



GOVERNANCE

# Why audit committees should be valued

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SOUTH Africa is currently preparing for the upcoming local government elections later this year.

It is no secret that our municipalities face many challenges, including negative audit outcomes, reported corruption, weak financial and performance management, lack of legal compliance, and staggering irregular, fruitless, and wasteful and unauthorised expenditure.

Many municipalities have also made limited progress in addressing negative audit outcomes.

The Auditor-General of South Africa (AGSA) Citizens Report on municipalities (2018-2019) states that during the three years of the current local government administration, the audit outcomes of 76 municipalities have even regressed.

Less noticeable is that audit committees are an important pillar in corporate governance and can play a key role in addressing some of the aforementioned challenges at municipalities.

Audit committees, appointed as a sub-committee of council, should be valued as a resource-rich support to upskill councils and improve management in the areas where skills are lacking including financial management, performance management, internal controls, risk management, and governance to improve oversight.

However, since the appointment of audit committees at municipalities is a legislative requirement, why is their governance, oversight and advisory role ineffective?

Do they merely play a ceremonial role to provide legitimacy to the municipality rather than a substantive role?

If so, what type of audit committee practitioner is needed and what type of practices should be followed and implemented to ensure effective audit committees contribute to better governance?

These are just some of the questions I tried to answer in my recent doctoral study at Stellenbosch University.

In my research on some Western Cape and Northern Cape municipalities I found that audit committees add considerable value through oversight and quality advice to the council, mayor, management and internal audit contributing to positive audit outcomes.

However, the focus of the audit committee is determined by the specific context, including the risks and challenges at the municipality at a particular time.



RAW sewage runs down the street of Harrismith, Free State, as the sewage treatment plant has not been working for more than a year now, resulting in service delivery protests earlier this month. | BHEKIKHAYA MABASO African News Agency (ANA)

While municipalities expressed a need for further assistance and advice regarding financial management, financial budgeting, financial decision-making, performance management and service delivery, they indicated that such support should not interfere with management responsibilities.

Although advice and oversight provided by audit committees are highly valued, they must play a more prominent role in the sometimes-strained relationship between municipalities and the AGSA such as facilitating increasingly prevalent interpretive and technical differences between the two. Unfortunately, the interaction between the audit committees and AGSA is limited.

Audit committees have extensive roles and many responsibilities, necessitating a balanced mix of highly-skilled and experienced members in finance, auditing, risk management, performance management, IT and local government.

The current over-emphasis on having financial experts on the committees is partly because of the importance of obtaining clean audit opinions. This has a negative impact on service delivery as municipalities in my study pointed out.

The value that audit committees add depends on their composition and the characteristics of individual members, the culture at the municipality, and enabling factors including the authority, resources, and support they receive. Whether the culture at the municipality embraces the value of audit committees is determined by the extent to which their findings and recommendations are implemented. By maintaining honest and open relationships built on trust and having regular unrestricted access and communication between the audit committee, council, management, and internal audit through formal and informal interactions, municipalities can get maximum value from audit committees.

These committees also need to demonstrate diligence through attendance, a high level of preparation and activity, vigilance, and independence during formal and informal interactions.

The requirements and expectations should, however, always be managed within the context of the audit committee's structure and composition, being part-time, with most members having other professional responsibilities and only meeting between four and six times a year.

The most significant and pervasive challenge is the difficulty in attracting the required skills (particularly IT governance) and experience of members to serve on audit committees, especially in rural municipalities. Possible reasons may be the perceived low remuneration and the potential reputational damage of professional members becoming involved at municipalities with poor governance, which is unfortunate because these municipalities require the most val-

ue-adding services. Members may serve on the audit committee because of a vested interest, for example, owning property in the municipal area or as part of social responsibilities, which are not necessarily sustainable reasons for serving on such committees.

Unfortunately, not all audit committees add value. Some audit committee members merely play a ceremonial role and make no substantive contribution, while in other cases there is a mix of substantive and ceremonial practices. Shortcomings in performance are not necessarily exposed and addressed. Different evaluation practices, or in some cases lack of, for the performance of audit committees are implemented. Performance evaluations could be valuable to identify some of the shortcomings and provide an opportunity for audit committee members to change practices and praxis.

Obtaining maximum value from audit committees in local government will require sustained recruitment of independent, adequately skilled and capable audit committee members, including in the areas of IT and performance management, especially at rural municipalities. One solution is to create a pool of expertise that can be allocated to struggling municipalities. Instead of relying on already cash-strapped municipalities to appoint and fund the required expertise to serve on audit committees, the responsibility of appointing and funding audit committees could be shifted to an interested local government body or department.

This may address the challenges of access and affordability of competent audit committee members, eliminate audit committees that merely play a ceremonial role and, accommodate the need for the expanded scope of these committees.

Many of our municipalities are in such a dire condition that in some areas local economic development and service delivery have grind to a halt. Audit committees can help these municipalities to address the different challenges they face. To do so, these committees need assistance in the form of professional development, proper funding, and support from various bodies interested in good and effective local governance.

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