

The role and importance of research in Auditing

**By
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Overview

- Public Sector
- Benefits of Research in Auditing
- Benefits for Scholars & Practitioners in collaboration
- How audit outcomes can be improved?
 - Proposed solution from PhD research
- Conclusion



Benefits of Research in Auditing

Research:

- Expands knowledge base
- Identifies important issues
- Brings understanding and awareness of issues
 - Provides the latest information
 - Personal growth of practitioners & researchers
- Provides realistic solutions
- Provides evidence of possible positive outcomes
- Discover new possible ways of dealing with issues
- Inform policies, procedures, practices & legislation
- Improves performance of individuals and public sector

Scholars:

- explore new research topics and techniques



Benefits for Scholars & Practitioners' in collaboration

- Eliminate isolation & individualism
- Promotes sharing of information
- Through Literature & Empirical evidence
 - Current practices could be improved
 - Improved & insightful tools could be produced (manuals, policies, procedures, legislation etc.)
- Benchmarking
- Innovation
- Facilitation of productive and useful:
 - Focus groups
 - Workshops
 - Training
- Wide distribution of useful & relevant knowledge
 - Research results (solutions) are distributed globally through academic /professional/circular journals and other media platforms



How audit outcomes can be improved?

- Proposed solution from the dissertation



TITLE

Enhancing Audit Committee Effectiveness in South African Municipalities

PROBLEM

The continuous failure of South African municipal administration. The effectiveness of governance and oversight/advisory rendered by the audit committee is questionable.



RESEARCH

PURPOSE

To propose a **framework for improving audit committee effectiveness** in South African municipalities

APPROACH

SRO1 To identify the factors influencing the effectiveness of the audit committees in South African municipalities, obtained from

- 1) stakeholders of municipalities and
- 2) audit committee members

FOCUS GROUPS-(Interactive Qualitative Analysis (IQA) Technique)

SRO2 To further explore the factors identified by the focus groups through a **literature study**, linked to theories and best practices.

SRO3 To obtain input from stakeholders on the relevance and comprehensiveness of the framework developed from the focus group data and literature and **refining the framework**.

SURVEY (Interviews)

