

The Municipal Audit Committee Self-review Threat: The South African Dilemma

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Abstract

Context: Corporate governance in South African municipalities is severely lacking and retrograding. The audit committee should essentially be an oversight committee that acts on behalf of the municipal council to ensure that key controls are operating, ethical practices are reinforced, key accounting estimates and judgements are properly made, and that internal and external audits are effective. However, the Municipal Finance Management Act requires that the audit committee acts in an advisory capacity to among others, the municipal management. This statutory requirement is in contrast to international governance code best practice for audit committees.

Purpose: The aim of this study was to establish how municipal audit committee members perceive their role and whether they realise the self-review threat brought about by the role conflict between legislation and internationally accepted best practice.

Design: A web-based survey questionnaire was used to collect primary data from municipal audit committee members.

Findings: The study found that municipal audit committee members seem to be unaware of the self-review threat their perspectives on their role hold.

Practical implications: Results of the study may assist policy makers and other stakeholders in drafting regulations and legislation governing the functioning and establishment of independent municipal audit committees in South Africa.

Originality: Although the conflicting roles of assurance (oversight) and consulting (advisory) have received attention in the disciplines of external auditing and internal auditing, similar attention is needed in the case of South African municipal audit committees.

Keywords: advisory function; agency theory; Municipal Finance Management Act (MFMA); oversight function; role-conflict theory; self-review threat; South African municipal audit committee



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Introduction

When we released the 2011–12 municipal audit outcomes in August 2013, we highlighted, amongst others, a lack of decisive leadership to address the lack of accountability by ensuring consequences against those who flouted basic processes that hampered effective municipal governance. We reported weaknesses in internal control and the risks that needed attention in local government by providing root causes for audit findings and recommendations to remedy these underlying causes. It is now five years later, and we are still faced with the same accountability and governance challenges we had flagged throughout these years. There has been no significant positive change towards credible results; instead, we are witnessing a reversal in audit outcomes. Kimi Makwetu, Auditor General of South Africa. (Makwetu 2018, 1)

Recent reports by South Africa's Auditor General imply that governance in South African municipalities is severely lacking and retrograding (AGSA 2017; 2018a; 2019). It compounds an already dire situation of unsustainable basic service delivery and increasingly revolting communities (Masango 2017; Setena 2018; Slabbert 2016), while local politicians (municipal councillors) and municipal officials are looting municipal resources in a frenzy of self-interest and enrichment (Rall 2018; Singh 2017). Where communities entrust public resources to a municipality to enhance their standard of living by delivering basic services and through local economic development, who oversees the custodians (municipality) of these public resources in the interest of the community?

In the private sector, the Board of Directors is established to monitor the company's prosperity and protect the interest of shareholders (IoDSA 2018). The reason, held by the agency theory, is due to management possibly acting in their personal best interest and not in the interest of the shareholders (Jensen and Meckling 1976). The first authors on the theory, Jensen and Meckling (1976), argued that managers engaging in activities for their own benefit rather than the benefit of shareholders, create agency problems. They further opined that agency problems could be reduced by the contractual obligation to provide an independent body, such as an audit committee (sub-committee of the Board), to monitor the agents (management), while reporting back to the principal (shareholder). Agency theory has since been widely adopted as one of the grand theories, supporting the establishment of the audit committee (Abbott and Parker 2000; Erasmus and Coetzee 2018). Pertaining to a municipal setting, leaning on the agency theory, the mandatory audit committee should thus provide the municipal council (public company—Board of Directors) with assurance that management is acting in the best interest of its community (public company—shareholders). The global Audit Committee Institute describes the function of a modern audit committee as follows:

An audit committee is essentially an oversight committee, for it is management who are responsible for the internal controls and the financial statements. The committee, however, has to satisfy itself, on behalf of the board and ultimately the shareholders that key controls are operating, that ethical practices are being reinforced, that key

accounting estimates and judgements are being properly made and that internal and external audits are effective. (Audit Committee Institute 2017, 1)

Politically, municipal council members are the representatives of their community and act as the legislative (RSA 1996) and executive authority (RSA 1998) of the local sphere of the South African government. Although not explicit, the municipal council has the duty to oversee the effective functioning of its municipality, the same as a Board of Directors would for a public company, in the interest of their stakeholders. For the purpose of this study the duty to oversee the effective functioning of the municipality will be an assumption. The possibility of individual municipal councillors collaborating with management against community interest, will not be considered.

