

2018-19 MFMA Audit Outcomes Session

27 July 2020

Questions and Answers (Q&A)

SAICA hosted the 2018-19 MFMA audit outcomes session with the Auditor General of South Africa (AGSA), South African Local Government Association (SALGA) and National Treasury on 27 July 2020. This Q&A has been developed from questions raised by delegates who attended the webcast and have been responded to by SAICA, AGSA, SALGA and National Treasury.

This Q&A is to be used purely for information purposes and individuals are advised to consult the relevant stakeholders relating to questions concerning their specific organisation.

- 1. What is the new norm for the AGSA post COVID-19? Will the AGSA be switching to Performance auditing approach instead of Regulatory audit approach?**

AGSA response:

The AGSA's mandate is set out in the Constitution, which requires us to express an opinion on the annual financial statements, and the Public Audit Act, which requires us to provide an opinion, conclusion or findings on non-compliance with laws and regulations, as well as the audit of predetermined objectives. Our approach is to perform integrated audits rather than standalone performance audits, and we have a multi-disciplinary team that is helping us with the proactive audits. The teams include performance auditors and people from various disciplines, such as medical doctors, doctors in education, engineers, etc.

- 2. Will the AGSA's feedback to the general public be based to the Management Report findings? Is this because of confidentiality as raised by Freeman?**

AGSA response:

The management report is a tool for communication between the auditor and management. It does contain information that is in the public interest, which is why the general reports (where we highlight certain key messages) contain more insights than just the audit reports.

- 3. COVID 19 has exposed the lack of and the poor quality of service delivery by all 3 spheres of government. How will the AGSA be changing their approach to mitigate this in future?**

AGSA response:

We have been consistent in the general reports we have issued over the last decade about the impact of the lack of leadership attention to service delivery. The MFMA general report, for example, talks specifically about the service delivery breaches in the provision of water and roads infrastructure.

- 4. The only problem I have with some irregular expenditure is that you as an entity may have done all the right things and then you have an auditor who disagrees and then raises the findings and no matter what you say to explain their findings stick. The impact of such irregular expenditure can be misleading to the users of the AFS. We need to find mechanisms to resolve these matters.**

National Treasury's response:

There is a need for further interaction between the stakeholders. Each of the areas have a specific context, which also need to be considered when finding solutions. There is a policy context, direction enabled in legislature as the primary source. This should then guide the approach taken when resolving disputes. If no amicable response is available between auditor and auditee, the National or Provincial Treasuries must play a facilitating role as well as provide the intention and underlying policy context. Therefore, any outcome will be understood by all parties. It is imperative that municipalities ensure their internal council policies are well articulated and all processes followed are documented with the relevant supporting documentation available. National and Provincial Treasuries, should receive copies of such COMAF on a timely basis, auditees in the municipalities can direct those to the mfma helpdesk, email mfma@treasury.gov.za. This must be submitted timeously and not only at the end of the process.

- 5. On the combined assurance, is the AGSA planning on developing an approach that will show benefit (financially) that will encourage their clients to appoint internal audit?**

AGSA's response:

The internal audit function is a legislated requirement. Unfortunately, we have noted during the audits that the internal audit service does not always provide the required level of assurance. During the pandemic, the role and need for internal audit is greater than ever. The internal auditors can play a significant role in testing the control environment, reviewing emergency procurement, identifying and confirming the sources of income and support, and verifying the accuracy of spending.

- 6. Preventative controls, assurance providers, poor ranking of Leadership and Audit Committees. What is the root cause for this per the AGSA? They always say they use the work of internal audit to identify risk but their fees stay the same. We are under financial pressure & have competing priorities. We see assurance the same.**

National Treasury's response:

The National Treasury is working collectively to close this gap between internal and external auditors. This will also require closer collaboration between auditor and auditee, so that the work programme and outputs of Internal Audit Units and their plans are risk based, but also add value in the financial management cycle. This will assist in reducing the risks and allow for

better value for money and value addition into the process by both Internal Audit and External audit.

- 7. Irregular expenditure is defined – yet the AGSA has gone public to say that if IE is not corruption, then what is it? Can the AGSA please clarify, because any audit report must be fair?**

National Treasury's response:

The National Treasury has requested municipalities to communicate with their communities in year and in a way that demystifies the concepts relating to UIFW and to explain the context and circumstances relating to such noncompliance. Therefore, there is a need to constantly clarify any misunderstanding or misinterpretation in the use of the terms UIFW as not all instances can be categorised as corruption. There may be non-compliance with laws and regulations, but some of these are not material to the value for money or service delivery outcomes. Such factors can also contribute to this category not being fully understood. Therefore, it would be useful to distinguish between the various categories by the municipality and also in the AGSA reports.

AGSA's response:

The material irregularity process (as part of the AGSA's amended powers) will also help clarify the areas of concern where financial losses were suffered by the state.

- 8. Maybe the question is how to hold consultants accountable for delivering what they are paid for?**

National Treasury's response:

The National Treasury advocates for stronger and closer monitoring of the work undertaken by consultants, ensuring that skills gaps are addressed and municipalities take responsibility for work outputs, ensuring transfer of skills to municipal officials, where ever possible. For example, the Municipal Cost Containment Regulations, available on the NT website, under MFMA portal, provide for measures that municipalities can implement to plan and implement various projects in a manner that reduces future reliance on consultants. This having said, not all expertise can be built permanently in a municipality if one does a proper cost benefit analysis, so in some instances it may be appropriate to appoint specialist consultants to undertaken specific tasks.