PARTICIPANTS

FOCUS GROUP 1

Stakeholders of AC

- National Treasury
- Provincial Treasury
- SALGA

Gauteng, Eastern Cape

FOCUS GROUP 2

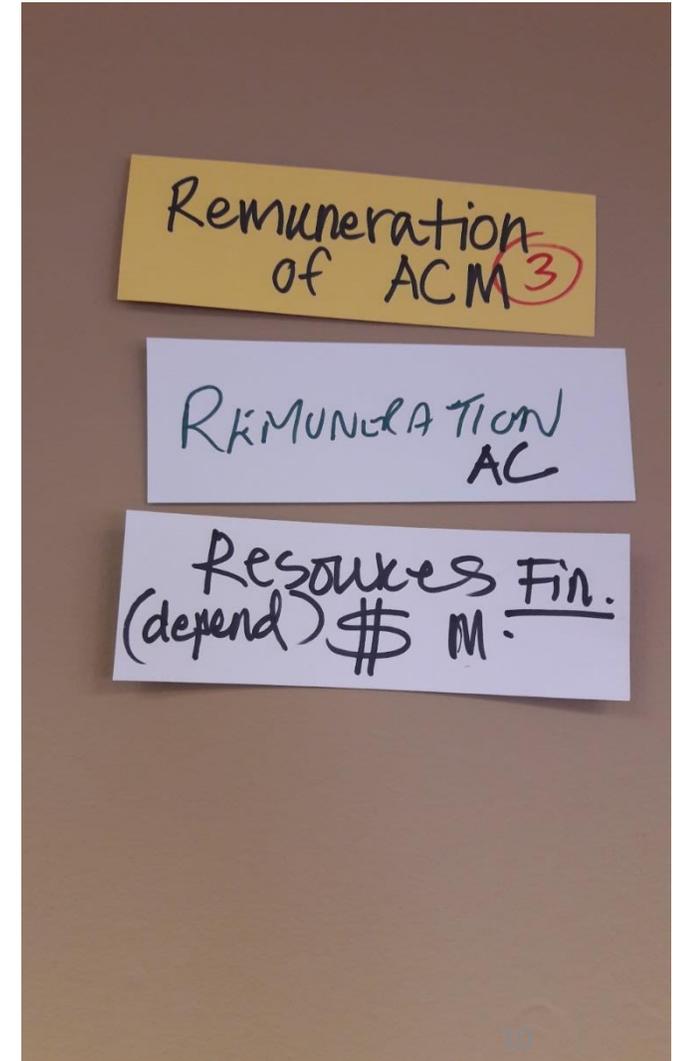
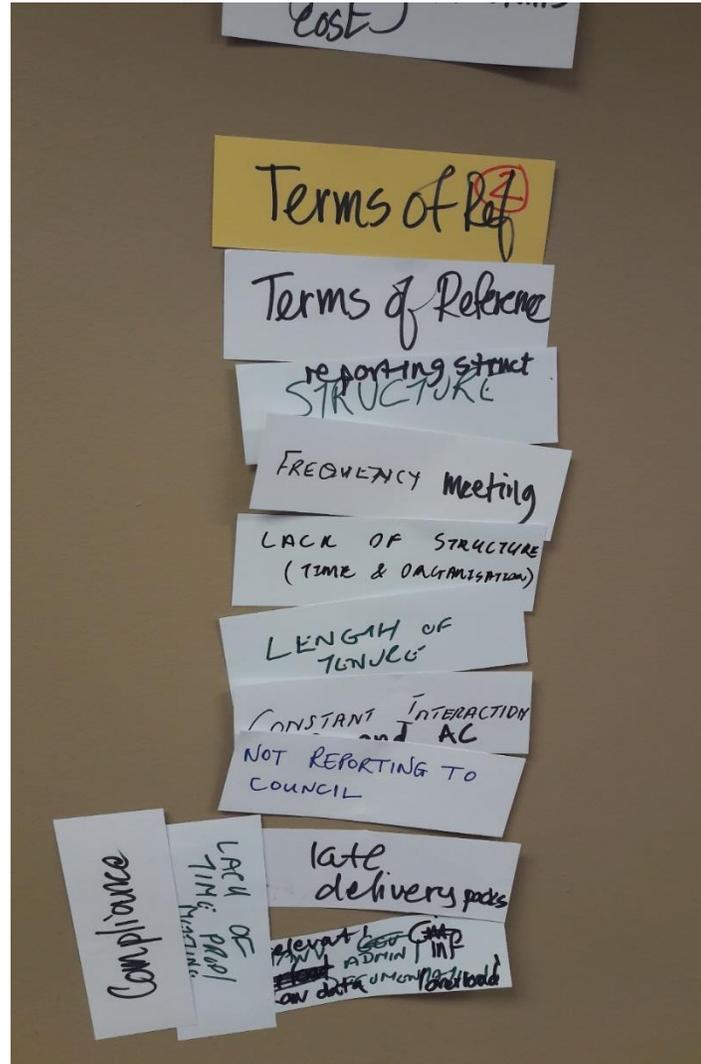
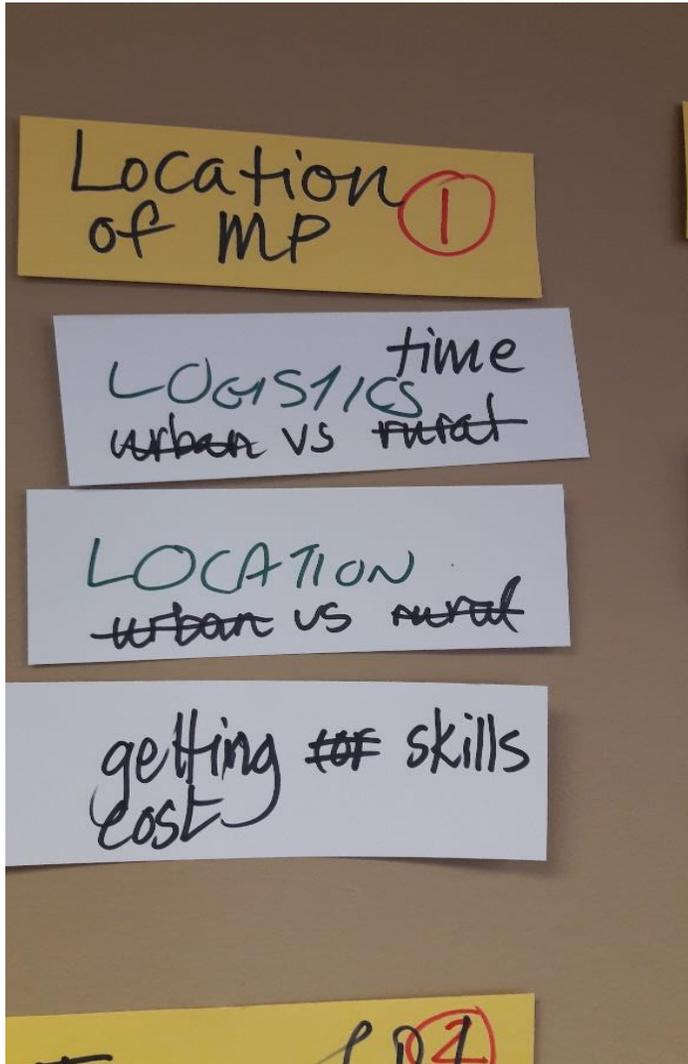
Audit Committee Chairpersons + supporting institutions