In executing its oversight responsibility, the Municipal Structures Act (RSA 1998), provides for municipal councils to establish committees to assist the council. Logic dictates that one of these committees should be the “modern” audit committee, implemented in other spheres of the South African government as well as the private sector. However, the municipal audit committee, legislated by the Municipal Finance Management Act (MFMA) (RSA 2003), consisting of members independent of the municipal council, is mandated to act as an *advisory committee* to the municipal council and *municipal management*. This is surprising, as the advisory function to management cannot be conflated with an oversight function of management, as is explained later in this article. A response from the National Treasury to a question by the authors of this article, relating to this anomaly, argued that since other council sub-committees assist with oversight, the advice from the audit committee is required, to “assist the municipal council in its oversight function” (NT 2018), disregarding the fact that the audit committee is also required to advise management. The advisory role renders an audit committee a consultant to municipal management, leading the legislated independence requirement to apply solely to the audit committee members’ affiliation to the municipality (independence in appearance) and not their objectivity (independence of the mind).

Conversely, the King reports on corporate governance (IoDSA 1994; 2002; 2009; 2016), regarded as best practice (Atkins et al. 2015; Jones and Solomon 2013) on good governance in South Africa, include guidance on the oversight role of the audit committee. Kinyondo, Pelizzo, and Umar (2015) confirm the purpose of the oversight process to enable the overseer (audit committee) to ascertain whether the actions of the overseen (management) concur with the expectations of its stakeholders—thus providing the stakeholders with accountability of management. Although the audit committee members’ independence is key in providing an oversight role and delivering on the accountability of management, with many guidance documents (IoDSA 2009) and extensive research (Bédard and Gendron 2010; Krishnan 2005; Owens-Jackson, Robinson, and Shelton 2009) conducted to support this notion, establishing *advisory audit committees* whose independence from council may be questionable in terms of objectivity, might be adding to the current South African municipal governance woes.

The research problem alluded to above relates to the legislated role of a municipal audit committee that differs from the internationally accepted role. The research question of this study is, thus, whether independent municipal audit committee members, most of whom are qualified financial experts, view their role as one of oversight, in line with international guidance and South African best practice, in addition or contrary to advisory, as required by the MFMA?

Even the office of the Auditor General of South Africa (AGSA) (AGSA 2018b) confirmed its view of the function of the audit committee (in response to a question by the authors) as one of oversight, providing a rather perplexing response in that their "... focus is on these audit committees fulfilling this [oversight] role in compliance with the legislation rather than focusing on the semantics of what they are described as [advisory committee]." The fact that the MFMA establishes the municipal audit committee as an advisory function to, rather than oversight of management, is regarded by the AGSA as semantics—disregarding the self-review threat their perspective holds. Perhaps the confusion of the AGSA emanates from the MFMA (RSA 2003), where in addition to the advisory requirement, it also requests the audit committee to review the annual financial statements and provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with applicable legislation—*effectively requesting the audit committee to review [oversight] the financial statements it has possibly advised management on* [being asked to review their own work]. Similar to the National Treasury, the AGSA, as well as current municipal audit committee members, may not have considered the self-review threat imbedded in their interpretation of the legislative requirement.

The aim of this study was to establish how municipal audit committee members perceive their role and whether they realise the self-review threat brought about by the role conflict between legislation and internationally accepted best practice. The results of the study may assist policy makers and other stakeholders in drafting regulations and legislation governing the functioning and establishment of municipal audit committees in South Africa. The layout of the article is as follows. Next will be the theoretical and conceptual framing of the threat of self-review, followed by the research methodology, analysis of data, conclusion and recommendations.

Theoretical and Conceptual Framing

This study was conducted within the frame of role conflict theory. Role conflicts result from competing expectations aroused by organisational, interpersonal, and personal conflicts (Mertensmeyer and Coleman 1987). From these environments, several role conflicts can be identified (Rizzo, House, and Lirtzman 1970), namely person-role conflict (role *versus* personal values); intra-personal role conflict (multiple roles for one person); role-overload conflict (many roles *versus* limited capacity/resources); and interpersonal role conflict (conflicting policies and incompatible criteria).

Alleyne, Devonish, and Alleyne (2006) regard the interpersonal role conflict as the most important conflict. Interpersonal role conflict occurs when the source of the dilemma stems from occupancy of more than one focal position (Mackey 1977). For example, audit committee members may perceive that audit committee best practice guidance expects them to assist the municipal council in monitoring municipal management in terms of the council's oversight role, whereas legislation expects the audit committee member to advise the municipal management on specified areas, akin to the services of a consultant. Due to the nature of the two roles the expectations are incompatible, since it would be improper to perform oversight over the very same aspects that were performed or executed based on the overseer's advice, giving rise to a self-review threat, and the central argument of this research. Self-review threats arise when the results of advisory services performed by audit committee members are reflected in the amounts included or disclosed in the financial statements of the municipality, that the audit committee may be expected to review (Financial Reporting Council 2012).

Traditionally the self-review threat has been identified and researched in the discipline of auditing. Due to literature on the self-review threat being focused on the role of the external auditor in the corporate governance mosaic (Johari et al. 2013), the threat may be better demonstrated in terms of the external auditor with inference to be made on audit committees. Where the external auditor is required to be independent, to provide objective assurance on the accuracy of financial reporting, the audit committee also needs to adhere to the same independence principles in providing assurances on aspects of good governance (IoDSA 2016). Ultimately, stakeholders have to trust in the integrity of the reasonable assurance offered by independent structures such as the external auditors (Goldwasser 2005) and the audit committee (Ellwood and Garcia-Lacalle 2016).

