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South African Local Government Association

*Welcome...*

# The State of Municipal Audit Committees

Municipal Finance National Working Group

01 June 2012

## OVERVIEW OF MUNICIPAL OVERSIGHT STRUCTURES

- Accountability and oversight responsibilities for councillors increased since the enactment of the MFMA
- Accountability and oversight only possible where roles and responsibilities are clearly separated between legislative and administrative powers
  - Council responsible for approving policy and oversight to council via MM
  - Officials responsible for implementation and providing advice
- In the main, municipal oversight is fulfilled by:
  - Council
  - Oversight Committee
  - Audit Committee
  - Auditor General



Overall Finance Oversight Responsibility

– Provides Independent Assessment of the municipality on financial and non financial performance

## LEGISLATIVE FRAMEWORK FOR AUDIT COMMITTEES

- MSA provides for the possibility of establishing the council of committees necessary for the effective and efficient performance of any of its functions or powers (Section 33 and 79 of the MSA)
- Audit committees were mandated in the public sector through the MFMA since 2003. Section 166(1) of the MFMA states, Each municipality and each municipal entity must have an audit committee, subject to subsection (6). Section 166(2-6) further prescribes for the :
  - Establishment
  - Duties
  - Requirements
  - Composition of these committees
- Subsection 6 prescribes conditions under which a single audit committee may be established

## OBJECTIVES

To assist the council in fulfilling its oversight responsibilities and:

- Financial reporting process
- System of internal control and management of financial risks
- Audit process
- Compliance

To maintain effective working relationships with council, management, auditors

## KEY PERFORMANCE AREAS

Corporate governance:

- Compliance
- Ethics
- Effective and efficient control systems to prevent fraud, etc.

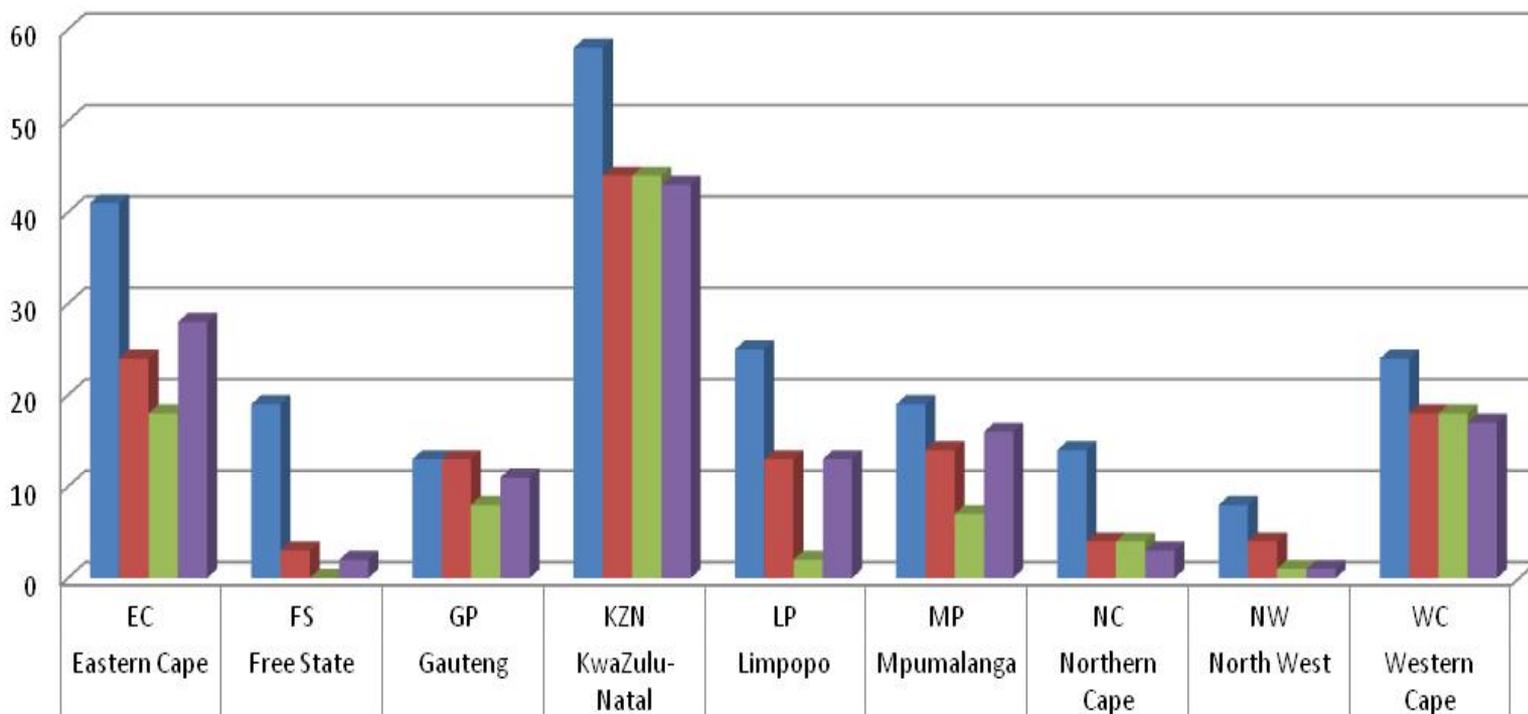
Objectives of internal control:

