

ROLE OF EFFECTIVE IA IN IMPROVING AUDIT OUTCOMES IN MUNICIPALITIES.

12 April 2022-CIGFARO –AUDIT AND RISK
INDABA

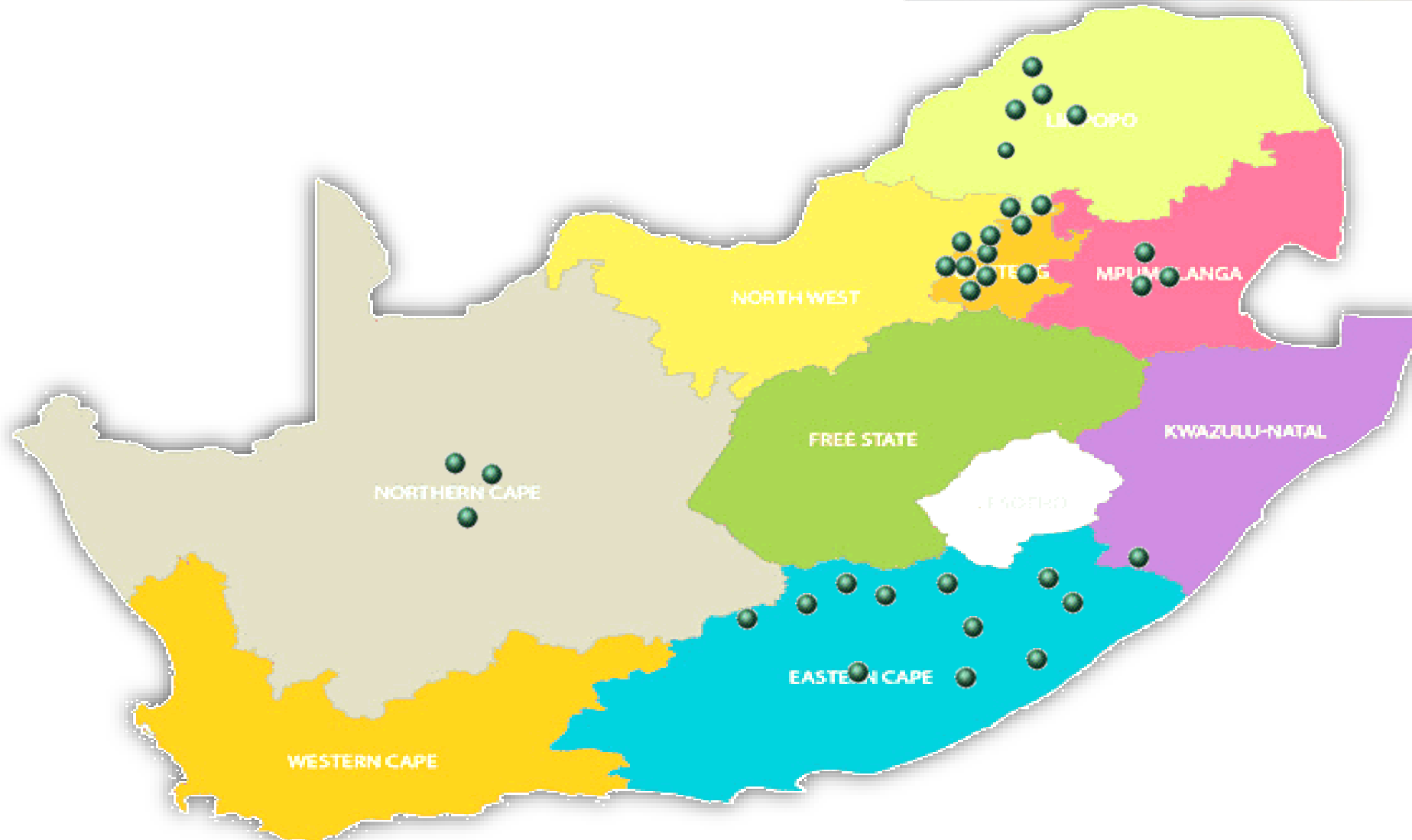


ABOUT ARMS



- ❑ ARMS has been in operation since 2006 and has gained ample experience in handling diverse assignments in Accounting, Consulting, Forensic Audit and Investigation, Risk Management and Auditing in the Private and Public Sectors in South Africa.
- ❑ The business has been in existence for more than fourteen (14) years and has continued to trade without interruption since inception to date.
- ❑ ARMS has established its base of operations in Gauteng with Headquarters in Johannesburg, with regional offices in Eastern Cape and Limpopo provinces.
- ❑ An accredited trainer through LGSETA and have programs approvals with PSETA, AGRISETA, MICTSETA and CATHSSETA.

