

**HOW CAN IA AND ERM ADD VALUE
AND IMPACT TO THE CFO OFFICE IN
ACHIEVING CLEAN AUDIT**

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THE BEST RUN REGIONAL GOVERNMENT IN THE WORLD

THE BEST RUN REGIONAL GOVERNMENT IN THE WORLD

THE JOURNEY

- Enable municipalities to achieve a level 3+ financial management capability over the next 5 years (high state of conformance) = CLEAN ADMINISTRATION AND CONSEQUENTLY CLEAN AUDIT OUTCOMES
- Reaching a financial management maturity capability level 6 by 2021 - From CONFORMANCE TO PERFORMANCE

HOW

- Development and introduction of the desired internal controls (SOPs), self-testing and systematic building of skills amongst chief financial officers generally and more specifically, financial accountants, supply chain and asset management staff.

THE BEST RUN REGIONAL GOVERNMENT IN THE WORLD

BENEFITS OF A LEVEL 6 MUNICIPALITY

Culture of customer care – Batho Pele

Performance management and accountability – throughout the municipality

Planning and governance aligned to mandate

Strategic HR services

Strategic IT services

Financial management and sustainability – high state of conformance with performance

Responsive to the needs of the local community

Promote social and economic development

Provision of services in a sustainable manner

EFFECTIVENESS OF AC AND IA

EFFECTIVENESS OF AC AND IA

Effectiveness of Audit Committees and Internal Audit compared to complying with the relevant laws and regulations has been identified as an **area requiring improvement** - General Report on the Audit outcomes of 2010-11

The responsibilities of the audit committee include **providing assurance** on the credibility of various reports produced for purposes of oversight, decision making and accountability. Consequently not executing responsibility effectively results in, vital decisions relating to funding, accountability and service delivery is based on information that may be inaccurate, incomplete and unreliable.

Particularly ascribed to “The effectiveness of audit committees has also been limited by the **lack of adequate training and a lack of effective coordination and communication** with the internal audit units and the municipal leadership.”

Summarised Audit Outcomes: 2011-12

- Increase in clean audits: 2 to 5
- Challenges still experienced in the areas of:
 - Compliance to laws and regulations, particularly material misstatements in financial statements submitted as well as Internal Audit
 - Predetermined objectives

EFFECTIVENESS OF AC AND IA

Marginal improvement in the audit outcomes from the prior year.

Effectiveness of AC and IA seemingly still requires improvement in the areas of:

- Capacity and training
- Coordination and communication with management and the internal audit
- Receiving the right level of attention from other governance structures
- Audit committees having sufficient time, as well as financial and other resources