- Audit Committee chairpersons
- National Treasury
- SALGA

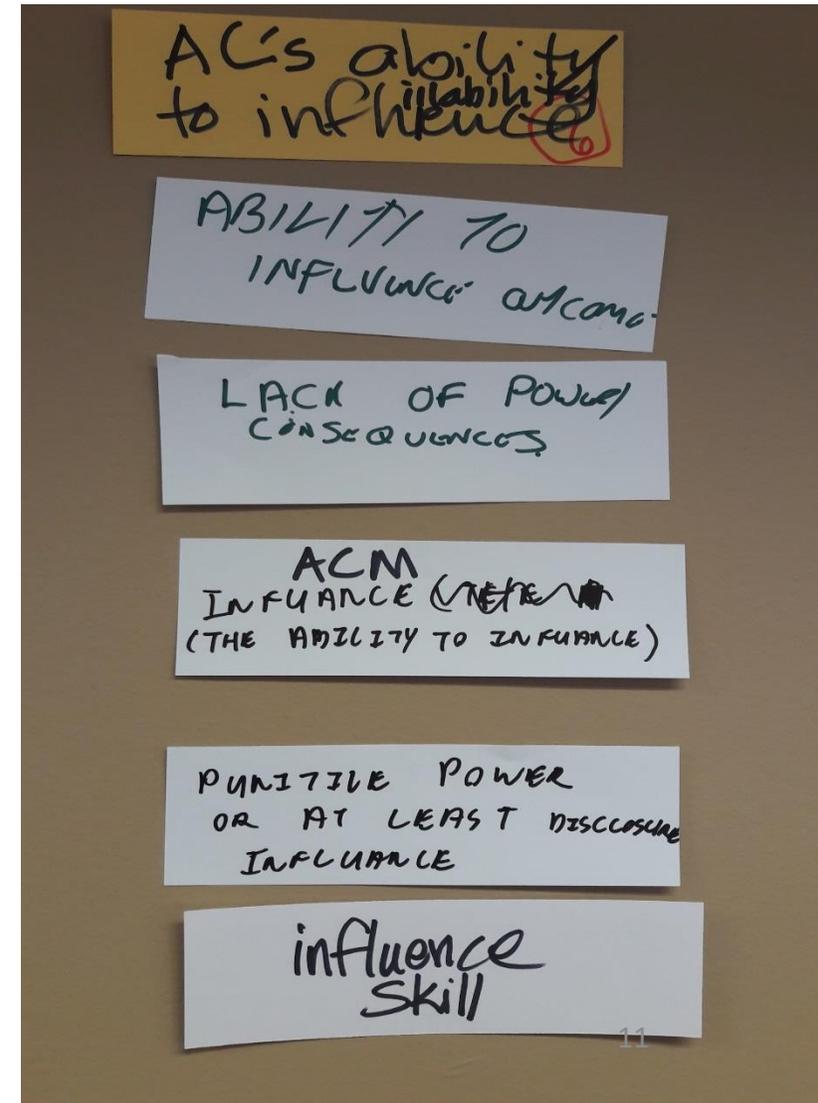