OUR NATIONAL FOOTPRINT



OUR PEOPLE AND EXPERIENCE



- ❑ ARMS was founded by black professionals with a passion for transformation, professionalism and upliftment of the previously disadvantaged persons.
- ❑ The founders and partners of this firm bring decades of accounting and auditing experience to the business.
- ❑ ARMS is wholly black owned and immensely contributes to the BEE program of the country. Led by 3 Directors with staff complement of more than 70 professionals.
- ❑ This group of professionals are leading the company as it establishes a reputation of providing high quality professional services.

OUR VISION, MISSION AND MOTTO



☐ Mission

Provide leading-edge assurance and advisory services.

☐ Vision

A preferred African company for assurance and advisory services.

☐ Motto

Promptly exceed clients' expectations at an affordable cost.

OUR VALUES



The values that define how ARMS operates and relates to all stakeholders are:

Value	Meaning....
▪ Integrity	We conduct ourselves in accordance with relevant professional standards
▪ Accountability	We take responsibility and pride in our work
▪ Fairness	We pride ourselves in making sound decisions and unbiased judgements
▪ Honesty	We are transparent in our dealings with our stakeholders and amongst ourselves
▪ Reliability	We deliver on our promises

OUR VALUE PROPOSITION



ARMS offers the following value propositions:

✓ Turnaround	Ensure quicker delivery of services at all times
✓ Capacity transfer	Consciously implement knowledge transfer in our project delivery
✓ Value-add	Go beyond delivery needs to demonstrate worth in other areas
✓ Quality	Maintain high quality standards in product and service delivery. The delivery process will subscribe to the necessary quality management system.

OUR AREAS OF EXPERTISE AND EXPERIENCE



ARMS has extensive experience in the following fields:

- Advisory and assurance
- Internal auditing
- Governance and compliance
- Risk management
- Specialised training: MFMA; PFMA
- Forensic and special investigations
- Taxation
- VAT compliance and recovery
- GRAP conversion and compliance
- Municipal support and services
- Performance management systems
- Performance management support
- Fixed asset registers
- Project management
- Financial accounting
- Procurement and BEE compliance review
- mSCOA Assurance
- mSCOA Implementation, support and training

OUR VERIFIABLE EXPERIENCE

(To name the few)



PERIOD	CLIENT NAME	BRIEF DESCRIPTION OF ASSIGNMENT
2009 - 2013	City of Tshwane	Co-sourced - internal audit services
2013 - to date	City of Tshwane	Panel of internal audit & forensic services
2008 - to date	Ekurhuleni Metropolitan Municipality	Panel of internal audit & forensic services
2010 - 2013	Joburg City	Internal Audit, Conducting of quarterly and annual performance Information audits and providing advisory services on performance management systems.
2016 - 2019	Film & Publication Board	Provision of internal audit services
2016 - 2019	The Market Theatre Foundation	Provision of internal audit services
2015 - 2018	Eastern Cape Liquor Board	Provision of internal audit services
2015 - 2018	National Heritage Council	Provision of internal audit services
2014 - 2017	Department of Home Affairs	Provision of internal audit services
2015 - 2018	City of Polokwane	Provision of internal audit services
2018 – 2021	City of Mbombela	Provision of internal audit services

VERIFIABLE EXPERIENCE (cont..)

(To name the few)



ORGANISATION	TRAINING PROVIDED
City of Johannesburg	Performance Management System
City of Tshwane	Performance Management System
Ekurhuleni Metro	Supply Chain Management
SASSA	Project Management; Risk Management; Customer Care
SANRAL	Performance Management System; Project Management
DBSA	Performance Management System; Project Management
Johannesburg City Parks	Performance Management System
Sekhukhune Municipality	Risk Management
National Heritage Council	Risk Management
Department of Transport	Performance Management System
Department of Social Development	Performance Management System
Office of the Premier	Performance Management System
Eden and Kannaland Municipalities	Report writing

Beyond the unqualified audit reports:



