

Advice to smaller municipalities:

AG Fees; municipalities are allowed to pay 1% of their expenditure. If AG fee exceeds this 1%, they (AG) has to recover from National Treasury. This has worked for me and on discussion with AG they were not aware of this provision.

Question:

Many municipalities are providing official residences to mayors. This has been found not to be in line with Section 167 of MFMA and the Public Office Bearers Act. What is being done by Salga to resolve this because AG continues to raise a finding?

Answer:

Negotiations should be entered into between the Mayor and the Council and the benefit that the Mayor is receiving over and above the remuneration as set out in the Public Office Bearers Act, 1998 (Act no. 20 of 1998) if any, should be recovered (Act no.56 of 2003)

Question:

Can you please give guidance on this new requirement of the AG to compile manuals for all indicators (measurable performance indicators) on the IDP, SDBIP & Performance contracts. Manuals should identify how each indicator is to be measured and what will constitute a 1 to 5 (respectively) score. In what legislation or guideline does this originate and by when has it to be implemented.

Answer:

The performance manuals must be in terms of the NT Performance Management Guidelines. This matter is open to discussion because the application of performance management requirements from the AG are currently not applied uniformly throughout the country. A forum has been recently been launched by IMFO's CFO Metro forum to engage the AG and the OAG to discuss implementation issues in general in order to get parity nationally.

Question:

Is this perhaps not the time for SA to consider instituting two sets of Performance Measurement for Urban and Rural based municipalities? This is in view of the fact that many rural councils are still grappling to install governance systems. Whereas urban councils, to a degree, inherited going concerns. E.g. capacitated personnel, systems that needed to be improved, solid rate base, operational rules and procedures.

Answer:

I think we complicate systems and processed unnecessarily. Yes, there is definitely a difference between performance processes at rural and metro levels as their support systems are different. Salga/R805 provided a basic model which can be tailored according to local need. The crux is how do we define KPA's which should be measurable and achievable. Synchronize processes between organisation and departments scorecards and contracts.

Ultimately you should manage one system.

Question:

The independence of internal audit is a major problem in local government.

The audit committees are not effective and this constitute to poor internal audit.

Reporting to MM on administrative issues does not help on independence of internal audit. (reliance on MM).

National Treasury should strengthen audit committees and internal audits.

Internal audits should fully report to audit committee – once it is effective.

Answer:

Role of internal auditor and reporting structure.

- *Role of MM to make sure that IA function is fully implemented.*
- *Advising the MM as accounting officer*
- *Reporting to MM administratively.*
- *Report to Audit Committee with regards to internal audit processes and findings.*
- *Challenge at this stage is that Audit Committees are not fully capacitated – maybe Treasury, Salga and IMFO can assist*
- *MM's and CFO's please allow IA to conduct audits instead of completing returns/running SCM processes.*

Question:

A municipality must implement a system of risk management. Who should this “activity” and the responsibility for risk management reside. Is it appropriate for it to be allocated to IA as many propose?

Answer:

The responsibility for risk management lies solely in the domain of the Municipal Manager because he is the Chief Accounting Officer of the Municipality. The responsibility for risk management should be delegated to the Heads of

Departments and internal audit should have an independent oversight role to ensure that all fraud prevention and enterprise wide risk management systems and processes function efficiently.

Question:

The Auditor General should consider the approach of determining the extent at which they can rely on the work of Internal Auditors. 100% unreliance on the work of Internal Audit is not always true.

Answer:

The Auditor General can review work done by Internal Audit on controls tested as part of audit planning to determine reliance on controls. If they are satisfied with the work done by internal audit, they can do smaller substantive tests in order to make the audit more economical.

But ultimately the auditor-general audits the municipality and the internal audit function falls under the jurisdiction of the Municipal Manager who is the chief accounting officer. The Auditor-General should not for the sake of independence rely on the work of internal audit but he can review it and adjust his audit planning to accommodate satisfactory internal audit inputs.

Question:

In your opinion what is the best model of sharing audit activities between the district and local municipalities? Is it possible to share the internal audit function and not the audit committee?

Answer:

In theory it is a good idea, but most municipal managers are not comfortable allowing internal auditors that are not accountable to them or on their staff establishments. (In effect such a person is actually an external auditor) to carry out internal audits in their municipalities.

For a District Municipality to share an audit committee with the locals in their district is a political, administrative and logistical nightmare.

If the internal audit committee members are appointed by each council in the district on their internal audit committee it will work, but I cannot see the district municipality signing an internal audit agreement to bind all of the local municipalities in their districts.

Naturally if an agreement is signed between locals and the district where everything works hunky dory it can be done.

Question:

The Internal Audit function's reporting lines should be clear to everyone and a common understanding of where the internal audit function should report is necessary to secure their independence. My understanding is that the internal audit function only report administratively to the MM and report functionality to the Audit Committee. Should there be a different view on this matter, I will appreciate listen and question it, if needs be.

Answer:

In terms of accountability the Municipal Manager is the Chief Accounting Officer of the Municipality and the reporting lines should be determined between the Council and the municipal manager. The municipal manager is also the link between the administration and the council.

