

MFMA CHIEF FINANCIAL FORUM LEKGOTLA

Improving audit outcomes with regard to supply chain management and financial governance

Mossel Bay
6 December 2011



REPUTATION PROMISE/MISSION

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



IMPROVING AUDIT OUTCOMES WITH REGARD TO SUPPLY CHAIN MANAGEMENT

Significant findings from the audit of supply chain management

- **SCM issues that resulted in irregular expenditure**
 - Awards to persons in service of state
 - Awards to persons in service of municipality / municipal entity
 - Limitation on audit of awards
 - Uncompetitive or unfair procurement processes
 - Inadequate contract management

- **SCM non-compliance (not resulting in irregular expenditure)**
 - Code of conduct not always adhered to regarding declaration of interests
 - Capacity challenges in SCM units and further SCM training required
 - Lack of effective internal monitoring
 - Prohibited suppliers database not always checked properly
 - Inadequate risk assessment and fraud management
 - Internal audit did not evaluate SCM processes

IMPROVING AUDIT OUTCOMES WITH REGARD TO SUPPLY CHAIN MANAGEMENT

Key internal control deficiencies giving rise to SCM findings

- **SCM issues that resulted in irregular expenditure**
 - Inadequate oversight responsibility regarding the prevention, reporting of and compliance with SCM regulations
 - Lack of effective internal monitoring systems to ensure authorised SCM processes are followed
 - Ineffective coordination between SCM unit and directorates

- **SCM non-compliance (not resulting in irregular expenditure)**
 - Inadequate implementation of SCM controls, resulting in control deficiencies (as per previous slide)

IMPROVING AUDIT OUTCOMES WITH REGARD TO SUPPLY CHAIN MANAGEMENT

Measures to improve compliance with SCM regulations

At a leadership level

- Exercise effective oversight regarding SCM compliance and related internal controls
- Develop and implement effective systems to ensure compliance with SCM regulations
- Strengthen capacity in SCM units, including adequate segregation of procurement duties
- Ongoing and focussed training of SCM officials (PT to assist)
- Sharing of good practices among municipalities and at district level
- Effective monitoring of financial management improvement plans to address SCM issues

At a financial management level

- Effective procurement planning (**demand**, acquisition, contract management + disposals)
- Implement proper record management – easily accessible and available to support SCM
- Develop and refine systems to identify irregular expenditure where not prevented
- Prepare regular, accurate and complete reports on irregular expenditure and deviations
- Review and monitor compliance with SCM regulations through compliance checklists

IMPROVING AUDIT OUTCOMES WITH REGARD TO SUPPLY CHAIN MANAGEMENT

Measures to improve compliance with SCM regulations (continued)

At a governance level

- Risk assessments to address procurement and contract management risks (not only SCM unit, but all directorates)
- Fraud prevention plans to include specific measure for procurement
- Internal audit units to perform an evaluation of SCM internal controls and compliance, based on risk
- Audit committees to provide independent evaluation of SCM internal control measures and report thereon to council

IMPROVING AUDIT OUTCOMES WITH REGARD TO FINANCIAL GOVERNANCE

FINANCIAL GOVERNANCE

- **Governance is about transparency and accountability – build trust between municipalities and their constituents - in process of:**
 - **Policy development**
 - **Strategic planning (IDP level)**
 - **Operational planning and budgeting (SDBIP level)**
 - **Implementation and in-year reporting (section 71 and 72 and related reports, as well as regular production and validation of periodic financial statements))**
 - **Year-end reporting (financial statements and report on performance)**

- **Key elements of governance (as per King III report)**
 - **Council**
 - **Compliance with laws and regulations**
 - **Risk assessment**
 - **Internal audit**
 - **Audit committee**

} **Governance focus of AGSA in key controls**

IMPROVING AUDIT OUTCOMES WITH REGARD TO FINANCIAL GOVERNANCE

Key findings on internal audit and root causes

- **Non-compliance with their legislative responsibility to assist municipalities to maintain efficient and effective controls by:**
 - **evaluating those controls aimed at determining their effectiveness and efficiency**
 - **making recommendations for enhancement or improvement**
 - **reporting to the audit committee on internal control and compliance issues**

Lack of effectively implemented plans to adequately resource the internal audit functions

Lack of adequate training and a lack of effective coordination and communication with internal audit and the municipal leadership

- **Limited review of predetermined objectives and compliance with laws and regulations**

Internal audit's annual plans did not cater for these due to risk assessments not being performed adequately by the municipal leadership

IMPROVING AUDIT OUTCOMES WITH REGARD TO FINANCIAL GOVERNANCE

Key findings on audit committees and root causes

- **Non-compliance with their legislative responsibility**
 - **in providing assistance to review the internal controls over financial reporting and recommend and monitor corrective actions**
 - **Limited or no review compliance with laws and regulations**
 - **no performance audit committees or use existing audit committees to review the reports on predetermined objectives for reliability, completeness and accuracy before submission thereof to the auditors**

Limited capacity and access to members with the requisite qualifications, skills and experience

Limited training of members

Lack of engagement between the audit committees, mayors and council

IMPROVING AUDIT OUTCOMES WITH REGARD TO FINANCIAL GOVERNANCE

Measures to improve internal audit and audit committees

- **Renew endeavours to resource the internal audit function with adequately qualified internal auditors**
- **Strengthen existing audit committees through adequate training to effectively fulfil their responsibilities with regard to the review of controls over financial reporting**
- **Fill existing vacancies on audit committees and performance audit committees with skilled and competent professionals**
- **Explore option of shared services, cooperation with professional bodies (IIA / SAICA) to access database of skills**
- **Facilitate improved interaction between the audit committee, internal audit, the executive mayor and the municipal managers with a view to receiving feedback from the audit committee on residual risk areas and an assessment of the effectiveness of the internal control environment concerning financial reporting**
- **Provincial treasury to proactively engaged with the municipalities regarding the establishment and function of audit committees and internal audit units, looking at their structure, capacity, terms of reference and internal audit plans**

LESSONS LEARNED FROM MUNICIPALITIES WITH CLEAN ADMINISTRATION

Commitment and single-minded intention of their leadership to lead and set the right tone.

Basic internal controls and systems are in place in their municipalities.

Implement and monitor action plans to remedy deficiencies highlighted in previous years' audit findings.

Produce reliable reports, supported by documentary evidence.

Legislated duties are being performed effectively.

Formed mutually beneficial working partnerships, led by the mayors, with audit committees.

Professional relationship with the AGSA - engaged with the AGSA staff during the quarterly key controls visits.

Effectively use support and technical tools and optimal use of consultants' systems.

Staff are fully trained to implement the various regulatory frameworks.

Effective risk management, internal audit and performance audit committees.

DRIVERS OF INTERNAL CONTROL TO INFLUENCE CLEAN ADMINISTRATION