- 9. I feel there is over emphasis on irregular expenditure and not enough on fruitless & wasteful expenditure. My assessment is because the IE has a bigger number and causes sensationalism.**

National Treasury's response:

The National Treasury is of the view that all incidents of UIFW must be attended to by senior municipal management as it points to non-compliance, lack of proper internal controls, including lack of consequence management, notwithstanding the Circulars issued by National Treasury and the slow implementation of the Municipal Financial Misconduct and Criminal procedures. The establishment of Disciplinary Boards is also a mechanism introduced into the system to expedite the process to deal with all allegations of financial misconduct. The latter observation that the AGSA is sensational in its reporting could also be addressed, so that any

report balances the good practices with the weak and poor practices so encourage sharing of lessons learnt. In this regard the National Treasury and Provincial Treasuries have established a number of forums, such as provincial and regional municipal CFO Forums designed to share best practices, and to support those municipalities in need of assistance.

10. While IE is important, we should shift focus on fruitless. Governance structure should make as much of a fuss on fruitless expenditure?

AGSA's response:

I agree completely. In some cases, the loss to the state was already quantified, but because leadership does not pay attention to this, the loss is not investigated, or it is not recovered from the person responsible.

11. Accounting and accountability in Africa are human rights matter. When money does not flow responsibly to where the development is needed, and the custodians and gatekeepers fail, Africa won't heal.

AGSA's response:

It is definitely a human rights matter. The lives of citizens will only improve when there is a strong political will to hold officials and office bearers accountable for misappropriation, fraud or corruption.

12. We speak of municipalities requiring financial skills. Everyone knows that serving in municipalities has political pressure. Is SAICA considering ways to provide the skills to public sectors while protecting members who want to serve but the political pressures are what's holding members back?

National Treasury's response:

Section 76 of the MFMA contains certain protection for the senior manager in municipalities, however, the professionalisation of the sector will assist to some extent. A bigger and more fundamental question needs to be asked, which talks to the foundational provisions in the Constitution as well as the role of councils in appointing senior officials and their tenure, vs the practice.

SAICA's response:

SAICA is working on a strategy to assist in the professionalization of the public sector to address this.

13. Why are consultants' fees so easily classified as fruitless/ wasteful, even the good ones? Shouldn't the cost of uncommitted/non-performing staff's salaries also be considered as fruitless/wasteful?

AGSA's response:

There is a culture of impunity. Municipal staff are not held accountable for poor or non-performance.

- 14. MPAC's are not functioning. For MPAC to function they need to be divorced from politics but this not the case? Also the skills of MPAC members prevent them from adequately contributing to discussion?**

National Treasury's response:

Our experience has shown that the role and responsibilities as well as the powers granted to MPAC need to be addressed as well as closer monitoring of the recommendations made by MPAC to expedite outcomes and decision making. The process in arriving at recommendations also include the role of Internal Audit and Audit Committees in municipalities. Separating the process may hold merit, however, this will require legislative amendments given the role of Council as is currently regulated.

- 15. Is corruption epidemic in society, if so, what tools can be implemented to deal with it.**

AGSA's response:

First prize would be a strong political will and a culture of accountability. One of the more recent tools that we are implementing is the amended powers of the AGSA, but this will be quite a lengthy process and not one that will provide immediate results.

- 16. National Treasury has set the remuneration of audit committee member at R327 per hour. How does NT expect to attract professionals to serve on audit committees**

National Treasury's response:

Many factors must be considered when setting levels for remuneration of audit committee members, including roles and responsibilities of members, affordability of the municipality, value addition into the system, experience and skills required, time spent, travel costs incurred, etc. This has been considered previously by the team in National Treasury. It will be useful to receive submissions that talk to the practical challenges and its implication before a response is provided. Submissions can be sent to the MFMA helpdesk – mfma@treasury.gov.za together with motivations and other factors that can be considered.

- 17. SALGA: What measures have SALGA implemented to improve good governance at the Council level especially at the MANCO and MPAC level. Setting the tone of Good Governance at the top.**

SALGA's Response:

SALGA has continuously advocated for Good Governance. The Municipal Audit Support Programme of SALGA as well has Governance as one of their Pillars.

SALGA has also adopted a continuous learning journey model or approach in terms of building capacity of Councillors. So at the commencement of their term immediately after elections there is a Councillor Induction Programme that is rolled out to ALL elected Councillors irrespective of whether they are returning or new. This general induction is followed up within a year by specific Portfolio induction wherein Councillors dealing with specific portfolios eg

Finance, Housing, Infrastructure etc. are given focused training related to their area of Portfolio.

In addition to this there is periodic capacity building training given on various aspects. In our area we provide sessions on AFS interpretation, Budgeting, In-year Reporting and understanding the AGSA reports.

For MPACs specifically SALGA has partnered with National Treasury and COGTA in terms of providing regular training to MPACs. An MPAC Toolkit was developed with the assistance of funding from the GiZ and the rollout of this MPAC Toolkit was undertaken by SALGA, NT and COGTA throughout the country. It was noteworthy during the latest AG Audit outcomes for 2018/19 they assessed 69% of MPACs as functional. Although this reflects room for improvement more than two thirds of MPACs are assessed as functional is a positive sign. SALGA and the other stakeholders will strive to improve this further and focus on the remaining 31% of MPACs in order to improve them while not losing sight of the 69% so that they do not regress.