



Public Sector Audit Committee: Assessment of the Finance Function

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Public Sector Audit Committee: Assessment of the Finance Function

1. Purpose of the paper

The purpose of this paper is to provide Public Sector Audit Committees with guidance on assessing the effectiveness of the finance function.

2. Why should the Audit Committee assess the effectiveness of the finance function?

The public sector has to satisfy a more complex range of political, economic and social objectives, which subject them to a different set of external constraints and influences. In addition, they are subject to forms of accountability to the citizens which are different to those that a company in the private sector owes to its shareholders. This makes the management of finance in the public sector a critical function, and more so given that public sector entities are funded by public funds earmarked for a specific mandate. Quality and reliable financial information is a prerequisite for effective decision making and the attainment of set objectives. To achieve this, an organisation needs to have an effective finance function which is equipped with professionals who have the requisite skills and expertise not only at the technical and operational level but also at the strategic and managerial level.

The main purpose of both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) is to regulate financial management within public sector entities. In the public sector, the finance function is critical as an assurance provider to the Audit Committee on the effectiveness of financial reporting, as well as its link to service delivery as displayed in performance information.

The financial management of a public sector entity is typically executed by the following members of management¹: the Accounting Officer/Authority (who sets the tone); Chief Financial Officer (CFO), Finance Managers, or any other senior financial officials. Both the PFMA and the MFMA emphasise the important role of the CFO in ensuring proper financial management of the public sector entity. (Refer to Appendix B and C for extracts of the relevant legislation in this regard.)

The Audit Committee's assessment of the finance function is not a specific requirement of the PFMA or MFMA. However, since the duties of the Audit Committee largely include oversight over the financial affairs of the public sector entity, it is implied that Audit Committees should satisfy themselves of the competence of the individuals involved in the finance function in order to place reliance on the information obtained from them

For National and Provincial Government, in terms of the Treasury Regulations to the PFMA, the Audit Committee must, amongst others, review the adequacy, reliability and accuracy of the financial information provided to management and other users of such information (para 3.1.10 of Treasury Regulations and section 27(1) of Treasury Regulations)

For Local Government, in terms of the MFMA, an Audit Committee must advise on matters relating to, amongst others, accounting policies, the adequacy, reliability and accuracy of financial reporting, as well as review the annual financial statements to provide with an authoritative and credible view of the financial position of the municipality or municipal entity. (section 166(2)(a) and 166 (2)(b) of the MFMA)

As a matter of best practice, public sector entities should also apply King IV, which recommends in Chapter 5, Principle 8, para 59(f) that: "The Audit Committee should disclose its views on the CFO and the Finance function." The committee will therefore need to "satisfy itself of the expertise, resources and experience of the company's finance function. Every year, the audit committee should consider and satisfy itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the Finance function."

In addition to this, the Regulations to the MFMA impose minimum competency levels for Accounting Officers, Chief Financial Officers, senior managers, other financial officers as well as supply chain management officials. This has an implied link to the Audit Committee performing an assessment and satisfying itself as to the competence of the finance function, as part of its MFMA compliance. (Refer to Annexure B for extracts of the relevant legislation.)

¹ See also PSACF paper on "The relationship between the public sector Audit Committee and Management"

The Audit Committee should include brief commentary on the effectiveness of the finance function in its Audit Committee Report, which is included in the Annual Report.

3. When should the Audit Committee assess the finance function?

Following each financial year-end, the Audit Committee should perform an in-depth assessment of the finance function, as described in section 4 below.

Additional assessments could be performed in between these, as and when the Audit Committee considers it necessary. This may include, for example, where there has been a significant change in the staffing within the finance function or where the public sector entity² is going through a specific financial crisis or when the strategic plan/annual planner is amended.

4. How should the Audit Committee assess the finance function?

This assessment could be performed via questionnaires being completed by each Audit Committee member, the significant results of which should be summarised and discussed at the following Audit Committee meeting. An example of a questionnaire is provided in Annexure A to this paper. This example is not intended as definitive, and should rather be used as a guideline of the types of aspects to consider. It should be tailored accordingly to meet the needs of each specific public sector entity.

Alternatively, should the pre-completion of a questionnaire not be feasible, an in-depth discussion could take place at an Audit Committee meeting, covering similar points to what would have been covered in the questionnaire. The Finance function will be subject to an assessment by the internal auditor. The Audit Committee may also engage an external expert to carry out a detailed assessment based on their terms of reference.

