



AFS Review by internal auditors

How to audit AFS prior to submission to the AG

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BACKGROUND

The AGSA provide feedback to municipalities on the quality of the submitted financial statement through the acknowledgement of receipt of the financial statements letter. In the letter they normally highlight the following quality issues:

- Completeness of the financial statements disclosures against GRAP requirements
- Accuracy of the financial statements when compared to the trial balance, general ledger and supporting schedules
- Accuracy of the financial statements when the face of the financial statements is compared notes in the financial statements
- Completeness of the audit file submitted with financial statements against the mandatory schedules required as part of the submission of the financial statements

BACKGROUND...Continued

Based on the 2019-20 MFMA General Report, the AGSA noted that only 28% of the municipalities submitted quality financial statements.

Therefore, 72% of the municipalities submitted financial statements with disclosure and audit file issues.

This makes audit readiness in terms of AFS disclosure and audit file preparation a critical area that require special focus and attention from leadership and management within the local government space

PURPOSE OF THIS PRESENTATION

The objectives of this presentation are:

- To highlight key issues that are leading to poor financial statements disclosures and audit file
- To recommend strategies that can be implemented to improve the quality of the financial statements in terms of disclosures and audit file.

KEY ISSUES IMPACTING QUALITY OF AFS

Based on Bonakude experience in the public sector, we have observed the following to be key contributors leading to poor financial statements being submitted to the Auditor General:

- Observed that not all key role players are playing their part in the review processes of the financial statements
- We also observed that financial statements are not being submitted to key role players for review on time
- Budget and Treasury unit is not adequately trained to produce quality set of financial statements
- Guidelines and guidance on the review of AFS are not used to review AFS and prepare audit file

KEY ROLE PLAYERS IN THE REVIEW OF AFS

It is important that the following key role players are involved in the review of the financial statements:

- The Chief Financial Officer(CFO). The CFO is the first line of defence and should play his role to review financial statements to ensure completeness of disclosure and accuracy of the financial statements.
- The Internal audit unit. The internal audit unit should always review financial statements as part of their internal audit plan. The AFS should always be provided to the unit on time
- Audit committee. Audit committee should have the competence to review AFS and also be provided with AFS on time to perform their review through some of their members and the internal audit unit.
- The national treasury and COGTA also provide support on the review of AFS. It is important that they are provided with AFS on time and their inputs are also considered.

We will see improvements when these role players are functional

TIMELY SUBMISSION OF AFS TO KEY ROLE PLAYERS

The biggest challenge resulting in poor quality financial statements is that financial statements are not prepared on time and submitted to key role players for review on time. This emanates from the following:

- The culture of seeing AFS preparation as July and August activity. Quite often reconciliation of TB, GL and supporting schedules are performed only after year end. No monthly reconciliation of accounts with supporting schedules. This results in too much clean up work being performed at year end and consequently results in delay in submission of AFS to key stakeholders and thus rendering their reviews ineffective.
- AFS preparation plan with key AFS preparation activities, deadlines and responsible persons are either not prepared or there are prepared but not monitored to ensure adherence to timelines.
- Interim financial statements are not prepared to allow for build up of disclosure information to reduce amount of work being done at year end.

TIMELY SUBMISSION OF AFS TO KEY ROLE PLAYERS

It is important that Budget and Treasury unit proactively actively performs AFS activities throughout the year. In this respect we recommend the following:

- Monthly reconciliation of TB and GL with supporting schedules. In instances of where differences are identified, investigations should be performed and then either cleared with corrections or supporting evidence is filed to support valid reconciling items
- Monthly reconciliations should be reviewed by the internal audit unit on monthly basis to ensure that they are being done and being done correctly
- Internal audit reports on reconciliations should be presented to audit committee for accountability.

TIMELY SUBMISSION OF AFS TO KEY ROLE PLAYERS

In order for AFS to be prepared timeously, there has to be an AFS preparation plan in place which the following elements:

- Outline of all key activities to be performed in the AFS preparation process
- Timelines for each activity
- Responsible person for each activity

The plan should be reviewed by internal audit and audit committee to ensure that it adequately covers all key activities and that timelines are fair enough to allow other role players to perform necessary reviews.

We recommend that during the month of July and August, on weekly basis progress against the plan should be verified by internal audit and should be monitored by the CFO and MM.

TIMELY SUBMISSION OF AFS TO KEY ROLE PLAYERS

Interim financial statements are a great way to reduce the amount of work that is normally done during the month of July and August.

We recommend that municipalities should prepare interim financial statements as follows:

- Interim AFS should be prepared at least on quarterly basis
- Interim AFS should be reviewed by internal audit and represented to audit committee for accountability.

TRAINING OF THE BUDGET AND TREASURY UNIT

It is key that Budget and Treasury unit are trained to produce quality AFS. In this regard we recommend the following:

- Budget and Treasury should attend GRAP Training and GRAP update training
- Consultants assisting with preparation should be required to provide hands on training and skills transfer to the budget and treasury staff
- Budget and treasury unit staff should be fully involved in the AFS preparation process even where consultants are being used.
- Budget and treasury unit staff should attend seminars and trainings on preparation of AFS

AVAILABLE GUIDANCE AND GUIDELINES ON AFS REVIEW

The following key guidelines should be used to improve audit readiness:

- Updated and most recent GRAP Checklist published by National Treasury should be used to review AFS for GRAP compliance. This should be applied by all key role players in AFS review process.
- Circular 50 of MFMA should be used to compile the audit file to ensure that minimum required information is included in the audit file
- Engagement letter from AGSA contains requirements of minimum information to be included in the audit file. This requirements should be included in the audit file review checklist.
- MFMA has additional disclosure requirements that should also be referred to during the AFS process and considered by all AFS reviewers.

COMPLETENESS OF THE AFS REVIEW PROCESS

AFS Review process should not be limited to GRAP checklist and audit file checklist but should included the following procedures:

- Reconciliation of AFS, TB, GL and supporting schedules(included in the audit file).
- Reconciliation of amounts on the face of financial statements and amounts as per the note
- Compare CY accounting policies to PY accounting policies. If there are changes, are comparatives updated and note of PY adjustment disclosed.
- Compare PY amounts as per audited AFS to comparative amounts in the current year AFS. Are there changes? If there are changes, are they supported by valid reasons and did management disclose prior period adjustments/error note.
- Compare current year amounts to prior year and budgets amounts. Are there abnormal variances? If so, obtain and assess reasons from management.

COMPLETENESS OF THE AFS REVIEW PROCESS

- Are accounting policies clear, specific and relevant to the municipality? ACPs should not be generic from Caseware or other AFS preparation tool. They should be specific
- Although circular 50 of the MFMA and AGSA engagement letter do not require all supporting schedules(registers, listings, etc) to be included in the audit file, we recommend that they should all be included in the audit file.

CONCUSION

- Quality of AFS in terms of disclosure and audit file remains a major challenge within the local government space
- CFOs, internal audit units and audit committees need to play their part in reviewing AFS to improve the quality of AFS with support from Treasury and COGTA
- In year AFS preparation processes need to be in place and they need to be monitored if we are going to see improvements in the quality of AFS
- AFS should be submitted to reviewers timeously to allow time for review inputs to be implemented before financial statements are submitted to the AGSA
- Available guidance such as GRAP checklists should be used to ensure effective review of AFS
- Budget and treasury staff should be upskilled to ensure that are competent and they produce quality set of financial statements



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