ADDING VALUE

ADDING VALUE – IMPROVING THE RELATIONSHIP BETWEEN INTERNAL AUDIT, MANAGEMENT, AND THE AUDIT COMMITTEE

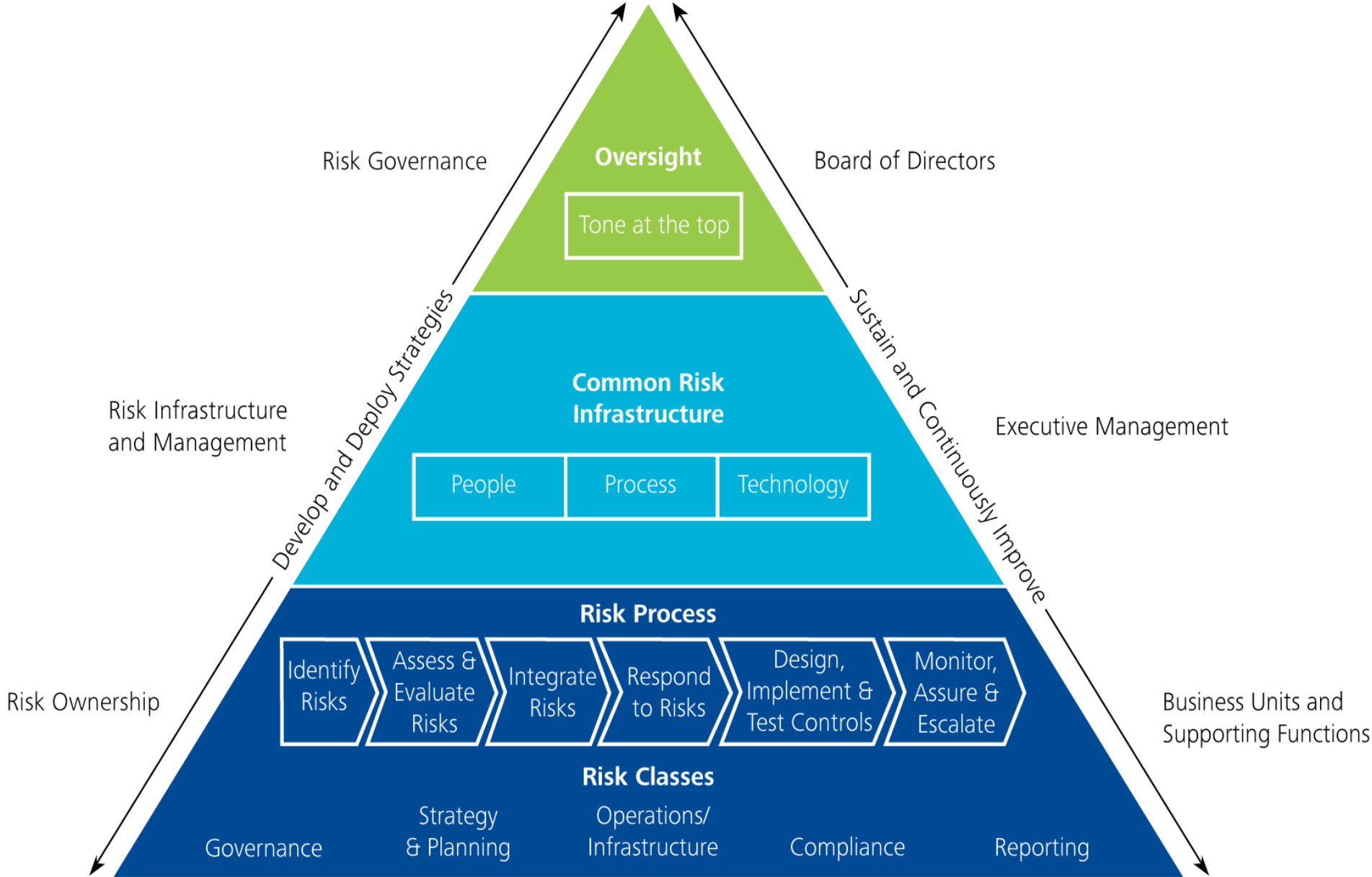
1. Communicate: Be open about the relationships between internal audit, the audit committee, and executive management.
2. Check your reporting lines: Determine whether the IA current reporting structure for the CAE is optimal.
3. Rebrand: Consider renaming internal audit group as “audit services” or another more descriptive and appropriate name.
4. Align expectations: Ensure that IA’s audit plan and areas of strategic focus are understood and agreed upon by all parties.
5. Manage expectations: There’s no such thing as perfect assurance.
6. Embrace risk: Expand IA’s attention to risks that can impede growth and objectives.
7. Define IA’s identity: Cop, detective, or counsel?

ADDING VALUE – IMPROVING THE RELATIONSHIP BETWEEN INTERNAL AUDIT, MANAGEMENT, AND THE AUDIT COMMITTEE

8. Expand your audit scope: Address emerging issues and trends.
9. Take control of your budget: Can IA do more with less?
10. Adopt a workable model: Determine what fits best for IA and municipality: In-house? Cosource? Outsource?