The International Standards on Auditing (SAICA 2017) notes that the external auditor, in performing his/her duties, faces certain threats to compliance with the fundamental principles that include self-interest, self-review, familiarity, intimidation and advocacy threats. External auditors are required to identify the threats, evaluate the significance of the threats and apply appropriate safeguards to reduce or eliminate them, for compliance not to be compromised (SAICA 2017). A self-review threat to the external auditor's objectivity occurs when an auditor has to review work they previously performed (Johari, Mohd-Sanusi, and Chong 2017). For example, if the external auditor prepared the financial statements and then audited these statements. There is a risk that auditors would not identify any shortcomings in their own work for fear of penalty (either financial or reputational) (Abdel-Meguid, Ahmed, and Duellman 2013; SAICA 2017). For this reason, the European Union decided to preclude auditors from offering non-audit services (consultation) to audit clients (assurance) (Quick and Warming-Rasmussen 2014). An aspect emulated by the International Ethics Standard Board for Accountants with their recently proposed changes to the International Code of Ethics for Professional Accountants that include non-assurance services to an audit client that is a public interest entity to be prohibited, if a self-review threat to independence would

be created (Fass 2020). This risk of not identifying any shortcomings in their own work for fear of reputational damage, also applies to the municipal audit committee.

Role conflict also has a bearing on the internal audit profession. A recent report issued by the Internal Audit Foundation (Brady 2019), titled “Striking an Optimal Balance between Assurance and Consulting Services,” revealed a similar problem and suggests guidance for the internal audit function. The report is based on the perceptions of internal audit leaders gained from the Internal Audit Foundation’s 2015 Common Body of Knowledge Global Stakeholder Study (Brady 2019). The report expresses that the majority of internal audit stakeholders see value in internal audit performing advisory and consulting work in addition to fulfilling its assurance responsibilities. Stakeholders are thus requesting the internal audit function to provide advisory work where it does not interfere with its assurance work and thereby recognise that the internal audit function cannot provide both services in the same area (Brady 2019). It is stressed that assurance services and the internal audit function’s devotion to independence come first (Brady 2019). The internal audit community is, thus, of the view that both roles can be fulfilled by the same internal audit function at a specific client and that it holds specific benefits, but in the same vein provides guidance on how to maintain objectivity. As a result, it can be deduced that the areas where assurance and advice are provided should not overlap.

As an important role-player in the combined assurance model of the South African public sector (Dzomira 2016), similar independence rules applicable to internal auditing and external auditing should apply to the audit committee to ensure objectivity. The audit committee contributes to the provision of acceptable levels of assurance, subsequent to the assurance provided by management (Barac and Forte 2015). Only by ensuring the application of proper combined assurance can the audit committee effectively exercise its oversight role (DeCaux and Sarens 2015).

Research Methodology

The study targeted Public Sector Audit Committee Forum members listed at the Institute of Directors South Africa (IoDSA). The forum consists of public sector audit committee stakeholders, including municipal audit committee members. The IoDSA agreed to assist the researchers in sending the invitation to participate in the study, as well as the link to the web-based survey, to all the municipal audit committee members listed in their database. At the time of data collection, the IoDSA Public Sector Audit Committee Forum database had 482 members who had public sector audit committee experience (Dixon 2018). Considering the number of audit committee members at municipal level should far exceed the number of audit committee members in other spheres of government, due to the number of municipalities versus other government organisations, it was estimated that an acceptable number of municipal audit committee members could be reached in this manner. The study followed a mixed paradigm using a web-based survey questionnaire to collect primary data. Quantitative responses were enriched with qualitative data from respondents. The questionnaire focused on the role

of the municipal audit committee member (advisory vs. oversight), thereby measuring what it was intended to measure (validity). The questionnaire was standardised and requested Likert-type scale responses. In addition, each technical question provided for an optional narrative response to add depth to the results. The survey was validated and trialled by two colleagues who are experienced researchers as well as a statistician, to ensure the constructs are clear and the survey is easy to use.