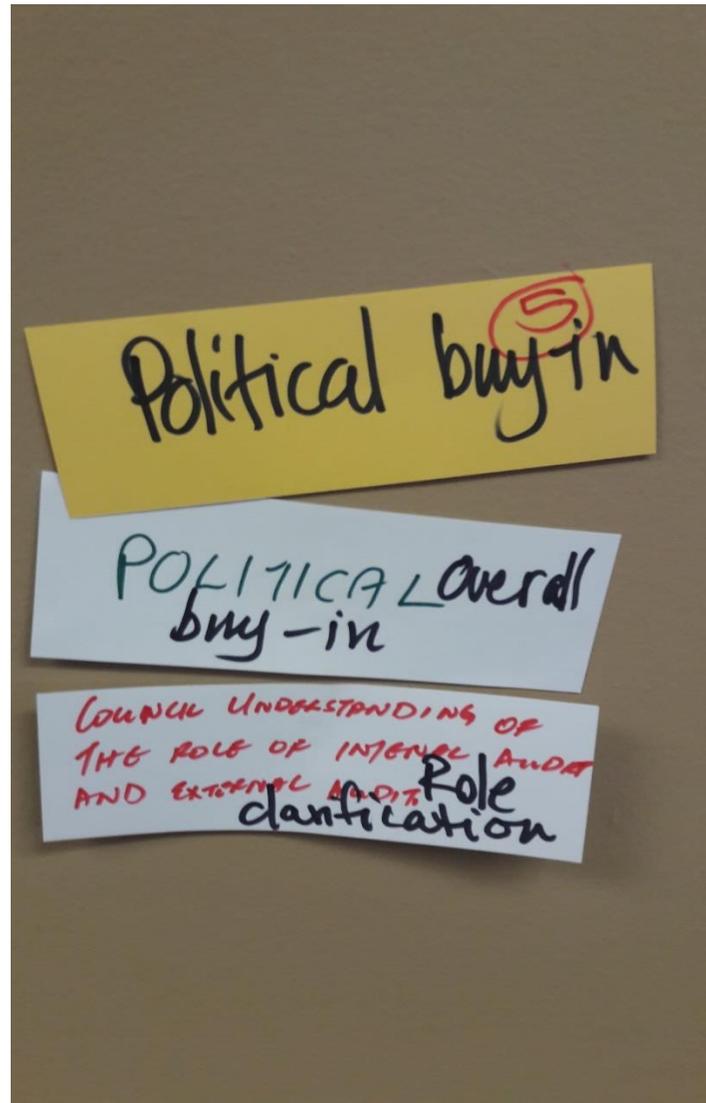
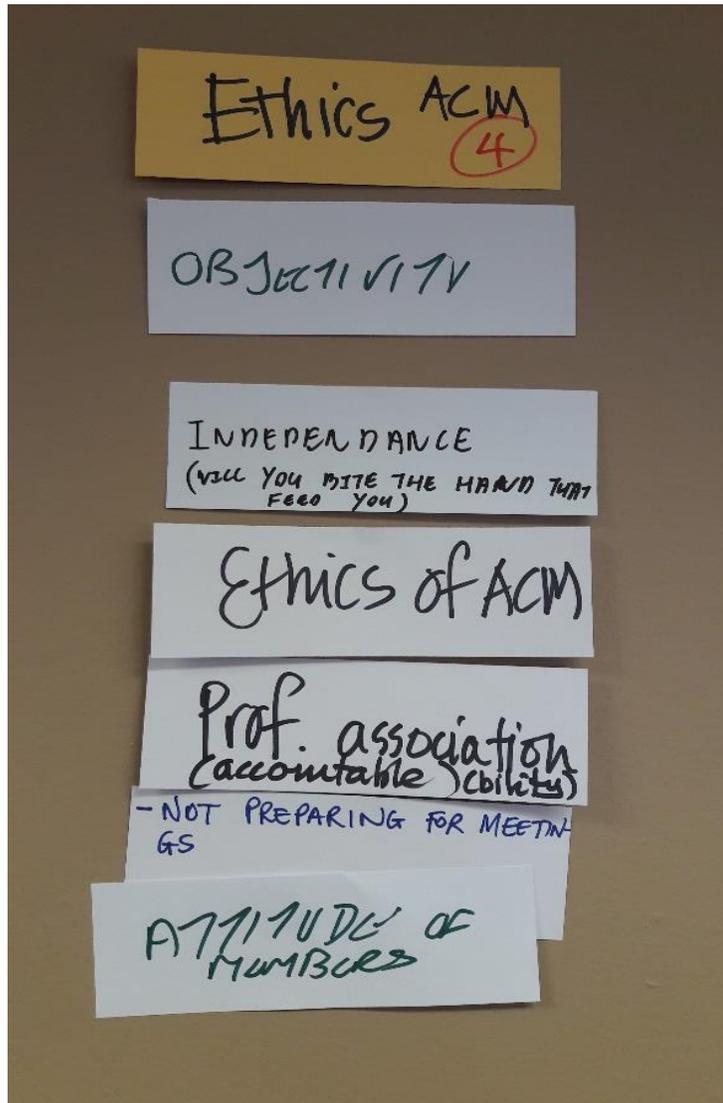
Gauteng, Limpopo

