **MFMA and Municipal Systems Act (MSA)** provide what role **MPACs** must play. These sections include the following:

The MPAC must interrogate the following financial aspects addressed in the MFMA:

- **Unforeseen and unavoidable expenditure (section 29)**
- **Unauthorised, irregular, or fruitless and wasteful expenditure (section 32)**
- Mid-year budget and performance assessment of municipalities and municipal entities (sections 72 & 88)
- Submission of auditing of annual financial statements and annual reports (sections 126 & 127)
- Oversight report on the annual report (section 129)
- Issues raised by the auditor-general in audit reports (section 131)

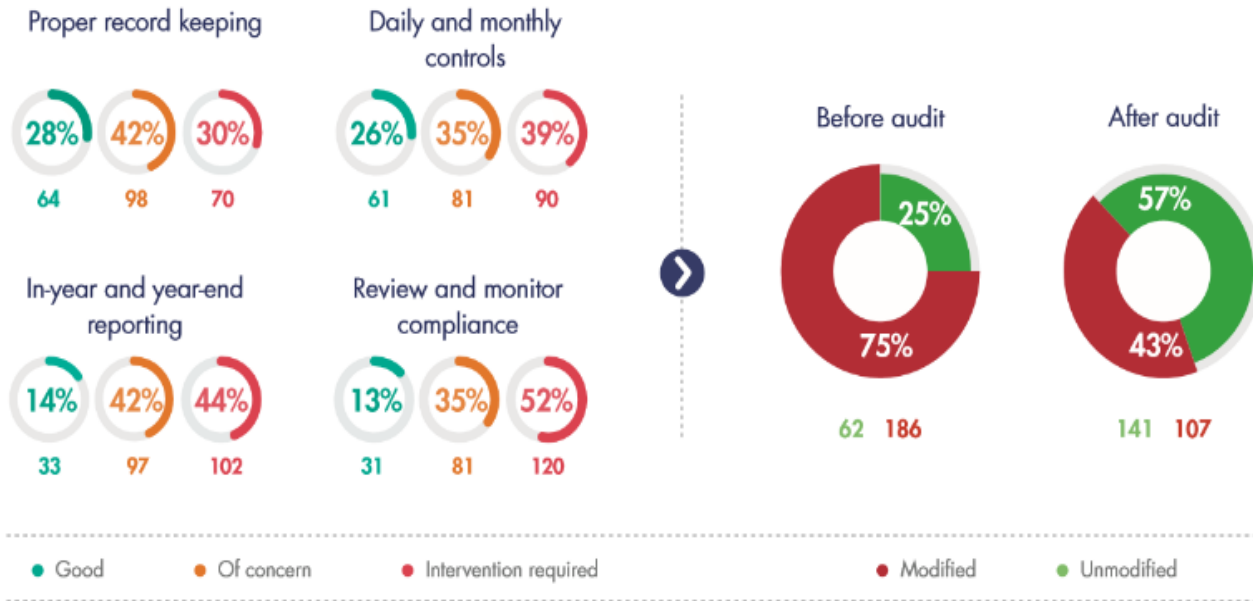
The MPAC must interrogate the following aspects addressed in the MSA.

- Review of the integrated development plan (IDP) post elections and annual review of the IDP (sections 25 and 34)
- Performance management plan (section 39)
- **Monitoring that the annual budget is informed by the IDP** (Regulation 6 of the Local Government: Municipal Planning and Performance Management Regulations)
- **Monitoring that all declaration of interest forms** are completed by councilors on an annual basis (section 54 read with item 7 of schedule 1)





Status of key financial management controls and quality of financial statements before and after auditing



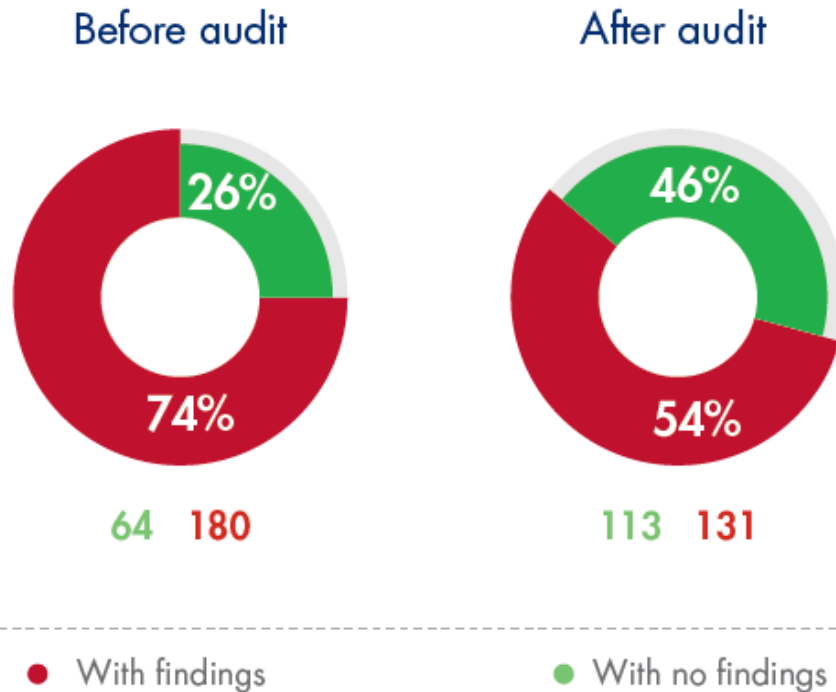
Despite us reporting shortcomings and providing recommendations over the years, as well as numerous and costly national and provincial initiatives and interventions, the poor status of key financial management controls shows that municipalities have not yet mastered financial reporting – **75% of municipalities were not able to submit quality** financial statements for auditing.