- Good audit outcomes are supposed to be the norm.
- Too much noise around the attainment of clean audits as if it's a special achievement (such a low standard).
- In functional societies and economic sectors an unqualified or clean audit report is the acceptable standard that is supposed to be achieved consistently over the years.
- The main focus should be on the performance of the organisation with regards to services/products, set financial targets, governance, sustainability, market share etc

Beyond the unqualified audit reports (Cont)



- Key challenges facing municipalities:
 - Poor economic growth
 - Poor audit outcomes (poor audit outcomes for over 15yrs remain the norm)
 - Poor service delivery: water shortages, unreliable electricity, etc
 - High unemployment rates (especially youth unemployment)
 - Crumbling infrastructure
 - Weak governance: malpractices, corruption etc
 - Inadequate funding.
 - Waning confidence: Public losing confidence in local government

Beyond the unqualified audit reports (Cont)



- South Africa's municipalities have been audited enough by AGSA, to know their problems in detail.
- We have a whole library of audit findings. It's the same issues.

LEGISLATIVE PRESCRIPTS FOR EXTERNAL AND INTERNAL AUDITS IN MUNICIPALITIES: MFMA



- **126. (1)** The accounting officer of a municipality-
 - (a) must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate. submit the statements to the Auditor-General for auditing
- 126. (3) the Auditor-General must :
 - (a) audit those financial statements; and
 - (b) submit an audit report on those statements to the accounting officer of the municipality or entity within three months of receipt of the statements.

LEGISLATIVE PRESCRIPTS FOR EXTERNAL AND INTERNAL AUDITS IN MUNICIPALITIES: MFMA



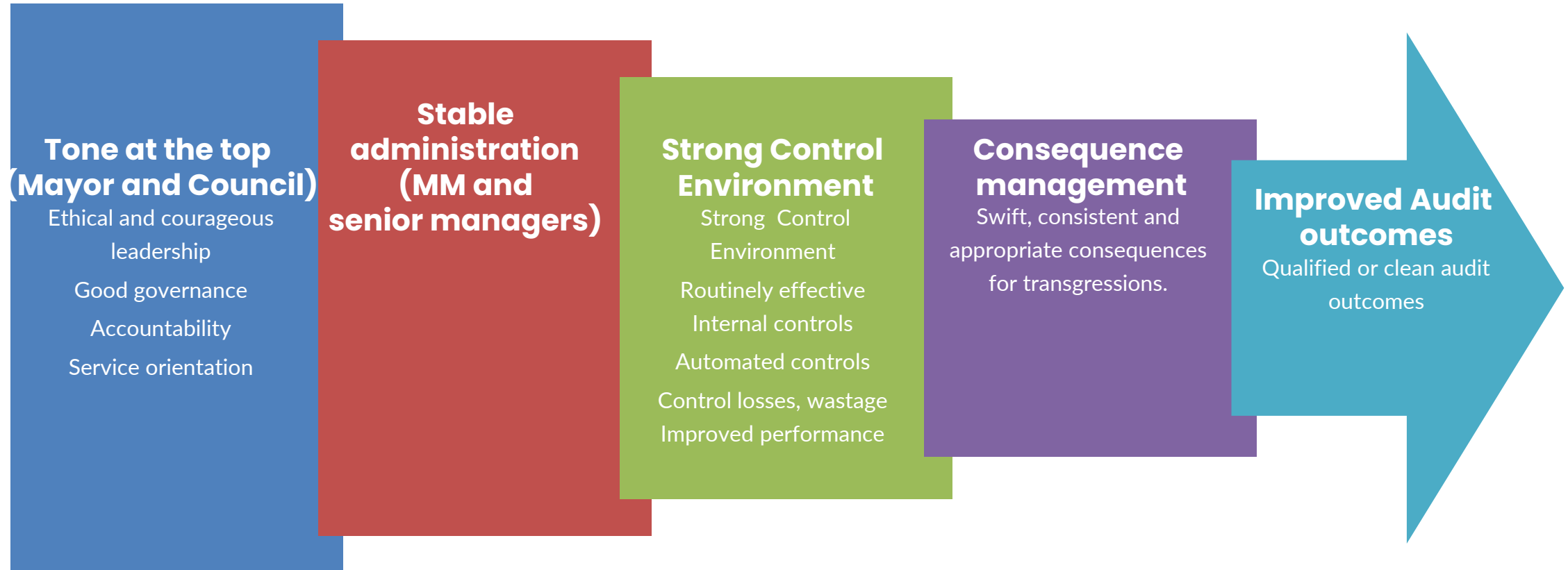
- **166. (2)** The internal audit unit of a municipality or municipal entity must :
 - (a) prepare a risk-based audit plan and an internal audit program for each
 - (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to:
 - (ii) internal controls;
 - (iii) accounting procedures and practices;
 - (v) performance management;
 - (vi) loss control
 - (vii) Compliance with applicable legislation