What are the factors that influence the effectiveness of audit committees functioning within municipalities?

E.g. Affinities



E.g. Affinities



FOCUS GROUP 1

Factors (Affinities)	1 Location of municipalities	2 Terms of reference	3 Remuneration of audit committee members	4 Ethics of audit committee members	5 Political buy-in
Sub-factors (Sub-Affinities)	<ol style="list-style-type: none"> 1. Logistics/Time 2. Location 3. Getting skills cost 	<ol style="list-style-type: none"> 4. Reporting structure 5. Frequency of meetings 6. Lack of structure (time & organisation) 7. Length of tenure 8. Constant interaction 9. Not reporting to council 10. Late delivery packs 11. Lack of time for preparation 12. Relevant information/ Overload 13. Compliance 	<ol style="list-style-type: none"> 14. Financial resources 	<ol style="list-style-type: none"> 15. Objectivity 16. Independence 17. Professional association (accountability) 18. Not preparing for meetings 19. Attitude of members 	<ol style="list-style-type: none"> 20. Overall political buy-in 21. Role clarification

FOCUS GROUP 1

Factors (Affinities)	6 Audit committees (in)ability to influence	7 Selection of audit committee members	8 Organisational maturity	9 Internal Audit function	10 Risk Management	11 Management of municipalities
Sub-factors (Sub-Affinities)	<ul style="list-style-type: none"> 22. Ability to influence outcome 23. Lack of power/ consequences 24. Audit committee members influence 25. Punitive power/ Disclosure influence 	<ul style="list-style-type: none"> 26. Selection 27. Appointing members that do not meet requirements 28. Not understanding their role 29. Balance skills and knowledge 30. Non-specialists skills 31. Skills capability 32. Availability 	<ul style="list-style-type: none"> 33. Maturity of organisation 34. Monitoring 35. Implementation 36. Compliance mentality 37. Consequence 38. Information 39. Documentation (Records) 40. Institutional knowledge 	<ul style="list-style-type: none"> 41. Capacity within internal audit unit 42. Dysfunctional internal audit function 43. Resources 44. Remuneration of internal auditors 45. Support 	<ul style="list-style-type: none"> 46. Not a credible risk management plan 	<ul style="list-style-type: none"> 47. Leadership 48. Management 49. Lack of management skills in municipal management 50. Administration 51. Processes 52. Management response to the implementation of internal controls 53. Staff/Human capital

FOCUS GROUP 2

Factors (Affinities)	1 Assurance providers	2 Independence	3 Legislative framework	4 Ethical conduct	5 Audit committee understanding of mandate	6 Municipality understanding of audit committee mandate	7 Preparation and participation of audit committee members
Sub-factors (Sub-Affinities)	<ul style="list-style-type: none"> 1. Key Stakeholders (Internal Audit, External Audit and other assurance providers) 2. Internal audit scope of work 3. Internal audit effectiveness 4. Internal audit capacity and proficiency 5. Strength of internal audit function and support 6. External audit function competency 	<ul style="list-style-type: none"> 7. Independence (free from political interference) 8. Conflict of interest 9. Audit committee member not independent 10. Objectivity 	<ul style="list-style-type: none"> 11. Laws and regulations 12. Applying knowledge of MFMA 13. Unsuitable / Unnecessary legislation 14. Financial instruments (MFMA understanding) 	<ul style="list-style-type: none"> 15. Ethics 16. Ethical behaviour 	<ul style="list-style-type: none"> 17. Role of audit committee not clear and not documented in a charter 18. Clear focus and mandate 19. Powers of audit committee 20. Understanding the environment by audit committee 21. Focus on risk 22. Continuous training of audit committee members 	<ul style="list-style-type: none"> 23. Understanding of roles within municipality 24. Audit committee viewed as compliance exercise 25. Council vs audit committee 26. Relationship with council 27. Accountability loop 28. Mindset and behaviour of executive and management towards audit committee 29. MPAC vs audit committee 	<ul style="list-style-type: none"> 30. Preparation time 31. Time 32. Preparedness for meetings 33. Members preparation time 34. Attendance/ availability of members 35. Unprepared members not reading the packs 36. Adequate contributions during meetings 37. Meetings (Agenda items) 38. Preparation and understanding

FOCUS GROUP 2

Factors (Affinities)	8 Inter-governmental support	9 Municipality administration function	10 Political interference	11 Role of audit committee chairperson	12 Diversity of audit committee skills	13 Recruitment and appointment of audit committee members	14 Remuneration of audit committee members
Sub-factors (Sub-Affinities)	<ul style="list-style-type: none"> 39. Support role of provincial treasuries 40. Networks (PSACF, IoDSA, SALGA) 41. Support role of CoGTA 42. Accountability loop (Reporting line) 	<ul style="list-style-type: none"> 43. Finance function effectiveness 44. Management team and CFO skills 45. Officials ability to prepare annual financial statements 46. Professional and experienced municipal staff/ employees 47. Internal controls 48. Leadership stability 49. Reporting (Frameworks) 50. Quality of reports 51. Availability of information 52. Effective secretariat to audit committee 	<ul style="list-style-type: none"> 53. Politics 54. Political parties 55. Political support (Political issues) 56. Effective functioning of municipal council 57. Use of media resulting in negative publicity 	<ul style="list-style-type: none"> 58. Robustness of the audit committee chairperson 59. Chairman strength and competency 60. Planning 61. Self-evaluation of audit committee performance 62. Experience 	<ul style="list-style-type: none"> 63. Skills 64. Diversity of age and skills, skills matrix 65. Skills compositions 66. Professional competence 67. Previous audit committee experience 68. Lack of diversified skills of members (skills mix) 69. Legal advice quality 	<ul style="list-style-type: none"> 70. Appointment and recruitment 71. Shared vs dedicated 72. Resource allocation: Reputation 73. Negative media reports (publicity) 74. Rotation 75. Corruption and fraud (reputation) 76. Recruitment and appointment not always driven by council 77. Targeted (needs) recruitment 	<ul style="list-style-type: none"> 78. Remuneration not excessive/ Risk based 79. Sitting vs preparation

RESEARCH

APPROACH

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SRO2 To further explore the factors identified by the focus groups through a **literature study**, linked to theories and best practices.