- Reliability and integrity of information
- Compliance
- Safeguarding of assets
- Economical, effective and efficient use of resources
- Performance management



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### State of Audit Committees

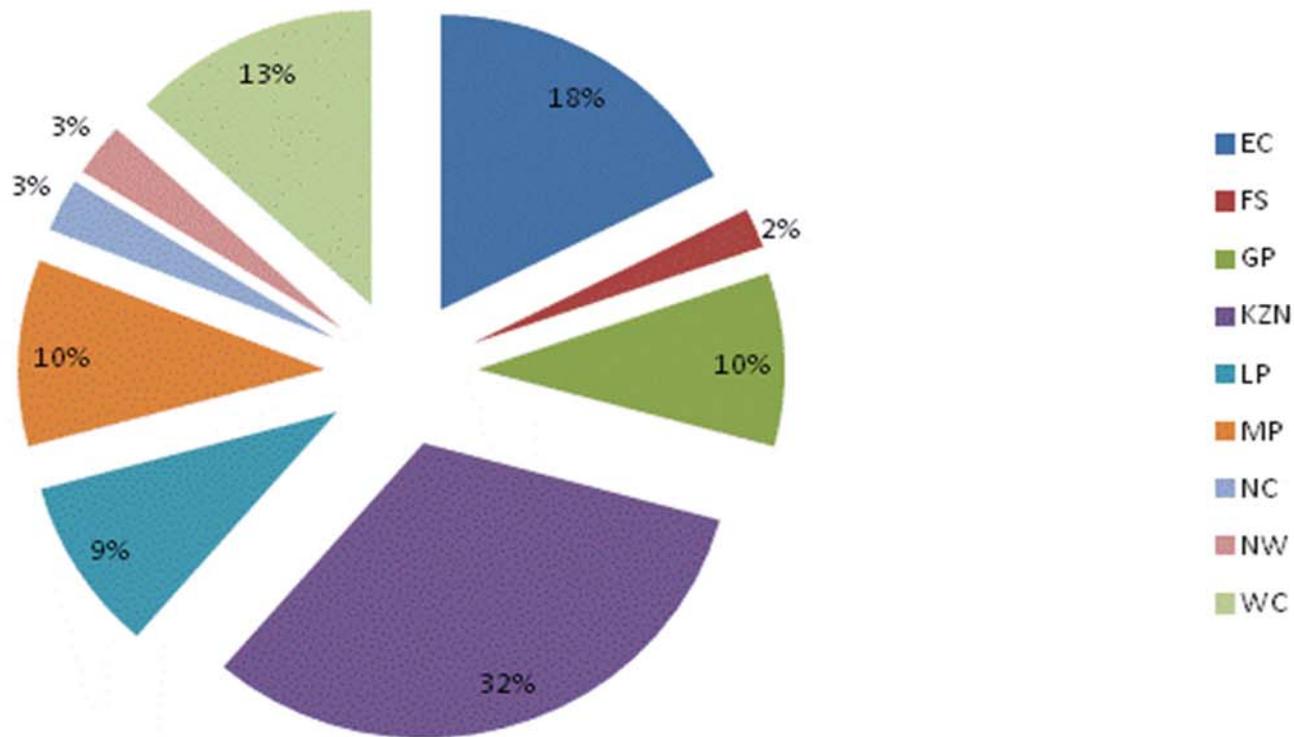


■ Audit Comms in Place	41	19	13	58	25	19	14	8	24
■ Legislation Compliant	24	3	13	44	13	14	4	4	18
■ Impact on Audit Outcome	18	0	8	44	2	7	4	1	18
■ Interacting with Executive	28	2	11	43	13	16	3	1	17