The study managed to collect 39 valid responses from municipal audit committee members (8% of the IoDSA database population). Although the poor response rate is certainly a limitation of this study, the status of the respondents and piloting the questionnaire, using two senior academics in the field of governance, enhanced validity and reliability of results. The Cronbach Alpha coefficients for the questions relating to advisory and oversight roles were calculated in order to ascertain internal consistency of the results. The coefficients equalled 0.789 and 0.77, respectively, for the questions relating to advisory and oversight roles. The data can, therefore, be deemed reliable. Parametric data analysis is not ideal, given the limited number of responses and Likert-type scale (ordinal) data. It was, therefore, decided to perform descriptive analysis by way of bar graphs, medians and quartile distributions in order to provide insights concerning correlation in responses. These insights were statistically tested using non-parametric data analysis by calculating the Spearman's rank-order correlation and Kendall's Tau-b. Correlations were deemed to be statistically significant based on p-values, where significance is indicated at 1% and 5% levels. It should be noted that the correlations do not test the causation, but indicate how well the relationship between the two variables can be described using monotonic or linear function. The sign, therefore, gives direction of the linear relationship and not the direction of causation.

Analysis of Data and Interpretation of Results

Demographic and Profile Data of Respondents

To assess the credibility of the results it was important to receive a balanced representation from the South African municipal audit committee environment. Table 1 presents the demographic data from the respondents.

Table 1: Demographic data of respondents

Questions	f	%
I serve as a chairperson of a municipal audit committee	22	56.4
I am an independent member of the municipal audit committee	38	97.4
I serve on the audit committee of a metropolitan municipality (Category A)	11	28.2
I serve on the audit committee of a local municipality (Category B)	27	69.2
I serve on the audit committee of a district municipality (Category C)	15	38.5
I serve on the shared audit committee of a category B and C municipality	7	17.9
The municipalities on whose audit committee I serve are located in the following province:		
• Eastern Cape	10	26.6
• Free State	4	10.3
• Gauteng	9	23.1
• KwaZulu-Natal	8	20.5
• Limpopo	7	17.9
• Mpumalanga	3	7.7
• Northern Cape	5	12.8
• North West	2	5.1
• Western Cape	9	23.1

n = 39

More than half of the respondents served as chairpersons of a municipal audit committee and all except one respondent were independent audit committee members (not affiliated to the municipality). A balanced spread of respondents from the different categories of municipalities in South Africa was obtained, as well as from each of the nine provinces. For both municipal categories and provinces, the numbers add up to more than 39, as some respondents serve on more than one audit committee across categories and provinces.

It was also important to obtain the stature of respondents based on their experience, academic qualification and professional affiliations. Table 2 presents the highest academic and professional qualifications of respondents as well as their level of experience in finance and accounting matters.

Table 2: Respondent profile

Highest academic qualification	f	%	Professional qualification in finance and accounting	f	%
Doctorate degree	1	2.6	Chartered Accountant (SA) (SAICA)	18	46.2
Master's degree	10	25.6	Professional Accountant (SAIPA)	5	12.8
Honours degree	21	53.8	Certified Internal Auditor (IIA)	3	7.7
First degree	5	12.8	Management Accountant (CIMA)	1	2.6
National Diploma	1	2.6	Registered Government Auditor (SAIGA)	11	28.2
No tertiary qualification	1	2.6	No professional qualification	1	2.6
Total	39	100		39	100
Level of experience in finance and accounting	f	%	Additional professional qualifications	f	%
No experience	0	0	Public Sector Finance Officer (CIGFARO)	1	2.6
Poor	0	0	Professional Internal Auditor (IIA)	1	2.6
Average	2	5.1	Professional Town Clerk	1	2.6
Good	9	23.1	Attorney and Conveyancer	1	2.6
Excellent	28	71.8	Certified Fraud Examiner	2	5.1
	39	100			

The majority of respondents have postgraduate qualifications and only one respondent had no professional qualification. Five respondents had more than one professional qualification with almost half of respondents being Chartered Accountants and 28 out of 39 respondents, rating their level of finance and accounting experience as excellent. It is evident that, as a group, the respondents are well qualified with extensive financial experience and should thus negate any possibility that questions in the questionnaire were misinterpreted. The high level of academic qualifications, professional qualifications and experience also adds to the depth of the narrative information collected.

Questionnaire Results pertaining to the Municipal Audit Committee

As mentioned, the MFMA (RSA 2003) is specific with regards to the appointment of the audit committee members by the municipal council and not by management, thus supporting best practice and the concept of independence. However, it appears to be acceptable practice at some municipalities that the council merely approves appointments on the recommendation of the municipal manager. The practice was noted from the Overberg District Municipality audit committee terms of reference that read: "The replacement [of an audit committee member] shall be at the discretion of the council on the recommendation of the municipal manager in conjunction with internal audit" (Overberg District Municipality 2018). It could be that this municipality may have borrowed the practice from central government legislation that requires the accounting officer of a government department (equivalent to municipal manager) to appoint audit committee members (RSA 1999). Figure 1 presents the results on the

question whether the municipal manager should be part of the appointment process of audit committee members.

