CIGFARO SEMINAR EAST LONDON
HEMINGWAYS HOTEL

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PRESENTER: MR MGXIVA NA: IAM) WMMLM

INTERNAL AUDIT FUNCTION POSITIONING MUNICIPALITIES FOR CLEAN AUDITS

- From Compliance Monitoring to Strategic Assurance

Winnie Madikizela-Mandela Local Municipality Theme: "Fortifying the

Foundation of Clean Administration"

OBJECTIVES

- By the end of this presentation delegates should understand:
  - Why municipalities continue receiving adverse, qualified and disclaimer opinions;
  - The role of Internal Audit in improving audit outcomes;
  - How Internal Audit should position itself throughout the financial year;
  - Lessons from Winnie Madikizela-Mandela Local Municipality;
  - Practical interventions to support clean administration;
  - Key success factors for achieving clean audits;

WHAT IS A CLEAN AUDIT?

- A municipality receives a Clean Audit when:
  - Financial Statements are free from material misstatements;
  - Annual Performance Report is credible with reliable and useful information;
  - Compliance with legislation is achieved;
  - No material findings on performance information;
  - No material findings on compliance;
  - Effective governance arrangements exist;

PILLARS OF A CLEAN AUDIT

- Three Pillars:
  - Financial Management:
  - Performance Management;
  - Compliance and Governance
- Internal Audit is the independent assurance mechanism over all three pillars.

CASE STUDY – WINNIE MADIKIZELA-MANDELA LOCAL MUNICIPALITY

- Common Challenges Experienced by Municipalities
- Financial Reporting:
  - Asset management weaknesses;
  - Revenue management challenges;
  - Debtor impairment deficiencies;
  - Inadequate supporting documentation;

CASE STUDY – WINNIE MADIKIZELA-MANDELA LOCAL MUNICIPALITY

- Performance Management:
  - Poorly defined indicators;
  - Lack of verifiable evidence;
  - Misalignment between planning and reporting;

CASE STUDY – WINNIE MADIKIZELA-MANDELA LOCAL MUNICIPALITY

- Compliance
  * SCM non-compliance
  * Irregular expenditure
  * Contract management weaknesses
- Governance
  * Slow implementation of audit action plans
  * Inadequate consequence management
  * Weak monitoring of controls

ROOT CAUSES OF NEGATIVE AUDIT OPINIONS

- AGSA Consistently Identifies Five Root Causes
  1. Lack of Accountability
     Management not taking ownership.
  2. Poor Record Keeping
     Supporting documents unavailable.
  3. Inadequate Financial Discipline
     Late reconciliations and review processes.
  4. Weak Internal Controls
     Controls exist but do not operate effectively.
  5. Slow Response to Findings
- Repeat findings year after year.
- Internal Audit must focus on root causes rather than symptoms.

INTERNAL AUDIT'S STRATEGIC POSITION

- Traditional Approach:
  - Internal Audit performs reviews after problems occur.
- Strategic Approach
- Internal Audit provides:
  - Preventative assurance
  - Advisory services
  - Continuous monitoring
  - Risk-based assurance
  - Early warning reporting
- Internal Audit should become the municipality's Governance Intelligence Function.

INTERNAL AUDIT'S ROLE IN FINANCIAL STATEMENT ASSURANCE

- Before Year-End.
- Review:
  * Asset Register
  * Debtor Management
  * Revenue Recognition
  * Grant Funding
  * SCM Transactions
  * Commitments
  * Provisions
  * Journal Entries
  * Monthly Reconciliations
- Identify issues before AGSA arrives.

INTERNAL AUDIT'S ROLE IN PERFORMANCE INFORMATION

- Key Risks
- Indicators are:

  * Not well defined
  * Not measurable
  * Not verifiable
  * Not supported by reliable information

INTERNAL AUDIT'S ROLE IN PERFORMANCE INFORMATION

- Internal Audit Should Review
- Indicator definitions
- Source documents
- Quarterly reporting
- Performance evidence
- Reliability and completeness

Goal

- No material findings on Annual Performance Reporting.

INTERNAL AUDIT'S ROLE IN COMPLIANCE ASSURANCE

- High-Risk Areas
- Municipal Finance Management Act (MFMA);
- Supply Chain Management Regulations;
- Municipal Systems Act;
- Municipal Structures Act;
- Treasury Regulations;
- Division of Revenue Act;
- Internal Audit Must Test

* Compliance throughout the year

* Not only at year-end

THE THREE LINES MODEL

- First Line
- Management

 Owns and manages risks
- Second Line
- Risk Management and Compliance

 Monitors and guides management
- Third Line
- Internal Audit

 Provides independent assurance
- Audit Committee

 Provides oversight over all three lines
- Clean audits are achieved when all lines work together.

EFFECTIVE AUDIT PROCESS FOR IMPACTFUL REVIEWS

- Step 1 – Risk Assessment
  Identify high-risk areas
- Step 2 – Planning
  Develop focused audit programmes
- Step 3 – Fieldwork
  Gather sufficient evidence
- Step 4 – Reporting

EFFECTIVE AUDIT PROCESS FOR IMPACTFUL REVIEWS

- Issue practical recommendations…….
- Step 5 – Follow-Up
- Verify implementation
- Step 6 – Continuous Monitoring
- Prevent recurrence

INTERNAL AUDIT AND AUDIT COMMITTEE PARTNERSHIP

- Audit Committee Requires
  - Reliable assurance
  - Early warning reporting
  - Root cause analysis
  - Progress reporting
- Internal Audit Must Report
  - High-risk findings
  - Repeat findings
  - Implementation status
  - Emerging risks
  - Governance concerns

WHAT MUNICIPALITIES CAN DO DIFFERENTLY

- Recommended Actions:
  - Establish Financial Statement Readiness Programme
  - Conduct Quarterly Performance Information Audits
  - Strengthen Consequence Management
  - Enhance Asset Management Controls
  - Implement Continuous Auditing
  - Strengthen Audit Action Plan Tracking
  - Improve Management Accountability
  - Introduce Combined Assurance Framework

SUCCESS FACTORS FOR CLEAN AUDITS

- Leadership
  - Tone at the top
  - Accountability
  - Ownership of findings
  - Competence
  - Skilled officials
  - Internal Controls
  - Designed and operating effectively
  - Internal Audit
  - Independent and proactive

SUCCESS FACTORS FOR CLEAN AUDITS

- Audit Committee
  - Strong oversight
  - Combined Assurance
  - Coordinated assurance activities

KEY MESSAGE

- Internal Audit Cannot Create a Clean Audit
- Management creates a clean audit.
- Internal Audit Positions the Municipality for a Clean Audit by:
  - ✓ Identifying risks early
  - ✓ Testing controls continuously
  - ✓ Providing independent assurance
  - ✓ Monitoring implementation
  - ✓ Driving accountability
  - ✓ Supporting governance excellence

INTERNAL AUDIT AS A STRATEGIC ENABLER OF CLEAN ADMINISTRATION

- A municipality achieves sustainable clean audits when:

* Governance is strong
* Internal controls operate effectively
* Risks are managed proactively
* Audit findings are addressed promptly
* Internal Audit provides proactive assurance throughout the year

"Clean audits are not achieved during the AGSA audit. They are achieved through disciplined governance and assurance throughout the financial year."

THANK YOU

“Sound internal control system is a foundation of clean audit”