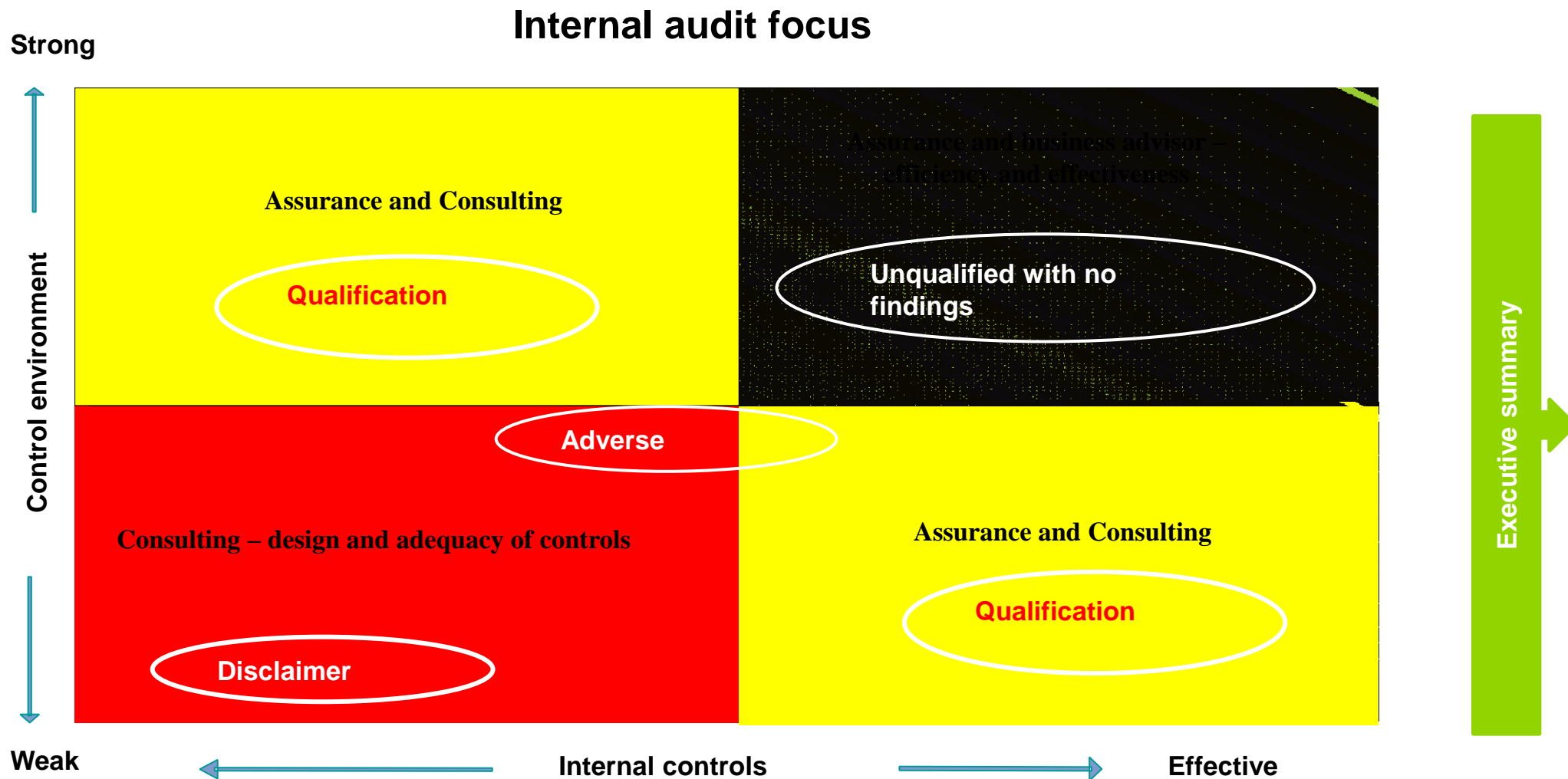
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ADDING VALUE – ERM and IA