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SURVEY (Interviews)

INTERVIEW PARTICIPANTS

AUDIT COMMITTEE CHAIRPERSONS	EMPLOYEES OF THE MUNICIPALITIES	REGULATORS	STAKEHOLDERS
Audit Committee Chairpersons	Chief Audit Executives	<ul style="list-style-type: none">• AGSA• Western Cape Provincial Treasury• KZN Provincial Treasury	<ul style="list-style-type: none">• IIA Governors• Academics
<ul style="list-style-type: none">• Western Cape• Eastern Cape• Gauteng	<ul style="list-style-type: none">• Mpumalanga• Western Cape• KZN	<ul style="list-style-type: none">• Western Cape• KZN• Gauteng	<ul style="list-style-type: none">• Limpopo• Gauteng• Northern Cape• Western Cape

Municipal administration

Most municipalities are unable to fulfil their mandate, due to poor administration of their resources.

Some of the reasons for poor administration resulting in poor service delivery are:

- lack of capabilities caused by the unskilled and incompetent council and municipal staff members;
- the appointment of unqualified employees;
- poor internal controls;
- non-compliance to laws and regulations;
- lack of adequate performance systems;
- lack of accountability; and
- poor management and neglect of the infrastructure.

MUNICIPAL ADMINISTRATION

Council and management should:

- diagnose the municipality;
- assess the performance of the council and municipal staff members;
- design, implement and support programs that can improve municipal performance and statutory compliance;
- evaluate the organisation's performance regularly; and
- enforce accountability of management and staff members, to promote the implementation of useful recommendations from internal and external auditors, audit committees and MPAC.

ORGANISATIONAL MATURITY

- Fill vacant positions in accordance with IDP needs and human resources policies
 - key vacant positions must be filled
 - recruitment of skilled labour
- Training- soft skills, legislation, policies and technical skills
 - virtual training –save costs & and accessible to rural and remote municipalities
- Council and staff members must:
 - have legislative knowledge and apply it;
 - understand and comply with the performance management system.
- A productive and accountable culture within structures of the municipalities must be developed
- Adequate record-keeping (municipal documentation)
- Monitoring controls

INTERNAL AUDIT FUNCTION

- the internal audit function must:
 - be effective and managed by a competent CAE;
 - conduct engagements according to IPPF
- the CAE and internal auditors:
 - should be competent and have qualifications;
 - must be members of the IIA;
 - attend relevant training.
- the municipality must
 - appoint a sufficient number of competent internal auditors in relation to the scope of work;
 - appoint a risk management expert as an audit committee member;
- the CAE and the audit committee chairperson must meet frequently and have a good working relationship;
- the municipalities must adopt a combined assurance approach;

RISK MANAGEMENT

Municipalities must:

- have adequate risk management programs;
- implementing a risk management framework that is relevant to the municipal environment; and
- respond to risk timeously - it was a concern that municipalities lack the resources and skills for risk intervention, resulting in a lack of or poor service delivery by the municipality.

The audit committee must:

- provide advice on financial management matters to reduce the risk of lack of or poor management of funds and resources, resulting in lack of or poor service delivery and public protests.
 - Their advice must be based on legislation and risk management best practices.
 - should not engage in the operational matters of the municipality, they must stay within the parameters of its advisory role

Audit Committee advice must be based on the principles of:

- saliency (relevance and timeliness of the advisory knowledge);
- credibility (credible advice produced from sound, robust knowledge); and
- representativeness (fair and unbiased advice).

AUDIT COMMITTEE CHARTER

The audit committee must understand and apply regulations when performing its role and its functions in accordance with an approved audit committee charter;

- the audit committee charter :
 - must align with the internal and external audit functions;
 - should stipulate
 - the appointment of audit committee members;
 - the minimum competencies needed by the audit committee
 - their ethical conduct;
 - remuneration; and
 - the number or percentage of members that constitutes a quorum.
- the secretarial functions of the audit committee should not be the responsibility of the internal audit function, but a dedicated function must be made available within the municipality;

AUDIT COMMITTEE CHAIRPERSON

- the audit committee chairperson
 - must be experienced, professional, independent, objective and able to facilitate effective meetings;
 - Must have frequent private meetings with external and internal auditors
 - must be able to build good relationships with the relevant stakeholders without compromising his independence;
 - acquire an understanding of the challenges encountered by internal audit and the external audit functions;
 - must be prepared for meetings with a complete agenda, hence the need for frequent meetings with the audit committee secretariat;
 - must cultivate a good relationship with the MPAC chairperson;
 - should invite the MPAC chairperson to audit committee meetings to enhance their relationship;
 - report parties that do not implement the audit recommendations to council, to promote accountability.
 - must have the ability to conduct a self-assessment of the committee.
- the assurance reports must be reviewed by the audit committee and be used to compose useful recommendations to the council;

