

Examining Auditing as an Essential Element of Financial Management and Good Governance in Local Government

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Abstract

The purpose of the article is to address issues of auditing in the context of financial management as a contribution to good governance. Generally, not all local governments have effective and operational audit units and committees. As a result, auditing is not used as an essential element of good governance and this leads to bad audit outcomes like disclaimers and adverse opinions. The bad audit outcomes in local government have motivated the researcher to conduct the study on auditing. There are internal factors within the municipalities as well as external factors that are of interest and directed the researcher to have desire and

commitment to make a contribution in this particular field of research. The key issues, amongst others, are principles of financial management, financial strategy, auditing functions such as forensic auditing, fraud auditing, forensic accounting and detection of fraud, including accounting systems and auditor's role. This article will also attempt to reinforce existing theories and add value to local government financial discourse and good governance.

Keywords: Local Government, Auditing, Financial Management, Accountability.

Introduction

Chapter 12 of the Municipal Finance Management Act outlines the requirements and procedures for the preparation, auditing and processing of annual financial statements of both municipalities and municipal entities. The municipal manager and chief financial officer of a municipality and municipal entity must prepare and submit financial statements for auditing and produce annual reports. This chapter also:

- Provides for a process for the council to consider the annual report, and adopt an oversight report to ensure that corrective steps are taken when problems have been identified by the Auditor-General
- Provides for the annual and oversight report to be tabled in the provincial legislature

The chapter also addresses accountability. The basic meaning of accountability is to be responsible for the execution of activities and tasks; to be responsible for compliance and non-compliance with legislation and finally to be responsible for reporting on progress of compliance or non-compliance as prescribed or required by law. Section 121(1) demands that every municipality and every municipal entity must for each financial year prepare an annual report in accordance with this chapter. The council of a municipality must within nine months after the end of a financial year, deal with the annual report of the municipality and of any municipal entity.

The Local Government Transition Act, Act 97 of 1996, paved the way for the establishment of audit committees in the municipalities to facilitate proper municipal financial management. The complaints that were related to financial management in local government needed the establishment of control mechanisms to manage public funds as a result of a lack of capacity within these institutions of local government. Between 2004 and 2009 some changes in municipalities in the discipline of financial management have been evident (SACN, 2011:149).

This article addresses issues of auditing in the context of financial viability and management. The paper discusses issues like principles of financial management, theory and practice, essentials of managerial finance and financial strategy. The article will also address various facets of the auditing function such as forensic auditing, fraud auditing, forensic accounting, fraud detection, accounting systems and auditor's role.

The need for audit committees

It is essential and imperative that all municipalities must have internal audit units and audit committees. Moeti, *et al* (2007:164) write that to ensure the principle of accountability within the fields of public administration and management, it is important for each municipality to report on its annual finances, and subject such reports to auditing.

For a municipality to function properly according to good governance, an internal audit unit and an audit committee are essential. Good governance and accountability is of paramount importance in municipal services. An audit committee can add value by assisting the municipality (Councilors and Management) in carrying out their duties with regard to financial and performance reporting as well as controls.

According to Fourie (2004:22), good governance is essentially a function of:

- Leadership and direction within the organization
- Appropriate risk management and control over its activities
- Manner in which meaningful disclosure relating to its activities is made to communities
- Direction and control applied to stewardship of an organization's assets (financial and non-financial) in the pursuit and delivery of primary objectives

The King Report of 2002 identifies the following seven primary characteristics of good governance as:

- **Discipline:** the commitment by organization's senior management to standards of correct and proper behavior.
- **Transparency:** ease with which an outsider can meaningfully analyze the organization's actions and performance.
- **Independence:** the extent to which conflict of interest is avoided.
- **Accountability:** addressing communities' rights to receive information relating to stewardship of the organization's assets and its performance.
- **Responsibility:** entails acceptance of all consequences of the organization's behavior and actions, including a commitment to improve where required.

- **Fairness:** acknowledgement of respect for and balance between the rights and interests of the organization's various stakeholders.
- **Social responsibility:** entails an organization's demonstrable commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the community on which it operates.

Because an audit committee is independent, it is able to assist municipalities in checks and balances in financial management. An audit committee is an independent advisory body appointed by a council and has to assist the council in fulfilling its oversight responsibilities.