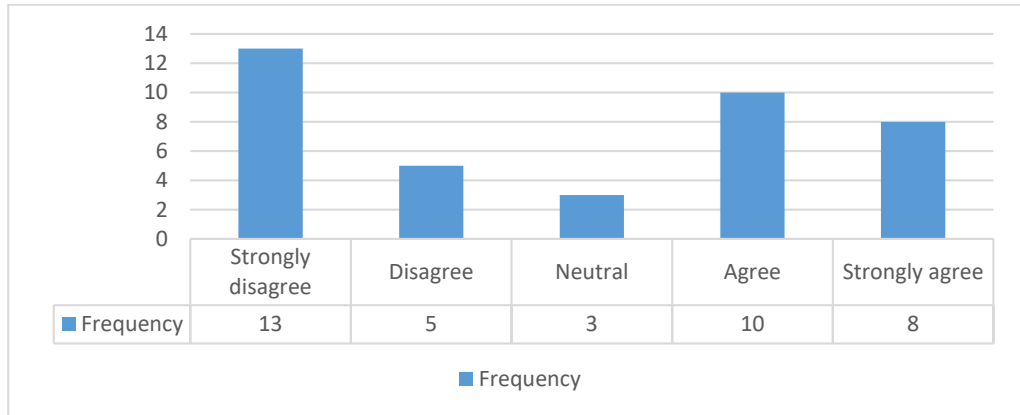


Figure 1: The municipal manager should be part of the appointment process of audit committee members

There is a 50/50 split in the response to the question, where 18 respondents disagree with the statement and 18 agree. From the narrative data it seems an awareness exists that municipal managers participate in the appointment of audit committee members with justification from those in support of the practice. It is concerning that three respondents in support of the practice made reference to political influence in the appointment process or political manoeuvring that certainly impacts on the objectivity of the committee. Members opposing the involvement of the municipal manager in the appointment process recognise the impact on the independence (objectivity) of audit committee members and a possible conflict of interest, since they perceive the role of the audit committee to be oversight. One respondent had the following to say: *“The role of the audit committee is to advise the council for an effective oversight role,”* disregarding the legislative requirement that the provision of advice includes municipal management and, thus, avoiding to confront the self-review threat that may exist.

Whether respondents viewed their audit committee responsibility as advisory was measured by a question on the MFMA guidance, which due to its legislative nature is mandatory for municipal audit committees. In Figure 2, the results of this question are compared to the results on a question whether respondents followed the guidance of the relevant King report, which is based on oversight.

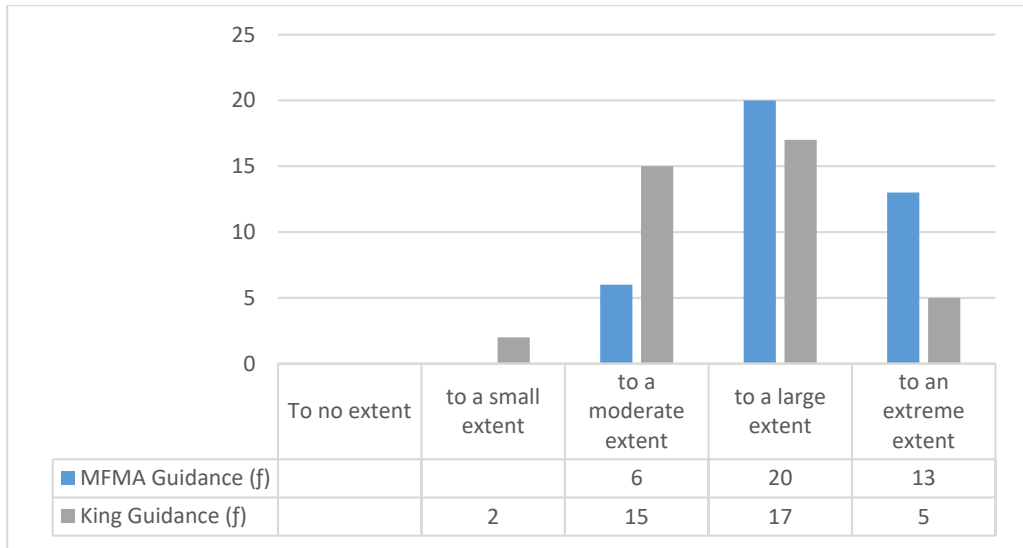


Figure 2: MFMA guidance versus King guidance on audit committee responsibility

Although the results indicate a slightly stronger following of the mandatory MFMA guidance, it is clear that respondents indicated they follow guidance from both the MFMA and the relevant King report. Table 3 indicates a positive correlation (both variables move in the same direction) between receiving guidance from MFMA and the relevant King report, which was also found to be statistically significant.

Table 3: Statistical significance of MFMA guidance versus King guidance on audit committee responsibility

	MFMA guidance	King guidance
Descriptive		
25th percentile	To a large extent	To a moderate extent
Median	To a large extent	To a large extent
75th percentile	To an extreme extent	To a large extent
Correlation		
Spearman’s Rho	0.585 **	
Kendall’s Tau	0.535 **	

** correlation significant at a 0.01 level

Narrative responses made it clear that adhering to legislation is mandatory, but also indicated that attention is awarded to the guidance of King in some instances. Specific responses were: “Covered [King] in the annual induction”; and “I never quote or cite it [King] during engagements or meetings, but I rely on its guidance to an extreme extent.” In general, respondents appear unaware of the apparent advisory [MFMA] versus oversight [King] discrepancy.

