

AUDIT PERSPECTIVES

ACCOUNTING OFFICERS AND AUTHORITIES – RIDING THE COMBINED ASSURANCE WAVE

By Alice Muller



The public sector accountability value chain includes a number of assurance providers and oversight structures that are well placed to realise the benefits of combined assurance. In the public sector, the focus of combined assurance is the coordination of the assurance activities of all assurance providers by those charged with governance.

The role-players in combined assurance and oversight include mayors, municipal councils, municipal managers, municipal public accounts committees, public accounts committees, portfolio committees, audit committees, internal audit and external audit. The role of accounting officers and authorities in combined assurance is critical, as it establishes an appropriate control environment and then supports the combined assurance model where assurance activities can be coordinated.

The responsibilities of accounting officers and authorities are outlined in the Public Finance Management Act (PFMA), the Municipal Finance Management Act (MFMA) and other enabling legislation. The role of the accounting officer and authority in ensuring an effective internal control system is critical for mitigating risks to reliable financial reporting, credible reporting on service delivery and compliance with legislation. This responsibility must not be underestimated.

Implementing a combined assurance model at institutions relies on accounting officers and authorities effectively carrying out their responsibilities and functions in terms of the PFMA and MFMA. Accounting officers and authorities can ensure that effective internal controls are in place for financial and performance management and compliance with legislation by:

- providing effective and ethical leadership and exercising oversight of financial and performance reporting and compliance with legislation
- implementing effective human resource management to ensure that adequate and sufficiently skilled staff are employed, that their performance is monitored, and that there are proper consequences for poor performance
- establishing policies and procedures to enable sustainable internal control practices and monitoring the implementation of action plans to address internal control deficiencies and audit findings
- establishing an information technology governance framework that supports and enables the achievement of objectives, delivers value and improves performance
- conducting appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are performed and that a risk strategy to address the risks is developed and monitored
- ensuring that an adequately resourced and functioning internal audit unit is in place (own or outsourced) and that internal audit reports are responded to
- supporting the audit committee in its role in the combined assurance process.

It is important to invest in adequate and sustainable internal controls that prevent financial loss, fraud and corruption, the misuse of public resources and poor service delivery. When internal control activities are effective in preventing accountability failures, assurance activities can be focused and well coordinated.

Many accounting officers are chartered accountants (SA), associate general accountants (SA) and accounting technicians (SA) and therefore have a professional responsibility to uphold the reputation of the accountancy profession. As members of the South African Institute of Chartered Accountants they are required to exercise professional competence and due care, integrity and objectivity. Accounting officers and authorities must have a high level of ethics and adherence to the principles of Batho Pele that apply to the public service.

The tide that continues to come in

Public sector institutions have been slow to embed combined assurance, and their risk management is not always robust. The PFMA and MFMA general reports published by the Auditor-General of South Africa (AGSA) highlight the audit results of each cycle. These documents, which contain detailed information on the audit outcomes, are publically available at www.agsa.co.za. A number of audit findings can be attributed to the slow response to the need to improve internal controls and address key risks. The AGSA has been reporting the following messages for a number of years:

- No real improvement in audit outcomes
- An overall regression in internal controls
- Weakening basic financial and performance reporting controls, human resource controls and information technology controls
- Concerns about infrastructure project management
- Assets that are not safeguarded, resulting in theft and vandalism
- Payments to suppliers for poor-quality work
- Unfair procurement processes, with overpricing being common
- Payment days for creditors being unacceptably high
- Many weaknesses in performance reporting and non-compliance with legislation
- Concerns over the quality of financial statements and performance reports submitted for auditing
- Increasing irregular expenditure with few consequences

These areas will all improve if management and independent internal assurance providers who fit under the combined assurance umbrella respond adequately to the risks posed.

Intention of Public Audit Act amendments and material irregularity process – turning the tide

The amendments and supporting regulations to the Public Audit Act, which came into effect on 1 April 2019, were developed mainly to enhance the powers of the AGSA by enabling the institution to facilitate consequence management and take remedial action.

These amendments are not punitive in nature. Rather, they are intended to act as a complementary mechanism in the broader public sector accountability value chain by strengthening financial and performance management. This, in turn, will contribute to improved accountability in the public sector.

The material irregularity (MI) process has been designed to empower accounting officers and authorities to uphold their responsibilities, rectify any breaches and compromises in the system, and enhance accountability. It does this by enabling them to deal with underlying causes of system failures, strengthen preventative controls, support the case for optimised systems and processes, and enhance accountability. When the AGSA identifies MIs, it brings these MIs to the attention of accounting officers and authorities to empower them to take the appropriate actions timeously and reduce the adverse effect of the irregularities, which can have a significant impact on finances, resources and service delivery.

The success of the amended powers, therefore, lies in turning the tide towards a culture of responsiveness, consequence management, good governance and accountability from the accounting officers and authorities. The MI process ultimately highlights the need to implement consequences and set the right tone in order to support a culture of accountability.

By 28 February 2021, the AGSA had notified accounting officers and authorities of 75 MIs with an estimated financial loss of R6,9 billion.

When the tide turns ...

In order for the public sector accountability value chain to start improving, all assurance providers, including accounting officers and authorities, need to remain relevant. It is important that institutions beat the waves of uncertainty and risks they are facing to meet their financial, strategic, operational and legislated objectives.

Smooth sailing will ensue when:

- there are improvements in identifying risks and there are effective internal controls in place
- assurance providers have the relevant skills and experience to have a positive impact in their role in the combined assurance process, are firm on their findings, and follow up the closure of any weaknesses identified
- assurance activities are coordinated to achieve the most effective, economical and efficient use of such activities.

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