The audit committee has to review:

- Financial reporting processes
- System of internal control and management of financial risks
- Audit process
- Compliance with laws, regulations, policies and its own code of business conduct
- Maintain effective working relationships with the Council, management and internal and external auditors

Regarding duties and responsibilities of the audit committee, Fourie (2004:23) lists a few key performance areas. These include:

- **Financial Reporting:** Overseeing the financial reporting process is the primary responsibility of an audit committee. It should seek reasonable assurance that financial disclosures made by management are timely, objective, and complete and shows the council's financial position, results of operations, plans and long-term commitments. The success of overseeing the financial and performance results depends largely on its ability to communicate effectively with management and internal and external auditors.
- **Corporate Governance:** The corporate governance responsibility of the audit committee is to provide reasonable assurance in respect of the council:
 - complying with relevant laws and regulations
 - conducting its affairs ethically

- maintaining effective and efficient control systems in order to prevent and detect conflicts of interest and white-collar crime such as fraud by councillors, management and staff
- ensuring corporate control

This includes control over a council's key financial and operating risk areas and systems of internal control. The objectives of internal control include:

- Reliability and integrity of information
- Compliance with policies, plans, procedures, legislation and contracts
- Safeguarding of assets
- Economical, effective and efficient use of resources
- Performance management

Fourie (2004:24) continues to list the duties and authority of an audit committee as prescribed in the Municipal Finance Management Act (Chapter 12) as:

- Advising the municipal council, political office-bearers, accounting officer (municipal manager) and management and staff of the municipality on matters relating to:
 - Internal financial control and internal audits
 - Risk management
 - Accounting policies
 - Adequacy, reliability and accuracy of financial reporting and information
 - Performance management
 - Effective governance
 - Legislative compliance
 - Performance evaluation
- Reviewing the annual financial statements to provide the municipality with an authoritative and credible view of:
 - financial position of the municipality
 - municipalities' efficiency and effectiveness
 - overall compliance with legislation

- Responding to the council on any issues raised by the Auditor-General in a report
- Carrying out such investigations into the financial affairs of the municipality as the council may request

For an audit committee to carry out its responsibilities effectively and independently, it has to have the following authority:

- To obtain/seek/gather any relevant information it requires from internal or external sources
- To request/obtain outside legal or other professional advice
- To ensure the attendance of council officials/councilors when required
- To initiate special investigations.

Financial management and planning

According to Ijeoma, Nzewi and Sibanda (2013:299), local government or municipal finance is a very important aspect of public finance management most especially because it is closest to the people. According to Block and Hirt (1992:6), the field of finance is closely related to the fields of economics as well as accounting. Financial managers need to understand the relationship between these fields. Accounting is sometimes said to be the language of finance because it provides financial data through income statements, balance sheets, and the statements of cash flows. The financial manager must know how to interpret and use these statements in allocating the institution's financial resources to generate the best return possible in the long run (Block & Hirt, 1992:6).

According to Pauw, Woods, Van der Linde, Fourie and Visser (2002:325), municipal financial administration is rather a complicated and technical part of municipal administration and management. Practitioners, including financial practitioners, line managers and even councilors' who take, on a daily basis, decisions that have financial implications, should, therefore, study the financial management process very carefully, and should make sure they have a thorough understanding of this process (Pauw *et al*, 2002:325). Block and Hirt (1992:11) contend that the daily activities of financial

management include credit management, inventory, control and the receipt of disbursement of funds.

According to Atrill (1997:1), the finance function within an institution exists to help managers to manage. Strategic management refers to the role of managers in developing overall objectives for the institution and then formulating long-term plans, which match those objectives. When formulating long-term plans, possible courses of action (strategies) must be identified and evaluated.

Atrill (1997:2-3) lists three key tasks that are concerned with financial management. These include:

- **Financial planning:** involves developing financial projections and plans (such as cash flow statements and profit statements) which allow managers to assess the viability of proposed course of action.
- **Financing decisions:** requires the identification of financing requirements and the evaluation of possible sources of finance determining the appropriate financial structure for the institution.
- **Financial control:** refers to the way in which the plans are achieved. Once plans are implemented, it will be necessary for managers to ensure that things go according to plan. Control must be exercised over financing decisions, which may involve such matters as the monitoring and control of investments, control of stocks, debtors, creditors and liquidity

Financial planning is an important aspect of the municipality's operations because it provides road maps for guiding, coordinating, and controlling the municipality's actions to achieve its objectives. Gitman (2000:579) describes the financial planning process as beginning with long-term or strategic, financial planning that in turn guides the formulation of short-term or operating plans and budgets.