In Figure 3, the results of the question on whether respondents made use of the King guidance when executing their audit committee responsibility, was compared to the results of a question on whether respondents viewed the audit committee role as primarily oversight (assisting council to monitor management).

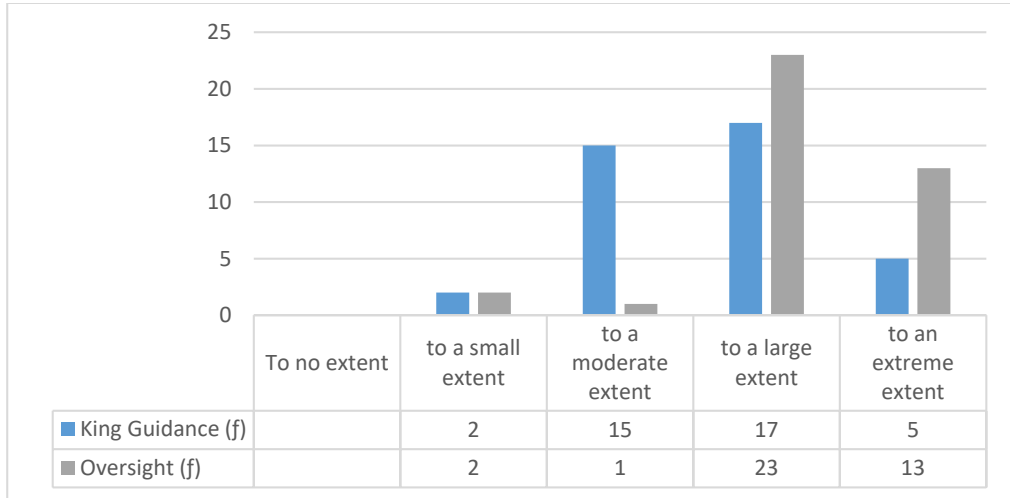


Figure 3: King guidance versus audit committee oversight responsibility

Even though respondents were less likely to follow King guidance, they certainly viewed their audit committee role as oversight. The correlations in Table 4 indicate that there was a very low negative correlation (one variable increases as the other decreases, and vice versa) between receiving guidance from the relevant King report and viewing their role as one of oversight, which was also found to be statistically insignificant.

Table 4: Statistical significance of King guidance versus audit committee oversight responsibility

	King guidance	Oversight
Descriptive		
25th percentile	To a moderate extent	To a large extent
Median	To a large extent	To a large extent
75th percentile	To a large extent	To an extreme extent
Correlation		
Spearman’s Rho		-0.041
Kendall’s Tau		-0.038

Narrative responses were somewhat contradicting: “According to the MFMA the audit committee should advise. I believe the audit committees should play an advisory as well as an oversight role [self-review threat if in same area]”; and “As audit committee members we are acutely aware that we are oversight and not operational” [contrary to

legislation]; and “Section 166 of the MFMA is supplemented by the approved Audit Committee Charter. It is also an advisory committee” [does this imply the charter to require oversight?]; and “To be effective you need to be more pro-active which leans towards operational/advisory rather than oversight.” Again, respondents appear oblivious of the apparent advisory versus oversight discrepancy. Of particular concern is one response that adds to the previous comment on political appointments: “... unfortunately the council tends to regard the audit committee as an area to satisfy compliance and no more ...”.

Figure 4 presents the results of a question on whether respondents made use of the MFMA guidance when executing their audit committee responsibility, compared to a question on whether respondents viewed the audit committee role as primarily advisory (advising council and management).

