



Auditing to build public confidence

NCOP Local Government Week
**Improving local government audit outcomes, by
restoring accountability and transparency**
8 September 2020

The audit outcome value proposition

“Audit outcomes give an indication of the general governance environment within which a municipality functions.

A clean audit gives an indication of a well-governed environment, where we find good risk management and strong internal control. This is an environment where management have accurate information to make decisions, which in turn creates a solid foundation to be able to deliver on the promises made in government strategies.

*When a municipality does not have a clean audit, it highlights certain warning signals that the environment in which the auditee functions, is less than ideal. Not having a grip on financial affairs, not having access to accurate performance information or have a culture where the rule of law is not respected creates **a fertile environment for inappropriate management of public resources**. This can range from not having accurate information available for decision-making to the other extreme – full-scale corruption!”*



The Constitution of the Republic of South-Africa, 1996 Section 216 - Treasury control

- Sets financial controls for all spheres of government, and
- Impose responsibilities and penalties on accounting officers and political heads.



Whitepaper on Local Government, 1998

Policy objectives

Revenue adequacy and certainty (own or inter-governmental transfers)

- Municipalities should be encouraged to fully exploit these sources of revenue to meet their developmental objectives.

Sustainability

- Requires that municipalities ensure that their budgets are balanced (income should cover expenditure).
- Given revenue constraints, this involves ensuring that services are provided at levels that are affordable, and that municipalities are able to recover the costs of service delivery.



Whitepaper on Local Government, 1998

Policy objectives (continued)

Effective and efficient use of resources

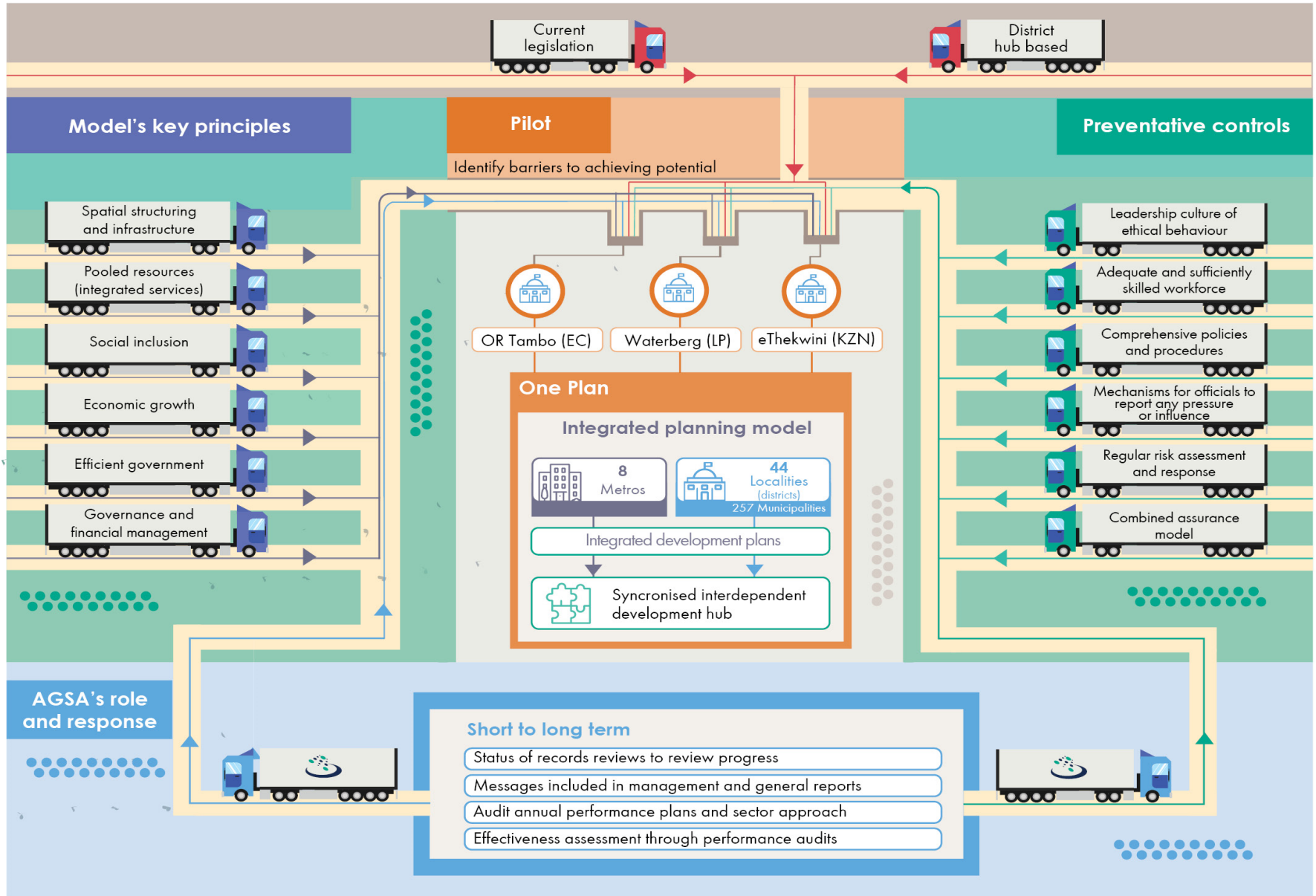
- Efficiencies in public spending

Accountability, transparency and good governance

- Municipalities must be held responsible and accountable to local taxpayers for the use of public funds.
- Elected representatives should be required to justify their expenditure decisions and explain why and how the revenue necessary to sustain that expenditure is raised.
- Accounting and financial reporting procedures should minimise opportunities for corruption and malpractice.



