



REVIEW OF ANNUAL PERFORMANCE REPORT THE ROLE OF INTERNAL AUDIT AND AUDIT/PERFORMANCE AUDIT COMMITTEES

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CONTENT



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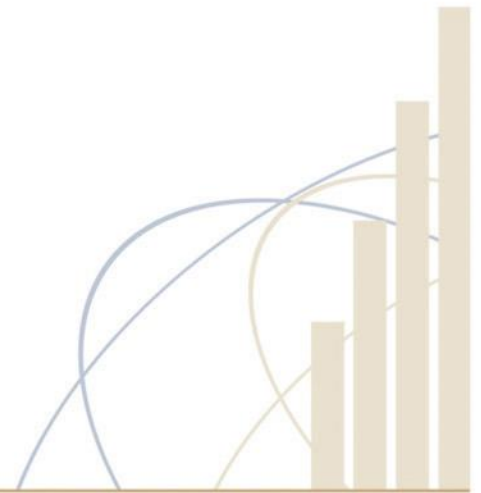
Content	Page
1. Introduction	3
2. Background	4
3. The importance of IA	5
4. Roles and Responsibilities of IA and PAC	6 - 10
5. APR review Methodology	11
6. AG Process and Approach	12-14
7. Conclusion	15
8. Recommendations	16



INTRODUCTION



- Municipal Annual Performance Reports (APRs) are comprehensive documents that provide an overview of a municipality's performance, accomplishments, and challenges over the past financial year.
- They encompass financial data, operational metrics, service delivery outcomes, and compliance with regulatory requirements.
- APRs serve as crucial accountability tools, enabling stakeholders to assess the effectiveness and efficiency of municipal governance.





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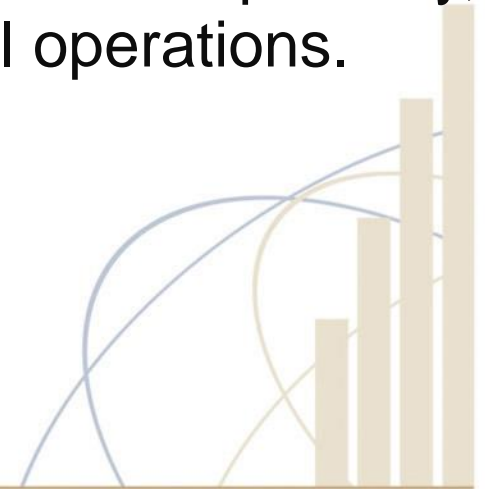
Background and overview

- The roles and responsibilities of both the Internal Audit (IA) function of the municipality and the Municipal Performance Audit Committees (PACs) are interrelated and overlap substantially
- For the purpose of this presentation and the audience of IAs only, the roles and responsibilities of PAC are not included in detail
- It should however be noted that the functionality of the AC/PAC is dependent on the activities and the close collaboration with IA
- These roles and functions guidelines presented here deals with the responsibilities of municipal IA, which overlaps with that of the PACs as determined by legislation, regulations, circulars, policy and best practices.
- These guidelines should be subject to regular review and by COGTA, Treasury, Municipal Councils, officials and Performance Audit Committee members as part learning and growth and improving the efficiency and effectiveness of PACs in terms of its mandate.
- Following is an overview of the legislative provisions for the roles and functions of IA:



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- Internal audit functions play a pivotal role in ensuring the accuracy, reliability, and integrity of APRs.
- Internal auditors serve as independent and objective assurance providers, offering insights into the adequacy of controls, risk management practices, and compliance with policies and regulations.
- Their assessments help enhance transparency, accountability, and public trust in municipal operations.



Authority and Powers of Internal Audit

- The basis for the authority and powers of Municipal Performance Audit function is laid in the Constitution of South Africa (1996), specifically Section 152 (2) which deals with the objectives of local government:

(2) A municipality must strive, within its financial and administrative capacity, to achieve the set out in subsection (1) The democratic values and principles in terms of section 195 (1) are also linked with the concept of Performance management, with reference to the principles of inter alia, : the promotion of efficient, economic and effective use of resources, accountable public administration, to be transparent by providing information to be responsive to the needs of the community and to facilitate a culture of public service and accountability amongst staff.

