

A stylized human figure in a dark red color, composed of a circle for the head and a shape resembling a person with arms and legs outstretched for the body.

IN PROFILE:

ARE AUDIT COMMITTEES AND MUNICIPAL PUBLIC ACCOUNTS COMMITTEES THE ROUTE TO RESPONSIBLE AND RESPONSIVE LOCAL GOVERNANCE?

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The Project for Conflict Resolution and Development (PCRD) has been exploring the potential of audit committees and municipal public accounts committees (MPACs) to advance responsible local governance through improved reporting and accountability to citizens.

SOUTH AFRICA HAS a range of municipal laws and systems, which are a bit like state-of-the-art tools that have been forgotten in a leaky workshop – where the tools have great potential but are virtually useless from rust and neglect. A special case may be made for those tools needed to fix the creaky vehicle that is municipal financial governance, in particular the propensity to leak public finance into a bottomless pit of fraud and waste.

Year on year, close to three-quarters of all municipalities spend money that is deemed by the Auditor General to be unauthorised, irregular or fruitless and wasteful. Almost 20% of municipalities persistently award contracts to employees, councillors or other state officials (AGSA 2013a, 2014). Roughly the same proportion award contracts to close family members of employees and councillors. About 75% of municipalities buy goods and services through processes ultimately found to be unfair or uncompetitive. Since 2011 the situation has worsened in virtually all of these problem areas – less than half of the audited municipalities are able to obtain financially unqualified audit opinions.

The following is a case in point. In August 2013, a Grahamstown High Court judge found that Buffalo City Metropolitan Municipality (BCMM) had illegally awarded a tender for a Bus Rapid Transport system to a company with little in-house expertise that had simply sub-contracted the necessary expertise through a 'loose arrangement'. The company also bid R17-million more than the losing bid of R54-million.

The judge described BCMM as reckless, careless and acting with no regard to its fiduciary duties.¹

Efforts to remedy this type of irregularity through interventions from National Treasury, other spheres of government and indeed private sector services, seem to have had a limited impact. Over the last decade, Operation Clean Audit or similar financial support programmes have provided significant remedial efforts. As far back as 2010/2011, professional support was provided to 68% of the 343 audited municipalities, at an average cost of R1.2-million per municipality. In the Eastern Cape, 80% of audited municipalities were assisted by financial consultants, at a cost of R63-million during 2011/2012, but the number of financially unqualified audits increased by only two municipalities (AGSA 2013b). The message is clear – technical interventions to improve financial reporting and the audit process are simply not working.

The impact of the problem is particularly pronounced in provinces such as the Eastern Cape, where government already operates with thinly stretched resources. Equality and social justice are greatly impeded in these settings when limited public finances are squandered on corruption and misuse. Whereas professional oversight bodies and audit functions can only identify and analyse the problem, civil society or community oversight can directly engage the issue and apply pressure to reduce such abuses.

Basic financial literacy and professional competency remain part of the problem of municipal governance, but less attention has been paid to giving citizens a direct hand in the controls that are meant to prevent municipal coffers from being squandered on pointless or ill-conceived expenditure. Responsive and responsible governance demands that we arrive at a point where the municipality's annual report matches the service experiences of ordinary citizens.

LOCAL GOVERNMENT ACCOUNTABILITY AND TRANSPARENCY PROGRAMME

The PCRDR has mounted a programme to ensure that civil society is able to use the statutory instruments of the audit process, principally audit committees and MPACs, to leverage improved public accountability. The purpose of an audit committee is to provide independent oversight of internal financial control, risk management, and governance. The MPAC performs a similar function but is more of an internal control – similar to the role of the Standing Committee on Public Accounts (SCOPA) in the national and provincial legislatures. One of the key functions is to provide an oversight report on performance claims in the annual report.

The PCRDR programme is premised on the idea that community engagement with these committees can enforce transparency. Communities can then, for example, act against corrupt decisions and plans that are not in their interest. In a context of widespread municipal service protests and deep distrust of municipal spending priorities, the PCRDR also seeks to re-build a sense of trust in the municipal structures and systems that should guarantee public accountability.

Unlike many other council structures, which have proved to be lame ducks, audit committees are independent (no councillors and the majority of its

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members may not be employed by the municipality). Furthermore, at least three members must have relevant experience. In the past, audit committees have had little impact because they were treated as necessary but minor elements of the audit process. Over the last five years, only about 35% were deemed to be effective instruments of control over financial reporting. With the backing of the Auditor-General and closer partnership with local communities, this situation can change. A recent scan of local municipality audit reports within the Sarah Baartman District Municipality suggests that audit committees are becoming more functional and influential.

The PCRDR programme also looks to take advantage of the trend whereby the modern audit function extends to operational and institutional performance. According to the Auditor-General, audit committees can potentially demand evidence of the performance outcomes often claimed by management. Already there are indications that managers are more wary of spin-doctoring reported performance. Reported achievements must be comparable with pre-determined objectives and goals.

The PCRDR is also exploring the accountability benefits of MPACs. The MPACs will 'undertake

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and manage similar functions and responsibilities for municipalities, as undertaken by the Standing Committee on Public Accounts in the national and provincial legislatures' (CoGTA and National Treasury 2011: 5). The authenticity of the MPAC idea rests on the principle that it will help council, in its role of the legislature, to hold the executive and the municipal administration to account, to ensure the effective and efficient use of municipal resources. The SCOPA analogy is useful and suggests that the fundamental purpose is to protect the public purse by ensuring that all income and expenditure is subject to public scrutiny. Municipalities have been slow to set up functional MPACs, but PCRDR has encountered a handful of cases where MPACs have produced frank and insightful oversight reports on the audit outcome. These reports advance the prospects of responsive and responsible local governance.

While an audit committee might rightly be regarded as an instrument of civil society, i.e. it functions in an independent manner to provide public scrutiny of municipal financial affairs, an MPAC is very clearly an instrument of council. However, harnessing audit committees and MPACs together could improve the effectiveness of both. Audit committees might strengthen their hand by being

more transparent in their composition (necessary expertise and independence) and linking more directly with local civil society, e.g. holding their own public information events and presenting their section of the municipal annual report. The MPAC, in turn, should continue the SCOPA tradition of appointing opposition councillors as chairpersons. Perhaps more importantly, it could work closely with the audit committee to ensure that the publication of the annual report is a meaningful exercise in public engagement.

The PCRDR programme in the Sarah Baartman District Municipality works with both civil society structures and local government to foster a climate of mutual trust and to ensure accountability and transparency to the local community at municipal level. The programme entails promoting an active and engaged citizenry through targeted capacitation that is informed by ongoing research of the audit and reporting functions in the municipality concerned. It also seeks to establish the necessary platforms for constructive engagement around audit and financial management outcomes. A key element is the development of accessible and innovative systems that will make annual reporting and financial accountability a trusted exercise for the targeted communities.

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NOTES

- ¹ Judge slams BCM for flouting tender laws, *Daily Dispatch*, 10 August 2013.