According to Besley and Brigham (2000:7), it is becoming increasingly important for people in marketing, accounting, production, personnel and other areas to understand financial management in order to do a good job in their own fields. Thus, there are financial implications in virtually all business decisions. Besley and Brigham (2000:7) conclude that non-financial executives simply must know enough finance to work these implications into their own specialised analyses.

Besley and Brigham (2000:132) also explain that the financial control phase is a phase where the municipality or any institution is concerned with implementing the financial plans, or forecasts, and dealing with the feedback and adjustment process that is necessary to ensure that goals of the institution are pursued appropriately.

Financial principles

Today, municipalities are using what is called Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practices (GRAP). Although it is widely argued that GAMAP has its origins in the United States, GAMAP helps municipalities in South Africa to make sure that the key financial management principles are adhered to.

In the United States, Harvard Business Essentials (2002:38) argues that Generally Accepted Accounting Principles (GAAP) is a body of conventions, rules and procedures sanctioned by the Financial Accounting Standards Board, an independent, self-regulatory body. According to Harvard Business Essentials (2000:39), an audit is designed to provide reasonable assurance that the financial statements are a fair representation of a company's financial transactions. It is not however, an absolute assurance since the auditor examines evidence on a test basis using statistical sampling and does not exercise every transaction and amount.

Transparency is also vital for an efficient economy. If reliable and accurate financial information is available to the public and all stakeholders, then there is transparency. As part of transparency, the annual report of a municipality is essential. The annual report presents four basic financial statements, namely: the balance sheet, the income statement, the statement of retained earnings and the statement of cash flows.

Brigham and Daves (2003:393) list three main purposes of the post-audit as:

- **Improving forecasts:** When decision makers are forced to compare their projections to actual outcomes, there is a tendency for estimates to improve; and people simply tend to do everything better, including forecasting, if they know that their actions are being monitored.
- **Improving operations:** Businesses are run by people, and people can perform at higher or lower levels of efficiency; and will try to improve operations if they are evaluated with posts audits.

- **Identifying termination opportunities:** Although the decision to undertake a project may be the correct one based on information at hand, things do not always turn out as expected. The post-audit can help identify projects that should be terminated because they have lost their economic viability.

For Rutterford (1998:1), it has long been acknowledged that finance plays a vital role within the organisation, with accounting systems designed to help organizational decision-making and control and financial techniques such as discounted cash flow providing tools for valuing projects and investments.

In recent years, it has become clear that financial strategy on its own can have a major impact on organizations. Rutterford (1998:11) also concludes that choosing the correct financial strategy can add value and make the stakeholders of the organisation better off.

Audit function

The views that follow further illustrate the significance of the auditing function. According to Bologna and Lindquist (1995:5), financial auditing generally is not intended to search for fraud but to attest that financial statements are presented fairly. Movements are afoot to compel financial auditors to design their audits in such a way that fraud can be discerned and criminal acts can be discovered.

Fraud auditors are accountants who, by virtue of their attitudes, attributes, skills, knowledge and experience are experts at detecting and documenting frauds in books of account. However, fraud prevention should take precedence over detection. Internal controls alone do not prevent fraud in books of account; they merely facilitate its detection. Fraud prevention measures include hiring honest people, paying them competitively, treating them fairly and providing a safe and secure workplace.

Arens and Loebbecke (1997:290) contend that the reason a company establishes a system for control is to help meet its own goals. Control systems must be beneficial so that system consists of many specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met. These policies and procedures are often called controls, and collectively they comprise the entity's internal control.

Arens and Loebbecke (1997:291) also suggest that auditors should emphasize controls concerned with the reliability of data for external reporting purposes, but controls affecting internal management information, such as budgets and internal performance reports, should not be completely ignored. Management, not the auditor, must establish and maintain the entity's controls. This concept is consistent with the requirement that management, not the auditor, is responsible for the preparation of financial statements in accordance with generally accepted accounting principles.

A major consideration in the audit of general cash balances is the possibility of fraud. The auditor must extend his/her procedures in the audit of year-end cash to determine the possibility of a material fraud when there are inadequate internal controls. An audit involves, broadly, the investigation of evidence on which some financial statement is prepared; and reporting whether that statement fairly presents a summary of transaction and their outcome for the period under review.