Question:

Out of five units at our municipality it is only one unit where we have revenue collection, in other four we have a problem because we use prepaid electricity from Eskom. How do we resolve this problem?

Answer:

A municipality can only collect revenue for services that it is entitled to provide as prescribed in the Systems Act unless in your case Eskom enters into an agreement that you can collect revenue on Eskom's behalf on an agency basis for which the municipality will receive a commission per the agreement.

Question:

Amongst other issues the Budget regulations deals more thorough with the paneling of unauthorized, irregular and wasteful/fruitless expenditure. The way it seems to me is that these types of expenditure must be dealt with as a debtor. This expenditure is only accounted for in the Income and Expenditure or capital amounts once the council has considered it in terms of Section 32 of the MFMA.

1. Is the interpretation correct?
2. Will this way of accounting constitute a true reflection of the financial result/position?
3. If it is an overspending on capital item must or will the source of finance then be dealt with as external source, if recovered from the individual?

Answer:

If expenditure is deemed as irregular wasteful or fruitless expenditure by the Auditor-General in his audit report of the Municipality it cannot simply be made a

debtor and left to be written off. This expenditure must be the subject of an intense investigation by the Municipal Manager to determine to what extent the expenditure has been rejected by the Auditor-General in some cases expenditure is declared as unauthorized because expenditure vouchers cannot be produced for audit purposes even though all the goods and services have been received by the municipality.

Should after this investigation it is found that financial misconduct has occurred the Council must implement the stipulations of Chapter 15 of the MFMA and take steps to address any financial misconduct procedurally.

Question:

How is municipality suppose to handle inter-municipality asset transfers? With emphasis on the accounting treatment on the side of the receiving municipality?

Answer:

The nature of the agreement and the receiving department should determine the condition on which assets will be received and what funds will follow the transfer (most assets received have to be refurbished so GRAP 17 will have to apply) The implementation of GRAP 17 has lead to much confusion and diverse audit approaches by the AG all over the Country, in order to address this state of affairs the IMFO CFO Metro Committee has engaged the AG and OAG to launch a discussion platform to address these issues.

Question:

Internal Audit and Enterprise Risk Management, the Auditor General intends to undermine the above units intentionally to be specific. They will inform the CFO's and AO/MM that they can't put reliance on the work of the IA. We view that as an insult and unprofessional by the AG taken into consideration the political environment and the fact that IA are professionals.

Answer:

*The Auditor-General bases the integrity of his Office on various pillars and one of these pillars is total **INDEPENDENCE** from his auditees.*

*Unfortunately the **INDEPENDENCE** of the AG is sacrosanct in all Public Sector environments internationally .*

Question:

Internal Audit and Enterprise Risk Management, in some municipalities the above units are seen as a threat by CFO's and the first point of cutting the budget is in these units.

As a public servant I fail to understand how CFO's can perceive the value that these governance units add to service delivery and the impact it makes to various stakeholders.

Answer:

This is definitely not a recognized practice and any responsible manager would not do this, remember that the Municipal Manager has the final say over the budget as the chief accounting officer and not the CFO.

Question:

As the Internal Auditors (although bound by his/her professional codes) reports to the MM and is therefore dependant on the MM for the job/promotion etc, would it not be advisable for a politician (MMC or MPAC Chair) to oversee the Audit function. I propose that the MMC Finance should sit as observer on Audit Committee meetings.

Answer:

Unfortunately in terms of the MFMA the Municipal Manager is the Chief Financial officer responsible for his administration.

The head of Internal audit reports to the MM and Audit Committee, MMC Finance sitting on audit committees.

Question:

How are small municipalities suppose to fund the AG's huge fees, mostly near R1 million per annum? Small municipalities have a small portion of equitable share and are battling to collect revenue from services what recommendations can you provide?

Answer:

Municipalities are not supposed to pay more than 1% of their preceding years expenditure in audit fees, the AG must collect the rest from the NT.

Question:

In KZN the AG has requested municipalities to submit performance information simultaneously with the financial information. Some municipalities are resisting

this based on the fact that the annual report and Section 46 Municipal Systems Act only require the performance report by 31 January (with Annual Report). What is your view on this?

Answer:

To provide performance information before the annual report is approved by Council is not desirable, if I was a CFO I would wait until the report in the annual report is approved by council.

Question:

The Minister keeps putting blames to CFO's for disclaimers and regard them as unskillful and incompetent. I disagree. I believe all stakeholders are responsible and collectively I need more inputs on the subject matter.

Answer:

The minister does not place the blame on CFO's because they are not the Chief Accounting Officers of the municipalities the Municipal manager is and yes you are right all stakeholders should share the burden in this regard.

Question:

How will IMFO plan to assist municipalities to have a functional audit, performance and risk committees in place.

Answer:

IMFO can only provide a functional learning platform through the provision of training courses and the management of internal audit intern and bursary projects managed on behalf of the LG Seta. IMFO also offers interactive workshops where practitioners come together to discuss challenges that they have in their municipalities and they share with their colleagues to find a common solution.

Question:

In certain instances SARS would take more than reasonable time to audit VAT returns etc. I propose that Salga should intervene and engage SARS so that they give special attention to municipalities, if possible even to stipulate time frames in this regard as this may upset cash flow.