## ANALYSIS OF THE EXISTING AUDIT COMMITTEES

- The Auditor General reviewed compliance with the legislation applicable of audit committees and concluded that 137 of these committees were compliant while 84 were not compliant.
- The non compliance relates to audit committees and internal audits as reported in audit reports and included the following matters:
  - lack of internal auditing of performance measurements;
  - non-existence of a performance audit committee;
  - lack of or inadequate evaluation/advice or reporting by internal audit on internal controls, accounting, risk and loss control;
  - inability by audit committee to meet at least four times during year;
  - lack of review by audit committees of the adequacy, reliability and accuracy of financial reporting and information
  - lack of audit committee review of annual financial statements.

## COMPLIANCE TO LEGISLATION IN DETAIL



## ANALYSIS CONTINUED: impact on audit outcome

Province	Impact on Audit Outcome				Audit committees in place
	Yes	Percentage	No	Percentage	
Eastern Cape	18	44%	23	56%	41
Free State	0	0%	19	100%	19
Gauteng	8	62%	5	38%	13
KwaZulu Natal	44	76%	14	24%	58
Limpopo	2	8%	23	92%	25
Mpumalanga	7	37%	12	63%	19
Northern Cape	4	29%	10	71%	14
North West	1	13%	7	88%	8
Western Cape	18	75%	6	25%	24

## ANALYSIS CONTINUED: interaction with executive

- The audit committees have a major responsibility in a municipality/entity, that which centres around providing assurance on the adequacy, reliability and accuracy of financial reporting and information for purposes of:
  - oversight, decision-making and accountability
- The audit committees should serve as an independent advisory body to the municipal council.
- Interaction between AC and executive becomes vital when executing their functions
  - Failure to execute this responsibility effectively affects fundamental decisions relating to:
    - funding
    - accountability

In other words, service delivery might be based on information that may be inaccurate, incomplete or unreliable

## ANALYSIS CONTINUED.....interaction with executive

Province	Interaction with Executive		Audit committees in place
	Yes	No	
Eastern Cape	28	13	41
Free State	2	17	19
Gauteng	11	2	13
KwaZulu Natal	43	15	58
Limpopo	13	12	25
Mpumalanga	16	3	19
Northern Cape	3	11	14
North West	1	7	8
Western Cape	17	7	24

## PROPOSALS

- The effectiveness of the audit committees is dependent on a variety of factors such as the appropriate skills
  - Council has to ensure competence and independence of audit committees
  - Audit committees members must possess the appropriate skills to discharge their responsibilities
- The members should have the necessary skills and knowledge of :
  - Performance reporting
  - Risk management
  - Compliance with applicable legislation
- The council should be equipped to ensure they appoint audit committee members with appropriate skills
- An induction and education of the new audit committee members into the operational performance, governance structures and finances of the municipality is necessary
- Clear terms of reference should be set out and provide a basis of evaluating the AC members

## PROPOSALS

- Evaluating the performance of the audit committee through self assessment with inputs from management and internal and external audit teams
  - Chairperson to evaluate performance of individual members
  - Council to evaluate performance of chairperson
  - Evaluation criteria :
    - Expertise and knowledge
    - Attitude, objectivity, judgment and independence
    - Understanding of and commitment to duties
    - Attendance of meetings
    - Timely responses
    - Knowledge of municipality and its objectives
  - Corrective steps if where necessary

## RECOMMENDATIONS

- Ensuring audit committees are functional and effective for the sake of service delivery.
- A comprehensive assessment report of audit committees should be launched to fully gauge the effectiveness of the audit committees and the challenges they face.
  - Must be focussed on the areas /municipalities identified in the AG report as battling
  - Should clearly outline the root causes and the challenges a sample of municipalities face
  - Identify well functioning audit committees for benchmarking purposes
  - Assist in identifying support areas
  - Assist with developing generic terms of reference for Audit Committees which should:
    - Deal adequately with its membership, authority and responsibilities
    - Provide as basis for evaluating the performance of audit committees



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“ The mere existence of an audit committee is not enough. The audit committee must be vigilant, informed, diligent and probing in fulfilling its oversight responsibilities”

Thank you