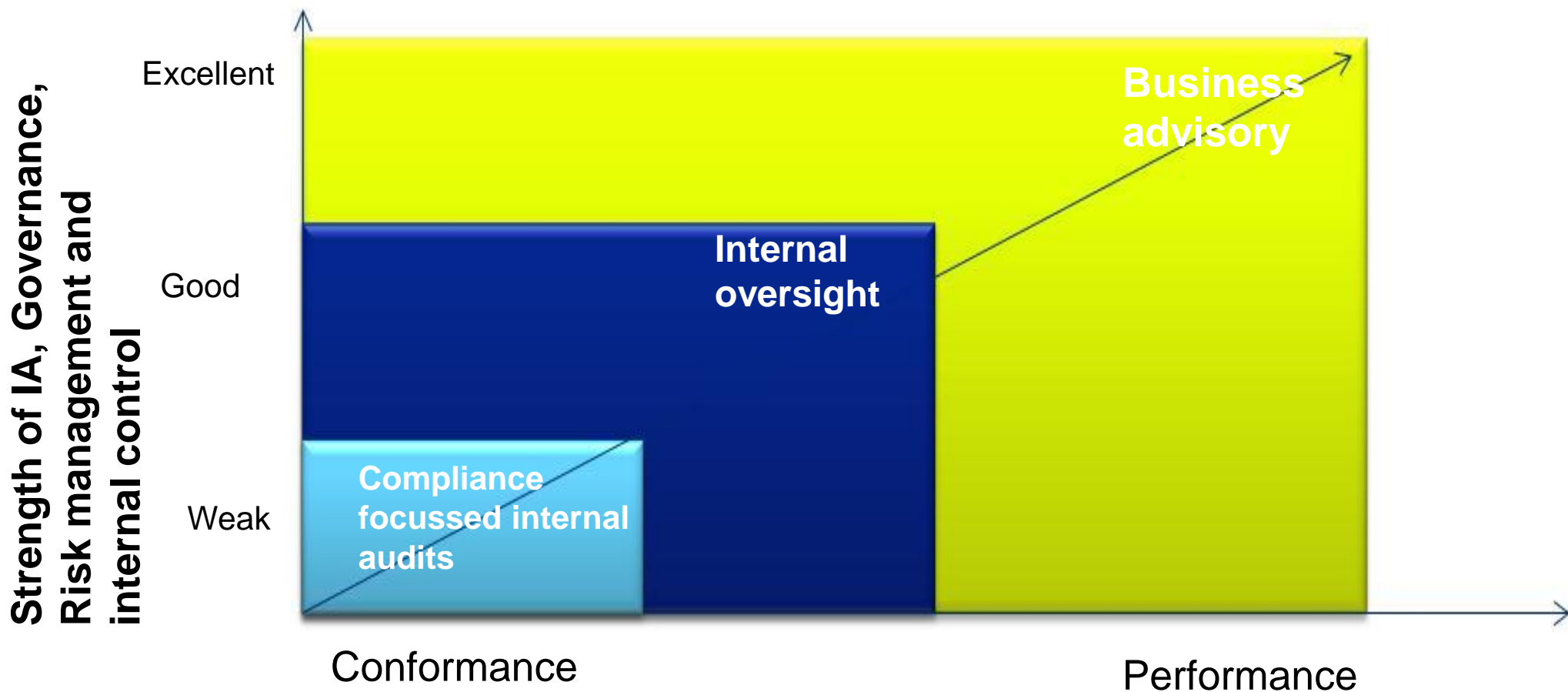


ADDING VALUE - IA FOCUSING ON WHAT MATTERS

The diagram below illustrates how the internal audit focus evolves within its roles as defined by the Institute of Internal Auditors (IIA), depending on the maturity of the organisation to ensure its continued relevance.



ADDING VALUE – CONFORMANCE TO PERFORMANCE



CFO'S OFFICE – CLEAN FINANCE ADMINISTRATION SUSTAINABLY

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Assuming all the fundamentals of AC and IA are in place:

- AC and IA's capacity exist
- Alignment amongst Leadership; AC and management on the valuable contribution that AC and IA can play to the business of the municipality
- AC and IA are flexible to adapt their approach depending on the financial management maturity levels of a municipality

CFO'S OFFICE – TRANSFORMING TO CLEAN

Steward: The Steward role entails protecting and preserving the assets of the organisation and keeping the books accurately. A good Steward protects and preserves the public trust by executing the day-to-day financial recordkeeping at a detailed level, scoring well on audits, setting high standards of internal controls, and having effective budgeting, planning, and forecasting systems. A good Steward also maximises government revenue generation by cutting fraud, waste, and abuse.

Operator: The Operator function helps ensure prudent use of resources by standardising, consolidating, and automating processes and systems to eliminate redundancy and develop shared services. A good Operator applies forward-looking financial tools such as scenario planning to maximise the organisation's financial resources.

CFO'S OFFICE – TRANSFORMED TO CLEAN AND BEYOND

Strategist: The Strategist role influences the organisation's overall direction by providing financial leadership for government initiatives. It does so by providing relevant, accurate, and timely financial information to decision makers. A good Strategist uses the budget to drive government's high-level strategy and provides financial analyses to help government organisations monitor their progress to meeting improved outcomes.

Catalyst: The Catalyst instills a financial mindset across government. A good Catalyst partners with government program executives and leaders from information technology, human resources, procurement, and other functions to drive organisational behaviour and focus on efficient execution. This includes providing a full suite of services for implementing enterprise-wide financial, HR, and revenue systems to support more efficient and integrated operations. A good Catalyst also prepares accurate and consistent costing information that is critical for allowing program areas to identify opportunities for increasing service delivery efficiency.

QUESTIONS AND CLOSING



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