GENERIC BENEFITS OF BEING AUDITED



- Determine adequacy of internal controls
- Promote best practices for controls
- Ensure compliance with policies and regulations
- Identify operational inefficiencies, losses and waste
- Review IT projects, systems, and technology
- Provide objective insight
- Assess efficient and responsible use of resources
- Identify potential cost savings
- Assist management in addressing complex, cross-functional issues
- Assurance of reporting: Financial and Performance reporting

PILLARS OF EFFECTIVE MUNICIPAL GOVERNANCE : MEASURED BY AGSA



OVERALL STATUS OF CONTROLS THAT IMPACT AUDIT OUTCOMES 2019-2020



CONTROL PILLAR/DRIVER	GOOD	OF CONCERN	INTERVENTION REQUIRED
LEADERSHIP	31%	33%	36%
FINANCIAL AND PERFORMANCE MGNT	21%	39%	40%
GOVERNANCE	33%	39%	28%
<u>SPECIFIC AREAS OF FINANCIAL PERFORMANCE: WHERE IA CAN HAVE SIGNIFICANT IMPACT</u>			
PROPER RECORD KEEPING	24%	37%	39%
DAILY AND MONTHLY CONTROLS	25%	35%	40%
REVIEW AND MONITOR COMPLIANCE	9%	36%	55%
AUDIT ACTION PLANS	14%	47%	39%
INFORMATION TECHNOLOGY CONTROLS	26%	48%	26%

OVERVIEW OF AUDIT OUTCOMES: EXTERNAL AUDITS BY AGSA



	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2019-20 (257)	27	89	66	6	12	57
2018-19 (257)	20	94	93	6	39	5

SUMMARY OF THE ROOT CAUSES OF THE POOR AUDIT OUTCOMES AND STATE OF LOCA GOVERNMENT; AGSA 2019-20



- **Slow response or unresponsive to audit findings**
- **“ reason why municipalities are not achieving clean audits is that they are slow in responding to audit recommendations or do not even respond” AGSA 2020.**