UNDERSTANDING MUNICIPALITIES & THE ROLE OF THE AUDIT COMMITTEE

- **Audit committee** must understanding of the role of AC and municipalities can be gained through
 - training audit committee members, induction of new members, reading minutes of meetings, cultivating a good relationship with the relevant stakeholders, and regular meetings of the audit committee chairperson and the relevant stakeholders;
 - training of audit committee members who lack skills should be the responsibility of the municipal human resources department or intergovernmental organisations that support municipalities, such as SALGA and the treasuries - it should not be the role of the CAE.

The **municipality** must:

- understanding the role of the audit committee and supporting it;
- timeously distributing the relevant dossiers with executive summaries to audit committee members, allowing them sufficient time to prepare for their meetings; and
- assessing the performance of the audit committee.

APPOINTMENT OF AUDIT COMMITTEES

The **appointment process** by council :

- conduct background checks of educational credentials, criminal record, credit history etc., and verify the eligible candidates' professional and personal references;
- execute a reference check to confirm that the eligible candidates do not serve on more than three audit committees simultaneously;
- ensure that the candidates considered meet all the minimum requirements of the position;
- adhere to legislation and human resources policies;
- avoid appointing candidates who:
 - have close professional or personal relations with management or councillors,
 - are politically connected without the relevant required experience, and
 - are overcommitted as that could compromise the quality of their service.

APPOINTMENT OF AUDIT COMMITTEES

- the appointment of audit committee members should be [performed by the provincial treasuries](#), to uphold the independence of such members.
- members who are unable to travel to remote and poor municipalities can be appointed to attend virtual meetings - this practice will eliminate the lack of skills in those municipalities;
- appoint a sufficient number of audit committee members;
- newly appointed members must [disclose their appointments by other committees](#), to enable the council to assess their availability;
 - council should terminate the contracts of the members who failed to disclose their involvements and/or are overly committed; and
- [a cooling-off period](#) for former employees of the municipality, who apply to be appointed to the audit committee.

COMPETENCIES OF AUDIT COMMITTEES

Appoint AC members:

- who have the right mix of skills, and
- With knowledge of the municipal environment and legislation.
- the core competencies that each municipal audit committee should possess are legal, finance, audit, performance management, information, communication technology (ICT), risk management, engineering and environmental; and
- possess sufficient knowledge including combined assurance, business continuity management, anti-fraud and corruption.
- who can offer advice that will create opportunities, mitigate threats, increase net revenue or decrease net cost;

ETHICS

- Ethical policies and a code of conduct must be included in the charter for audit committees to comply with
- The municipality must appoint an ethics champion and an ethics committee to enforce compliance to ethical conduct by the audit committee, municipal employees and council.
- Audit Committee members must:
 - be objective and without conflict of interest;
 - apply ethical practices such as independence and declaration of interest;
 - be free from external influence in their deliberations and decision-making;
 - comply with legislation, policies, charter and code of conduct;
 - attend training that promotes ethical conduct; and

INDEPENDENCE

- the audit committee charter must contain stipulations that promote independence and provide for management of conflict of interest;
- it must be compulsory for members to resign after their full term has concluded,
- council should review the independence of the audit committee annually;
- self-assessment by the audit committee is crucial, in order for it to identify areas of improvement;
 - the reports of the audit committee's self-assessment must be reviewed by the council and council must take the necessary actions and issue requirements emanating from the reports; and
- the audit committee members who do not comply with regulations, charter, policies and code of conduct and are not independent, should be dismissed.

POLITICAL INFLUENCE

Municipalities must:

- have policies on political influence;
- apply sanctions; and
- allow reporting to higher authorities to prevent political interference by the council and encourage segregation of duties.

Audit Committee

- The charter must authorise the audit committee to report political interference
- The participatory governance can assist the audit committee in gaining influence and political buy-in,
- It is important that the audit committee must
 - receive an assurance report from the internal audit function regarding participatory governance; and
 - advise council on promoting participatory governance.

POLITICAL INFLUENCE

To prevent political interference, the audit committee chairperson:

- must establish a good relationship with the mayor, speaker, the chairperson of finance and the chairperson of MPAC and invite them to attend audit committee meetings.
- read aloud the segments of the code of conduct for councillors and staff members for those that are attending the audit committee meeting.
- have persuasion skills;
- have the ability to construct persuasive arguments;
- be an appealing presenter;
- have the ability to appreciate the human mental state (mentalise); and
- be flexible, without compromising ethical conduct, and have good judgement.