Dickinson (1982:5) identifies that for the report to be of value to its readers, it must be competent, unbiased and authoritative. This requires the auditor having considerable technical knowledge and experience of finance, law and business generally, particularly that of his/her client. The auditor should also be protected from any other management pressure. The auditor should also avoid straining his/her impartiality in reporting by conflict of interests. This could arise from relationships with or responsibilities towards other clients, or other relationships with the same client. Thus the auditor should not be too closely involved, personally or through his/her family, with the management or ownership of any client.

The primary objective of an audit is the issuance of a report, usually on balance sheet and income statement, that these fairly present the position of the undertaking at the balance sheet date, and the outcome of its transactions for the period then ended.

Dickinson (1982:9) argues that for an auditor to report, he/she should satisfy him/herself on the following points:

- Adequate system exists and does in fact operate as it is claimed to do
- Proper books of account are maintained, and are correctly and timeously entered
- Final accounts under review agree with the books, are consistent with previous periods and avoid any unnecessary obscurity

- Balance sheet assets exist, are the property of the client and are appropriately valued
- All liabilities are included and are appropriately valued
- Appropriate notes appear indicating any unusual treatments adopted and material commitments, contingent liabilities and happenings since the balance sheet date, affecting the interests of owners

The external audit has been established to prevent any doubt arising about the quality of the financial accounting information which an institution is required to present to its stakeholders. It would appear that since the information is supported by an expert independence opinion it will be accepted and used with confidence.

The opinion of an independent public accountant concerning the financial statements of a business will ordinarily be based on a comprehensive audit examination of the financial statements and the supporting data and will indicate whether or not the statements present fairly the financial position of the institution and the results of the institution's activities for the period stated. The external auditor should concern him/herself with the interests of the third parties, generally known to him/her, who will be relying upon the financial statements in question (Dickinson, 1982:15).

Some writers define auditing function as an independent examination of, and expression of opinion on the financial statements of an institution by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligations. Glaser (1990:1) argues that the primary purpose of the auditor is to express his/her opinion on the truth and fairness of the financial statements in the auditor's report, which is presented with the financial statements for the members of the institution after the end of the financial accounting period under audit review.

The secondary purpose of an audit is for the auditor to place the audit so that he/she has a reasonable expectation of detecting material misstatements in the financial statements resulting from improprieties, which include fraud, errors, irregularities for the prevention and detection of improprieties rests with the management, by instituting sound systems of management internal control (Glaser, 1990:2).

The auditing function is concerned with a search for audit evidence which will give the auditor a level of confidence that the accounting records and the information in the financial statements, based on those records, are true and fair. Glaser (1990:3) argues that audit evidence which forms the basis of the auditor's opinion on the financial

statements is obtained by carrying out audit test that may be classified as substantive or compliance tests of detailed transactions and balances. Compliance tests are tests of internal control within business systems.

Woolf (1979:8) describes an audit as a process whereby the accounting of business entities, including charities, trusts and professional firms, are subjected to scrutiny on such details as will enable the auditor to form an opinion as to their accuracy, truth and fairness. This opinion is then embodied in an audit report addressed to those interested parties who commissioned the audit, or to whom the auditors are responsible under statute.

For Woolf (1979:5), the skills of an auditor can only flourish in a situation of true independence. Woolf (1979:11) then lists general advantages of an audit as:

- Avoiding disputes between partners, especially where complicated profit-sharing arrangements subsist if the accounts have been subjected to a disinterested examination by an external auditor.
- Enhancing application to banks and other outside parties for the purposes of raising finance if supported by audited accounts.
- Carrying greater authority for audited accounts submitted to the Inland Revenue than accounts which have not been audited.
- Incorporating a provision for a variety of partnership deeds for the auditor to act as arbitrator in the event of dispute on specific issues.

For Woolf (1979:19), the audit committee's function is to view the institution's position in a detached and dispassionate light, and to liaise effectively between the main board and the external auditors. Woolf (1979:20) also lists the following activities of an audit committee:

- To make recommendations for the improvement of management control
- To ensure that there are adequate procedures for reviewing rights circulars, interim statements, forecasts and other financial information before distribution to shareholders and stakeholders

- To assist external auditors in obtaining the information they require and in resolving difficulties experienced by them in pursuing their independent examination
- To facilitate a satisfactory working relationship between the management and auditors, and between the internal and external audit functions
- To be available for consultation with the auditors at all times, if necessary without the presence of management
- To be concerned with all matters relating to the disclosure by the accounts of a true and fair view for the benefits of all users

Internal control is the basis of audit work. For Woolf (1979:55), internal control is not only internal checks and internal audits but the whole system of controls, financial and otherwise. These controls are established by management to carry on the business of the institution in an orderly manner, to safeguard its assets and to secure, as far as possible, the accuracy and reliability of its record.