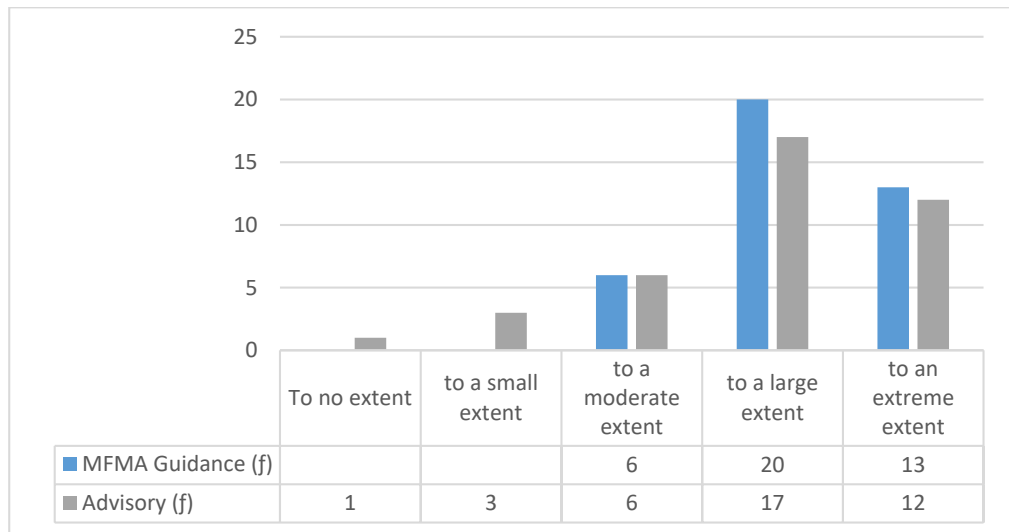


Figure 4: MFMA guidance versus audit committee advisory responsibility

Apart from one response, respondents viewed their audit committee role as advisory, which is in line with the legislative requirement. There was a positive correlation between receiving guidance from MFMA and viewing their role as advisory, which was found to be statistically significant (see Table 5).

Table 5: Statistical significance of MFMA guidance versus audit committee advisory responsibility

	MFMA guidance	Advisory
Descriptive		
25th percentile	To a large extent	To a moderate extent
Median	To a large extent	To a large extent
75th percentile	To an extreme extent	To an extreme extent
Correlation		
Spearman's Rho		0.401 *
Kendall's Tau		0.358 *

* correlation significant at a 0.05 level

Respondents used the opportunity for narrative responses on the advisory responsibility to mention the following: *“Advice is often heard but not taken up”*; and *“Although the council does not often reciprocate this but use the audit committee to ‘win battles’ against the Auditor General”*; and *“This [advisory responsibility] happens in an ideal environment as some municipalities do not implement the resolutions of the audit committee”*; and *“Too often the political leadership are not receptive to meetings, or having audit committees report back before a full council meeting.”* It appears that some respondents are not satisfied with the status awarded to the audit committee by the municipal council, which may be due to councillors not having regard for the advice [competence] of the members appointed to the committee. Again, this matter can be added to the concern with political appointees and the concern that the audit committee merely serves compliance requirements.

In Figure 5, respondents were requested to respond to a range of questions on specific aspects in terms of whether they viewed their role as advisory or oversight (assurance). Aspects covered included risk management, financial controls, accounting policies, accounting estimates and financial reporting—aspects that audit committees are expected to cover in an oversight capacity and that are specifically mentioned in the MFMA in terms of the advisory role.

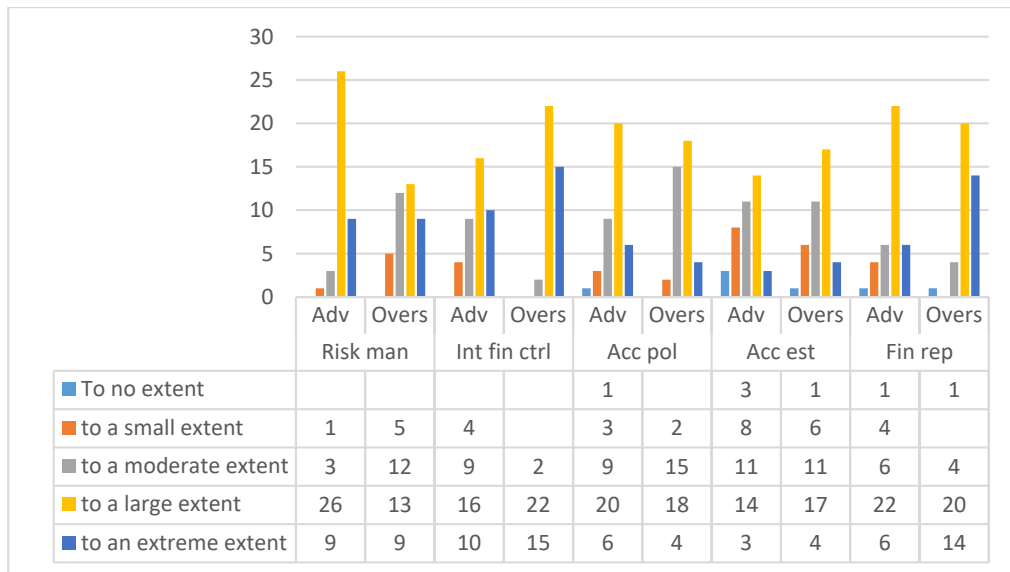


Figure 5: Advisory versus oversight in terms of audit committee role

Even though visually there appear to be differences in the level of agreement concerning the advisory and oversight perspectives of the aspects listed, the general result is that both advisory and oversight roles are perceived to apply to all the areas, as indicated by the majority of respondents indicating either a large or extreme extent of involvement in the aspects listed. Statistical correlations indicated in Table 6 show that, with the exception of Internal Financial Control aspects, there are statistically significant correlations between the level of involvement in advisory and oversight roles at a 1% level of significance.