Having assessed the finance function and arrived at its conclusion, the Audit Committee should use this outcome to influence its opinion on the effectiveness of financial reporting and financial controls.

5. What should the Audit Committee do if it is not satisfied with the competence of the finance function?

Following this assessment, should the Audit Committee feel that the finance function is not competent to effectively fulfill its duties, the Audit Committee should:

- Identify the root cause of the problem i.e. key vacancies/deficiencies in control environment/organisational culture issues;
- Inform the accounting officer and/or accounting authority;
- Recommend training/coaching for the relevant members of the finance function in order to develop their skills to the standard required.

It is recommended that the findings are fed into the relevant individuals' performance appraisal process, to be actioned and improved upon.

² In this paper, the term "public sector entities" should be read to include companies (for state-owned companies and municipal entities), other national and provincial entities and municipalities.

Annexure A - Assessment template / Guidelines to consider

#	Question	Yes	No	Partially	Additional Comments
1.	Finance function as a whole				
1.1	The members of the finance function collectively have the requisite financial qualifications and experience to enable them to fulfill their functions and individually meet the prescribed financial management competency levels.				
1.2	The finance function focuses on providing decision support and business insight as well as transactional processing.				
1.3	Reports from the finance function show a good understanding of what the entity does and the industry in which it operates.				
1.4	Feedback about the finance function (whether formal or informal) from internal audit and the Auditor-General has been satisfactory.				
1.5	The absence of major audit adjustments identified during the external audit demonstrates that the finance function is competent and diligent in its work.				
1.6	The number and quality of people in the finance function is appropriate to the size and nature (complexity) of the entity and its operations.				
1.7	The quality of the internal financial reporting to the Audit Committee is adequate as is reporting to the relevant governing body ³ , relevant Minister/Treasury/MEC for Finance.				
1.8	The quality of the annual financial statements in the annual report is comprehensive and of an acceptable standard.				
1.9	The structure and positioning of the finance function ensures that there is adequate supervision of the work performed by suitably qualified people.				
1.10	Members of the finance function are up to date with developments in their area/s of responsibility.				
1.11	Members of the finance function have shown their willingness and ability to deal with difficult or contentious financial reporting issues and to bring these issues to the Audit Committee's attention.				
1.12	There is an adequate succession plan in place for members of the finance function.				
1.13	The financial spending is in line with approved budgets in terms of strategic plans/integrated development plans.				
1.14	The finance function has complied with MFMA/PFMA and Treasury Regulations with regards to financial management.				
1.15	The lack of unauthorised expenditure reveals that the finance function is committed to controlling spending.				
1.16	The finance function has sufficient control to prevent and detect fruitless and wasteful expenditure				
1.17	The finance function takes notice of any significant findings reported by the external and internal audit during the external audit and puts action plans to implement then and to address weaknesses identified.				

³ In this paper, the term "relevant governing body" should be read to include Board, Accounting Authority or Council as applicable to the relevant public sector entity.

#	Question	Yes	No	Partially	Additional Comments
1.18	The finance function is proactive in identifying and reporting on any current or emerging financial problems facing the entity.				
1.19	The finance function seeks external professional assistance whenever deemed necessary.				
2.	CFO				
2.1	The CFO has a good working relationship with members of the Audit Committee.				
2.2	The CFO provides leadership to the entire finance function:				
	• Demonstrating adherence to entity values;				
	• Providing strategic insight; and				
	• Coaching subordinates as appropriate.				
2.3	The CFO has adequate knowledge, technical competence and experience to enable him/her to fulfill the role.				
2.4	The CFO addresses problems and identifies and implements appropriate solutions quickly.				
2.5	The CFO takes accountability and responsibility for the operations of the finance department				
2.6	The CFO drives the discussion of critical issues beyond the prescribed regulatory requirements.				
2.7	The CFO has a good understanding of the business and its operations.				
2.8	The CFO adequately demonstrates his ability to respond to queries by the audit committee.				
2.9	The CFO is sufficiently available for consultation outside of Audit Committee meetings.				
2.10	The CFO adequately briefs the chairman of the Audit Committee on significant findings or developments prior to Audit Committee meetings.				
2.11	The CFO understands the needs and expectations of the Audit Committee.				
2.12	The CFO is proactive in raising issues with the Audit Committee.				
2.13	The CFO participates as a significant contributor to the Combined Assurance Framework.				
2.14	The CFO is up to date with financial and industry developments.				
2.15	The CFO fulfils his/her legislated duties.				
2.16	The CFO ensures the professional development and training of his/her support staff.				
2.17	The CFO has documented all the material policies, processes and procedures within the finance function.				