Overview of the district coordinated development model



The high-level principles of the model were extracted from the concept note 'Towards a district coordinated development model' dated September 2019



Disciplined project planning as a preventative measure



Preventative controls – the ultimate deterrent



Typical auditee business processes



Preventative controls



Built on **strong control** environment with assurance provided by:

Senior management

Accounting officer/ authority

Internal audit unit and audit committee



Material irregularity and poor audit outcomes

Consequences

Financial loss

Costly investigation

Disciplinary processes

Litigation



September launch of preventative control guides



What we will provide

Guides on preventative controls will be published covering the following categories:

1. The control environment as a basis for all preventative controls, presented within two broad categories:
 - **Tone and control culture** – dealing with controls that should be in place at an organisational level to enable an ethical and effective control culture, including leadership effectiveness and conduct.
 - **Institutionalised internal controls** – dealing with controls that should be in place at an organisational level to enable the implementation and monitoring of, and the assurance on, preventative controls.
2. **Transactional level controls** – dealing with controls within the key business processes of institutions, such as procurement, payments, financial statement preparation, and asset management.
3. **Project management and delivery controls** – dealing with key delivery areas, including infrastructure development and maintenance.

The guides cover the main preventative controls that should be in place and include key questions that oversight structures and executive authorities can ask to obtain assurance on whether the controls have been implemented and are working effectively. In each guide, this is presented as questions to ask the AO/AA.

The preventative control guides are available on the AGSA's website (www.agsa.co.za).



Status of records reviews

Objectives

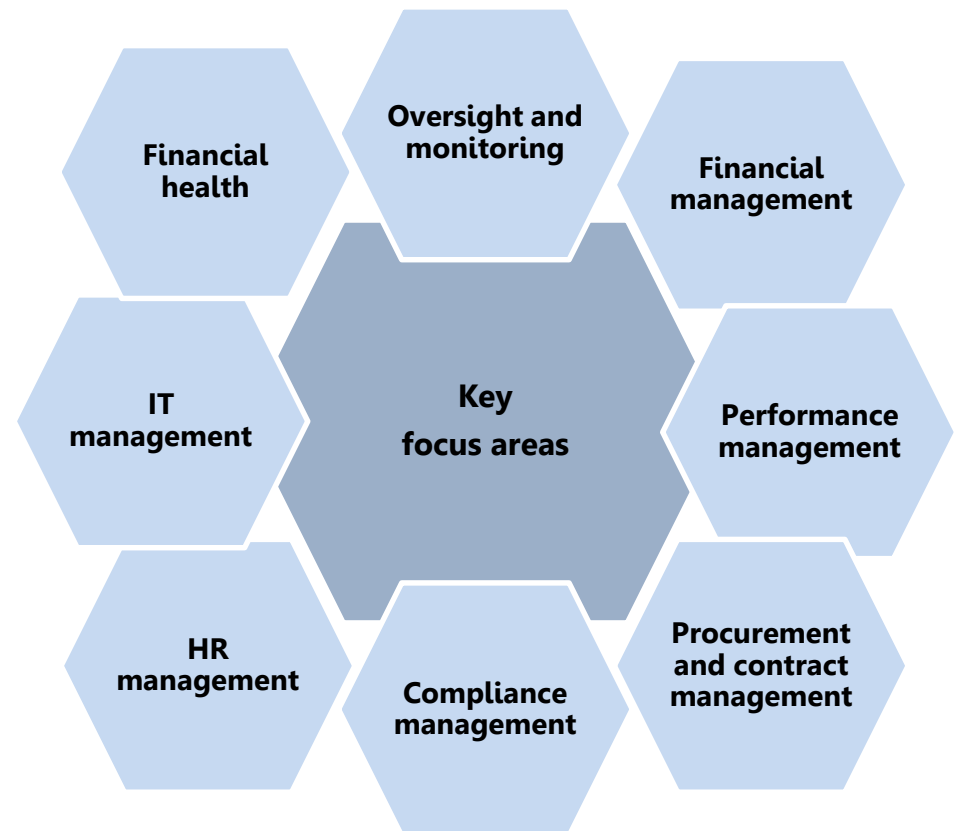
Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans / follow through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Focus areas



“Prevention is so much better than healing, because it saves the labour of being sick.”



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