The aspect of internal control which is exclusively concerned with the prevention and early detection of errors and fraud is usually referred to as internal checks. The objectives of internal and external auditing are similar, except that the internal auditors are employees of the company or institution and are responsible to its management.

Woolf (1997:74) concludes by writing that with the growth and size and complexity of many companies in recent years, the importance of the internal audit has correspondingly increased so that it is today a major factor in establishing the quality of a company's internal control and its development has made considerable contribution to contemporary auditing.

Glaser (1990:28) points out that it would be impossible for the auditor to test each and every transaction. The result is that the auditor can plan sample testing of transactions from the vast population of invoices, receipts, delivery notes and other transactions where the auditor decides the systems are unreliable then a greater volume of testing of transactions is needed. The audit emphasis has changed from testing many transactions for fraud and error, to testing relatively few transactions, within a sound system of internal control, to see whether they form the basis of a true and fair view of the dealings of the institution.

For Whitley (2004:113), apart from cash, the financial assets of a business are in an intangible form, and therefore unusually susceptible to fraud. Internal controls should be recorded and subjected to regular review, and compliance with internal controls should be regularly monitored. As integral to the internal control system, is the competence of staff at all levels to carry out their duties, training should be monitored and instituted where necessary.

Auditing, therefore, is a key area of control in business finance. Institutions of a certain size are obliged to have external audit, and many large institutions have internal audit units or departments.

External audits involve an independent person or firm (usually a chartered accountant) examining financial statements to enable them to certify that the financial statements give a true and fair view of the company's affairs at the balance sheet date. An auditor's report may amount to an unqualified or clean report. This means that the auditor is satisfied that the institution's financial statements give a true and fair view. This is not a guarantee that there are no errors in the financial statements, but it gives the readers of the report a high degree of assurance in the integrity of the accounts.

A qualified report indicates a reservation which the auditor may have on some aspect of the financial statements. The qualification may be relatively minor and others may be more serious (Whiteley, 2004:118).

Whiteley (2004:120) concludes by saying the internal audit departments carry out similar functions to external auditors, but they are not independent as they carry out their examinations on behalf of the management of the company. Internal auditors are also involved in risk management.

Hermanson *et al* (1980:3) argue that auditing is an integral part of communication process. Basic to the audit process is an auditor's review, evaluation and testing of the client's system of internal control. The analysis of internal control will affect the auditor's decisions regarding the audit programme. Errors and irregularities which are related to internal control are also considered. For Hermanson *et al* (1980:166), the internal auditors often are involved in policing the effectiveness of internal control. To the extent that they are successful, the internal auditors strengthen the effectiveness of the system of internal control.

Taylor *et al* (1987:25) suggest that the main objective of an audit is an examination of all the records and documents sufficiently to satisfy the auditor that the statement

he/she is called upon to audit fairly presents the facts. The crux of the matter is sufficiency of the audit checks. For Taylor *et al* (1987:25), the probe would then lead to an assessment of the risk of error. The bulk of the auditor's work will usually be related to income statements and balance sheets. .

Audit risk is defined as the risk that the auditor will unknowingly express an inappropriate opinion on the financial information on which he/she is reporting. Failure to detect material error is a greater risk than mistakenly interpreting evidence as indicating that financial information is materially misstated, when in fact, it is not. Taylor *et al* (1987:44) point out that the generally accepted auditing standard which requires the exercise of due professional care would preclude the auditor from issuing an unqualified audit opinion where his/her assessment of audit risk is within the high to medium range.

The principal overall purpose of an audit is to add credibility to the financial statements by the expression of an independent opinion thereon. Coopers *et al* (1991:57) contend that management is responsible for the preparation of those financial statements, and in compiling them, makes certain assertions regarding the information given therein.

The term 'audit risk' is used to describe the risk that the auditor will issue an incorrect opinion on the financial statements. Coopers *et al* (1001:61) argue that in practice, audit risk is the risk that the financial statements taken as a whole are materially misstated.