Annexure B – Local Government legislation

Relevant extracts from MFMA:

81. Role of chief financial officer

- (1) The chief financial officer of a municipality—
 - (a) is administratively in charge of the budget and treasury office;
 - (b) must advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of this Act;
 - (c) must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget;
 - (d) must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79; and
 - (e) must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may in terms of section 79 be delegated by the accounting officer to the chief financial officer.
- (2) The chief financial officer of a municipality is accountable to the accounting officer for the performance of the duties referred to in subsection (1).

82. Delegations

- (1) The chief financial officer of a municipality may sub-delegate any of the duties referred to in section 81(1)(b), (d) and (e)—
 - (a) to an official in the budget and treasury office;
 - (b) to the holder of a specific post in that office; or
 - (c) with the concurrence of the accounting officer, to—
 - (i) any other official of the municipality; or
 - (ii) any person contracted by the municipality for the work of the office.
- (2) If the chief financial officer sub-delegates any duties in terms of subsection (1) to a person who is not an employee of the municipality, the chief financial officer must be satisfied that effective systems and procedures are in place to ensure control and accountability.
- (3) A sub-delegation in terms of subsection (1)—
 - (a) must be in writing;
 - (b) is subject to such limitations or conditions as the chief financial officer may impose; and
 - (c) does not divest the chief financial officer of the responsibility concerning the delegated duty.
- (4) The chief financial officer may confirm, vary or revoke any decision taken in consequence of a sub-delegation in terms of subsection (1), but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

83. Competency levels of professional financial officials

- (1) The accounting officer, senior managers, the chief financial officer and other financial officials of a municipality must meet the prescribed financial management competency levels.
- (2) A municipality must for the purposes of subsection (1) provide resources or opportunities for the training of officials referred to in that subsection to meet the prescribed competency levels.
- (3) The National Treasury or a provincial treasury may assist municipalities in the training of officials referred to in subsection (1).

The above mentioned minimum competency levels are prescribed in regulation 493 to the MFMA. The full Regulation can be viewed on this link: <http://mfma.treasury.gov.za/MFMA/Regulations%20and%20Gazettes/Municipal%20Regulations%20and%20Guidelines%20on%20Minimum%20Competency%20Levels%20-%20Gazette%20No%2029967,%2015%20June%202007/Municipal%20Regulations%20on%20Minimum%20Competency%20Levels%20-%20Gazette%20No%2029967.pdf>

Annexure C – National and Provincial Government legislation

Relevant extracts from PFMA Treasury Regulations:

2.1 *Chief financial officer*

- 2.1.1 Unless directed otherwise by the relevant treasury, each institution must have a chief financial officer serving on the senior management team.
- 2.1.2 The chief financial officer is directly accountable to the accounting officer.
- 2.1.3 Without limiting the right of the accounting officer to assign specific responsibilities, the general responsibility of the chief financial officer is to assist the accounting officer in discharging the duties prescribed in Part 2 of Chapter 5 of the PFMA and the annual Division of Revenue Act (DORA). These duties relate to the effective financial management of the institution including the exercise of sound budgeting and budgetary control practices; the operation of internal controls and the timely production of financial reports.

Further specific information on the role and duties of the Chief Financial Officer and the Accounting Officer, refer to the PFMA (<http://www.treasury.gov.za/legislation/pfma/>), DORA ([http://www.treasury.gov.za/legislation/acts/2013/Division%20of%20Revenue%20Act,%202013%20\(Act%20No.%202%20of%202013\).pdf](http://www.treasury.gov.za/legislation/acts/2013/Division%20of%20Revenue%20Act,%202013%20(Act%20No.%202%20of%202013).pdf)) as well as the Treasury Regulations to PFMA (http://www.treasury.gov.za/legislation/pfma/regulations/gazette_27388.pdf)

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