Table 6: Statistical significance of advisory versus oversight roles

	Advisory	Oversight
Risk management		
Descriptive		
25th percentile	To a large extent	To a moderate extent
Median	To a large extent	To a large extent
75th percentile	To a large extent	To a large extent
Correlation		
Spearman's Rho		0.477 **
Kendall's Tau		0.432 **
Internal financial controls		
Descriptive		
25th percentile	To a moderate extent	To a large extent
Median	To a large extent	To a large extent
75th percentile	To an extreme extent	To an extreme extent
Correlation		
Spearman's Rho		0.226
Kendall's Tau		0.205
Accounting policies		
Descriptive		
25th percentile	To a moderate extent	To a moderate extent
Median	To a large extent	To a large extent
75th percentile	To a large extent	To a large extent
Correlation		
Spearman's Rho		0.421 **
Kendall's Tau		0.389 **
Accounting estimates		
Descriptive		
25th percentile	To a moderate extent	To a small extent
Median	To a large extent	To a moderate extent
75th percentile	To a large extent	To a large extent
Correlation		
Spearman's Rho		0.652 **
Kendall's Tau		0.582 **
Financial reporting		
Descriptive		
25th percentile	To a moderate extent	To a large extent
Median	To a large extent	To a large extent
75th percentile	To a large extent	To an extreme extent
Correlation		
Spearman's Rho		0.482 **
Kendall's Tau		0.429 **

** correlation significant at a 0.01 level

The results correspond with all the previous questions on the advisory and oversight role. Narrative responses supporting an oversight role included: "*The audit committee*

is the third level of assurance after management and the internal auditors”; and *“Once the accounting officer and management take ownership of risk management, a combined assurance model will enhance the audit committee’s responsibility*”; and *“The audit committee does not perform any advisory functions [accounting policies].”* Narrative responses supporting an advisory role included: *“In my experience the necessary financial controls already exist, but the audit committee should advise on the better implementation and/or improvement thereof*”; and on the review of the annual financial statements, *“... more from an advisory point of view to management before submission to the Auditor General.”*

Conclusion and Recommendations

The aim of this study was to establish how municipal audit committee members perceive their role and whether they realise the self-review threat brought about by the role conflict between legislation and internationally accepted best practice. Although the conflicting roles of assurance (oversight) and consulting (advisory) have received attention in the disciplines of external auditing and internal auditing, in the case of South African municipal audit committees, attention is also needed in terms of role conflict theory.

Interpersonal role conflict appears to be prevalent among municipal audit committee members in South Africa, and the assumption that a self-review threat exists due to a disconnect between the legislated and perceived role of the South African municipal audit committee, may be accepted. Municipal audit committee members appear to be oblivious of the self-review threat the conflict between oversight and advisory services holds.

Furthermore, there seem to be specific issues that municipal audit committee stakeholders need to consider. Legislation requires an “independent advisory committee” and any oversight role in terms of best practice, is based on the principle of independence. The result that in many instances the municipal managers seem to participate in the appointment process of the audit committee members, negatively affects the independence of audit committee members. Added to this influence, the comments on political appointments and manoeuvring, the conclusion is that the independence of current municipal audit committees only reflect on the members’ affiliation to the municipality and not to independence of the mind (objectivity).

Comments from respondents regarding the audit committees’ advice not being heeded and council only viewing the audit committee as an area of compliance, may possibly be linked to the degenerating practices influencing the independence of the audit committee and subsequently its authority in the eyes of stakeholders. Another observation was the number of respondents that served on more than one municipal audit committee. Earlier reference was made to financial dependence being an anti-independence factor. All of these issues potentially erode the authority and

independence of the municipal audit committee to a point where it may merely serve a compliance purpose.

If municipal audit committee stakeholders are of the opinion that the municipal audit committee can add value through advice from its expert individual members and also fulfil an oversight function, especially for rural municipalities, perhaps they need to borrow guidance from the internal audit environment. A balance needs to be struck between advisory and oversight functions where areas may not overlap, supported by legislation and policy. Adapted guidance may be considered from internal auditing on how to maintain objectivity, such as having periodic external assessment of the balance between advisory and oversight functions; educate audit committee members on the key risks to independence and how to maintain objectivity; assessing potential independence issues up front; clarifying to stakeholders what maintaining objectivity entails; and be prepared when stakeholders ask for too much—all of which are areas for future research.

It is evident that South African municipalities are not in a good state in terms of governance (a case in point is the VBS bank debacle and Covid-19 corruption allegations) and having an effective audit committee that functions according to internationally accepted expectations may go a long way in restoring public trust in municipal governance. Policy makers and other stakeholders should take note of this research in drafting regulations and legislation governing the functioning and establishment of municipal audit committees in South Africa.

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