The salary cost for finance units totalled R10,41 billion in 2020-21. Internal audit units at 93% of municipalities and audit committees at 96% of municipalities reviewed the prepared financial statements. The cost of consultants used amounted to R1,26 billion in 2020-21. The cost of consultants doubled over the term of the previous administration.



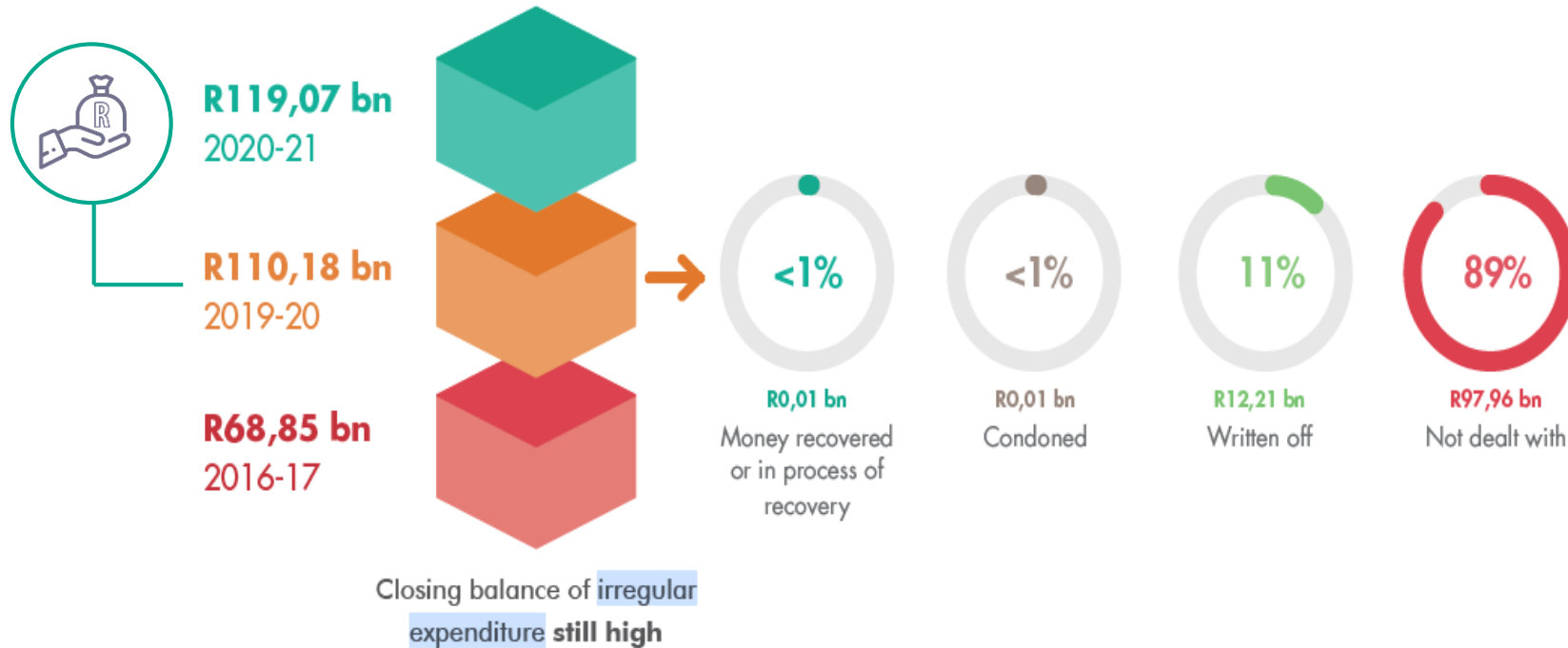


## Quality of performance reports before and after audit – municipalities



**74% of the 244 municipalities** that prepared performance reports **submitted poor-quality performance reports** for auditing. Poorly prepared performance reports raise questions about the credibility of in-year reporting and the effectiveness of performance reporting throughout the year. Poor monitoring and corrective action throughout the year contribute to municipalities being **unable to achieve their performance targets or reliably report on their performance.**

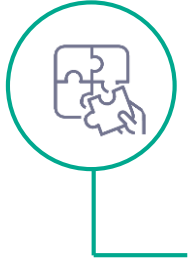




The **year-end balances** of irregular expenditure continue to **grow**. At the 2020-21 year-end, the balance of irregular expenditure that had accumulated over many years and **had not been dealt** with totalled R119,07 billion, Very little has been done by the 2020-21 year-end about the 2019-20 year-end balance of R110,18 billion.

The Municipal Finance Management Act requires councils to objectively and diligently investigate such Expenditure. Neither councils (through their municipal public accounts committees nor treasuries should write off or condone such expenditure without making sure that no losses had been suffered or that any losses suffered cannot be recovered.





- 1 Ensuring **recommendations made by oversight** roles are dealt with by management
- 2 Ensuring **audit recommendations** are given due attention and are dealt with by the accounting officers including the resolution of **material irregularities**
- 3 **Effective oversight** in **addressing weaknesses** in the control environment
- 4 **Effective oversight** over **financial and performance management** disciplines
- 5 Positive impact on service delivery and lived reality of the people of South Africa

The concept of working together to strengthen accountability calls on all roleplayers to work together and positively influence their areas of responsibility towards the better management of public resources and service delivery.



# THANK YOU

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