National Treasury, Provincial treasuries & SALGA

- The National Treasury must improve risk management regulations
- The appointment of the audit committee must be centralised
 - executed by the provincial treasuries or SALGA to prevent unfair appointment practices within municipalities
- Remuneration of audit committee members must be centralised and
 - the National Treasury can determine which government structure can assume the responsibility
- The National Treasury must determine the mandatory training needs for audit committee members and which government organisation should provide the training
- SALGA must monitor the adequacy of skills of audit committees

National Treasury, Provincial treasuries & SALGA

Benchmark-Remuneration	Subsidised Remuneration	Common AC Code of Conduct	Councillors Minimum Education Level
<p>National Treasury must benchmark with other countries and best practices derived from research and performance outcomes, when determining the remuneration of audit committee members;</p>	<p>National Treasury can decide on how the remuneration of audit committee members of poor and smaller municipalities, can be subsidised;</p>	<p>National Treasury must create a code of conduct for audit committee members;</p>	<p>Government must amend legislation to prescribe a minimum required formal education level for the councillors.</p>

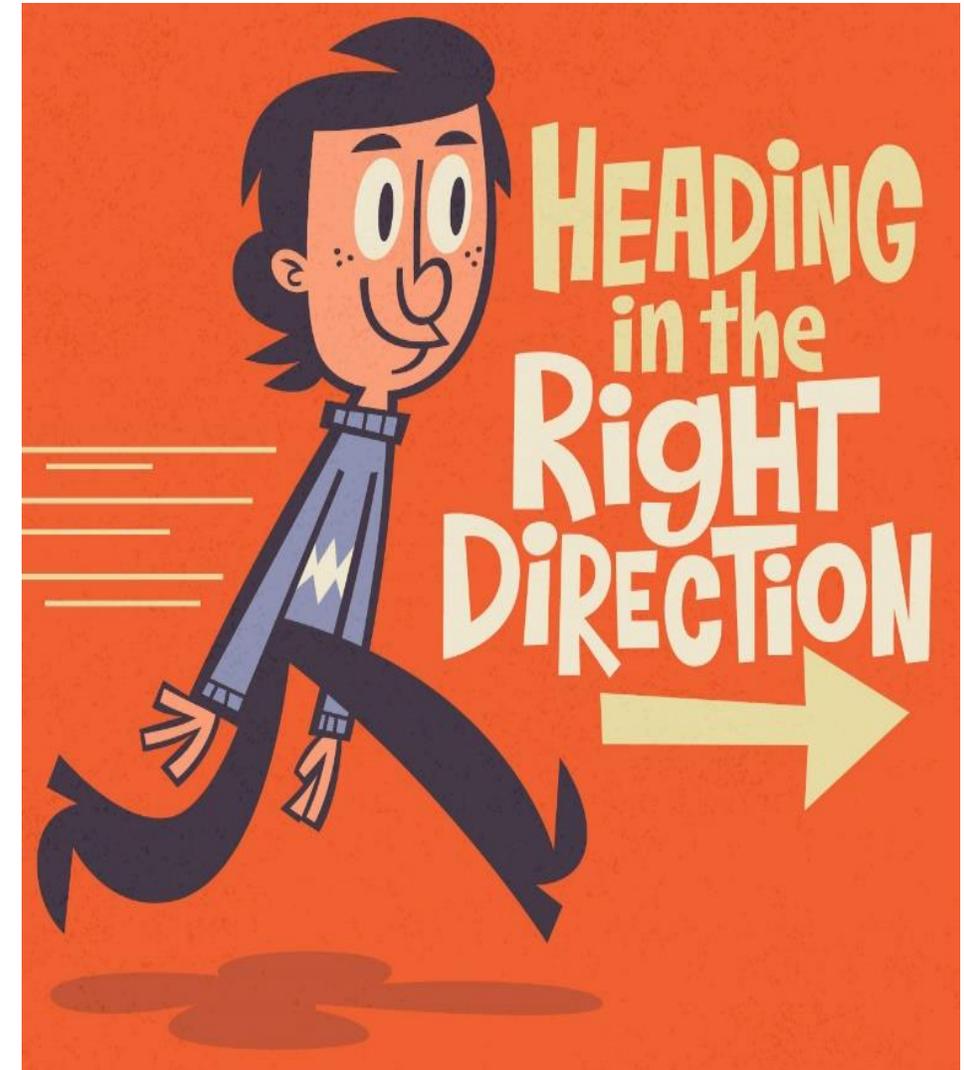
Conclusion

Audit outcomes can be improved by combined efforts of practitioners and scholars



Conclusion

- **Scholars & Practitioners' collaboration**
- **Practitioners participate in research**
- **Wide distribution of research results**
- **Incorporating research results into public sector legal and practice documents**



"Breaking barriers and moving boundaries"



Source for the PhD dissertation (Thesis):

<https://uir.unisa.ac.za/handle/10500/27549>

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