Control environment

Coopers *et al* (1991:69) conclude by listing key elements of the control environment as:

- effectiveness of the organizational structure
- role of the audit committee and internal audit
- reasonableness of management plans and budgets
- relevance and reliability of management information
- existence of adequate policies and procedures for controlling the business
- effectiveness of management controls or intentionally misstated the financial statements

In computer auditing, Lang and Still (1987:620) argue that the auditor may be involved in the acquisition procedure in either of two ways. The first would be to review the overall process as part of the general control's review. The second would be where the client specifically requests his participation either to act as a member of the steering committee or to perform the acquisition on his/her behalf.

There can be little doubt that the number of firms using computers has increased. The modern auditor has to be more proficient, not only in understanding computers, but also in operating and programming them. Lay and Still (1987:167) conclude that computers are currently being used by audit practices for a wide variety of functions, ranging from simple work processing of internal memoranda to revenue-generating application processing; from assistance on the audit to modeling and tax and estate planning.

In terms of the Public Accountants and Auditors Act of 1991, Cilliers (2002:268) explains that the auditor cannot give a report unless he/she:

- has carried out the audit free of any restrictions whatsoever
- has obtained all information, vouchers and other documents which in his/her opinion were necessary for the proper performance of his/her duties
- has any material irregularity that had, at the date on which he/she reported, been adjusted to his/her opinion

Konrath (2002:152) argues that audit risk analysis directly confronts inherent risk, control risk and detection risk. It is an audit approach that attempts to identify those areas presenting the highest probability of material errors or fraud, and those areas of greatest audit complexity.

Legal requirements

The importance of auditing function in municipal financial management is recognized by the Municipal Finance Management Act, Act 56 of 2003. Section 166 of the Municipal Finance Management Act addresses the need to establish audit committees. This piece of legislation requires each municipality to establish an audit committee and regulate the requirements, duties and composition of such committee. The Act does, however, make provision for the establishment of a single audit committee for a district municipality and

the local municipalities within that district municipality or for a municipality or municipal entities under its sole control. In dealing with municipal financial management, whilst the Municipal Finance Management Act is crucial, municipal authorities have to take into account a variety of pieces of legislation. So the Municipal Finance Management Act must be read in conjunction with the:

- Constitution of the Republic of South Africa of 1996
- White Paper on Local Government of 1998
- Municipal Demarcation Act, Act 27 of 1998
- Municipal Structures Act, Act 117 of 1998
- Municipal Systems Act, Act 32 of 2000, as amended in 2011
- Division of Revenue Act, Act (enacted annually)
- Property Rates Act, Act 6 of 2004

The policy framework, strategic direction and financial sound footing of the municipality rest on the proper application and compliance with the Municipal Finance Management Act and the legislation listed above.

Implications for implementation

The following are some of the implications for implementation if the process of auditing is properly applied and audit committees do their work independently:

- Proper implementation of auditing will lead to improvement on good governance.
- It will lead to improved financial reporting
- There will be progress from improved audit opinions to clean audits in municipalities
- Managers will adhere to legal compliance
- There will be a need to train and re-train finance and audit officials
- There will be production of reliable information
- There will be greater accountability and transparency
- There will be risk management and control in the administration

Conclusion and recommendations

Ijeoma *et al*/ (2013:307) finally argue that the values of accountability, transparency, people-oriented and focused government, principles of efficiency, effectiveness and economic use of resources are more significant in the local government sphere. The importance of auditing function in government has been recognized in so much that it has been enacted as a requirement for all government spheres. If auditing is properly established and structured in municipalities, and has sufficient resources, municipal managers as accounting officers can expect a number of benefits.

Auditing must play a pivotal role in the improvement of financial management. The office of the auditor-general promotes accountability and transparency through independent auditing and its reporting responsibilities to Parliament, and ensures that instances of non-compliance are reported to the public so that corrective action can be taken. This entrenches public confidence in the auditing profession and ensures that the fundamental values of society are maintained.

For a municipality to function properly according to good governance, an internal audit unit and an audit committee are essential. Good governance and accountability is of paramount importance in terms of financial performance and controls. According to Wilson and Game (2002:138) governance is valuable as an organizing framework which enables the better understanding of the process of governing. This article will contribute to the polemic questions that interrogate the concept of governance. The article also recommends that all municipalities must have internal audit units and audit committees. There must be rigorous training of audit officials. There must be risk management and control. There must be reliable and integrity information for auditing. The article recommends further that municipalities must subject their annual financial statements to auditing and adhere to legal compliance. Audit processes must be accountable and transparent and municipalities must strive for clean audits.

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