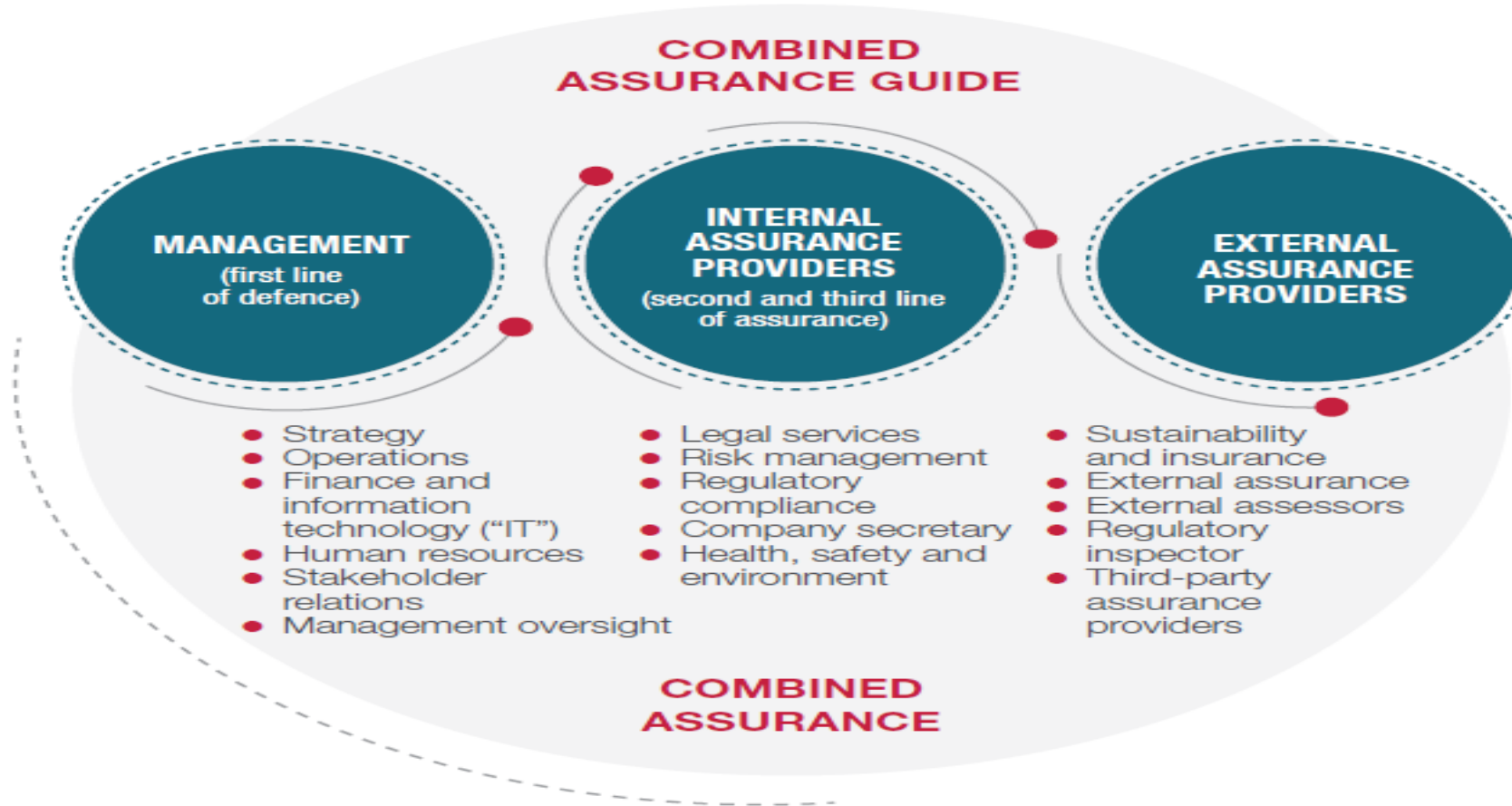
	Slow response	No response
Slow response by management	123	29
Slow response by political leadership	40	14
Slow response by oversight	18	9

KEY AREAS THAT CONTRIBUTE TO POOR AUDIT OUTCOMES IN MUNICIPALITIES: 2019-2020



- **Inadequacy of internal controls (in-year standard controls) : Bank recons, creditor recons, VAT recons, FAR recons etc**
- **Poor supply chain management: expenditure and contract management**
- Poor financial health of municipalities
- **Noncompliance with legislation**
- **UIF**
- **Poor: Financial and Performance reporting**
- Poor governance and leadership

Implement a combined assurance model: The Audit action Plan (AAP) Steering Committee is a start of the journey to improved audit outcomes



Benefits of implementing combined assurance to improve assurance and audit outcomes



- Applied correctly, the combined assurance model has a number of benefits. Firstly, it provides **integrated assurance service, and enhanced accountability and authority**. Secondly, with improved checks and balances, it creates a high assurance standard benchmark. Thirdly, a combined assurance model it lays a platform where absolute assurance can be provided.

How can an effective IA do to assist the Municipality to achieve better audit outcomes?



- Read the audit report and management letter in detail (workshop it with the IA team).
- Don't wait for the latest audit report and management letter even the past reports are good enough because these are recurring issues.
- Take ownership of coordinating the development and implementation of the audit action plan (AAP). The accounting officers must champion and sponsor the AAP
- Develop a SMART AAP, with clear deadlines
- Concentrate on supply chain management: expenditure and contract management, compliance with legislation, UIF, financial and performance reporting

PRACTICAL PLANS THAT MUST BE IMPLEMENTED TO ACHIEVE BETTER AUDIT OUTCOMES



- **SCM: introduce probity audits for significant tender processes: pre-award (Politicians and corrupt managers will resist it).**
- **Assist in developing contract management framework and procedures: Financial and performance.**
- **Quarterly performance audits and project evaluation reports.**
- **Regular review of daily and monthly internal controls.**
- **Compliance: a proactive review of key compliance issues early in the financial year. (Compliance cant be backdated nor fixed retrospectively.**
- **Assist in developing a compliance framework and register to monitor compliance.**

PRACTICAL PLANS THAT MUST BE IMPLEMENTED TO ACHIEVE BETTER AUDIT OUTCOMES(CONT)



- **Develop a two-three plan to improve audit outcomes, because it's never a one year process.**
- **Embed it in the processes not rely on personalities.**



Thank you