- The Authority and Powers of the Municipality's IA is established in terms of the Municipal Systems Act (No.32 of 2000), specifically in terms of Section 45, which states that:

The results of performance measurements in terms of section 4 (1) (c) must be audited-

- (a) as part of the municipality's internal auditing process: and*
- (b) annually by the Auditor-General*



- The Planning and Performance Management Regulations (2001), under Regulation 14 states:
 - (1) (a) A municipality must develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing processes.
 - (b) Any auditing in terms of paragraph (a) must include assessments of the following:
 - (i) The functionality of the municipality's performance management system;
 - (ii) whether the municipality's performance management system complies with the Act; and
 - (iii) the extent to which the municipality's performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10.
 - (c) A municipality's internal auditors must-
 - (i) on a continuous basis audit the performance measurements of the municipality; and
 - (ii) submit quarterly reports on their audits to the municipal manager and the performance audit committee referred to in



- The composition and main functions of the municipal AC/PAC are outlined under the Municipal Finance Management Act No. 56 of 2003, specifically Section 166, The Planning and Performance Management Regulations of 2006, specifically Regulations 14 et al as well as MFMA Circular 65.
- The Municipal Planning and Performance Management Regulations (2001) states, in Section 7 (2) (c), that it the municipality must ensure that the performance management system must clarify the roles and responsibilities of each role player in the functioning of the system. This would include the role of the role and responsibilities of the IA and PAC.
- The PAC and IA needs to collaborate closely to fulfill its overlapping functions as per Regulation 14 (4), which outlines the responsibilities of the Performance Audit Committee as follows:
 - (c) A performance audit committee may-*
 - (i) communicate directly with the council, municipal manager or the internal; and external auditors of the municipality concerned;*
 - (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;*
 - (iii) request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and*
 - (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.*



- Provide a mechanism for the rendering of impartial advice and recommendations to the municipal manager and audit committee on financial and non-financial matters.
- To improve accountability and governance over the activities of municipalities and municipal entities.
- Provide objective, independent advice to improve oversight, governance and help to mitigate risks.
- Conduct risk assessments to identify potential areas of concern or material misstatements within APRs.
- Assess whether the municipality adheres to legal requirements, regulatory guidelines, and internal policies in compiling APRs.
- They evaluate the effectiveness and efficiency of municipal programs and services by analyzing performance indicators and targets outlined in APRs.



Cont.....:

- **Enhanced Accuracy:** Internal audit scrutiny improves the accuracy and reliability of APRs by detecting errors, omissions, or misstatements.
 - **Strengthened Governance:** By promoting compliance with laws and regulations, internal audit reinforces good governance practices within municipalities.
 - **Improved Decision-Making:** Reliable APRs provide policymakers and stakeholders with accurate information for informed decision-making and resource allocation.
 - **Mitigation of Risks:** Internal audit identifies and addresses risks that may impact the municipality's financial health, reputation, or service delivery capabilities.
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- **Responsibilities (Operations):**
 - The responsibilities of internal audit include providing assurance on the processes and procedures to be followed to enable decision-making and enhance accountability.
 - The internal audit unit of a municipality or municipal entity must:
 - Prepare, submit and advice on a risk based audit plan and an internal audit program for each financial year (MFMA S165);
 - Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the audit committee in advance of meetings;
 - Meet periodically with the chairperson of the audit committee to discuss whether the material and information furnished meets the requirements of the audit committee;
 - Obtain advice from the audit committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters; and
 - Cooperate with the audit committee as they conduct annual reviews of the performance of the internal audit function.

APR REVIEW METHODOLOGY



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Internal auditors employ a systematic approach to review APRs, which includes:

- **Planning:** Defining audit objectives, scope, and methodology.
- **Fieldwork:** Collecting evidence, conducting tests, and analyzing data.
- **Reporting:** Documenting findings, conclusions, and recommendations.
- **Follow-up:** Monitoring the implementation of corrective actions.

AG PROCESSES AND APPROACH

- **IA** needs to be familiar with the AG processes and approach and need to take cognisance of this when performing its duties
- **Audit approach:** The audit approach for the audit of predetermined objectives is similar to that of the audit of the financial statements in the following ways:

Obtaining an understanding of the entity's information system and related control activities.

Assessing risks of material misstatement to form a basis for designing and performing further audit procedures.

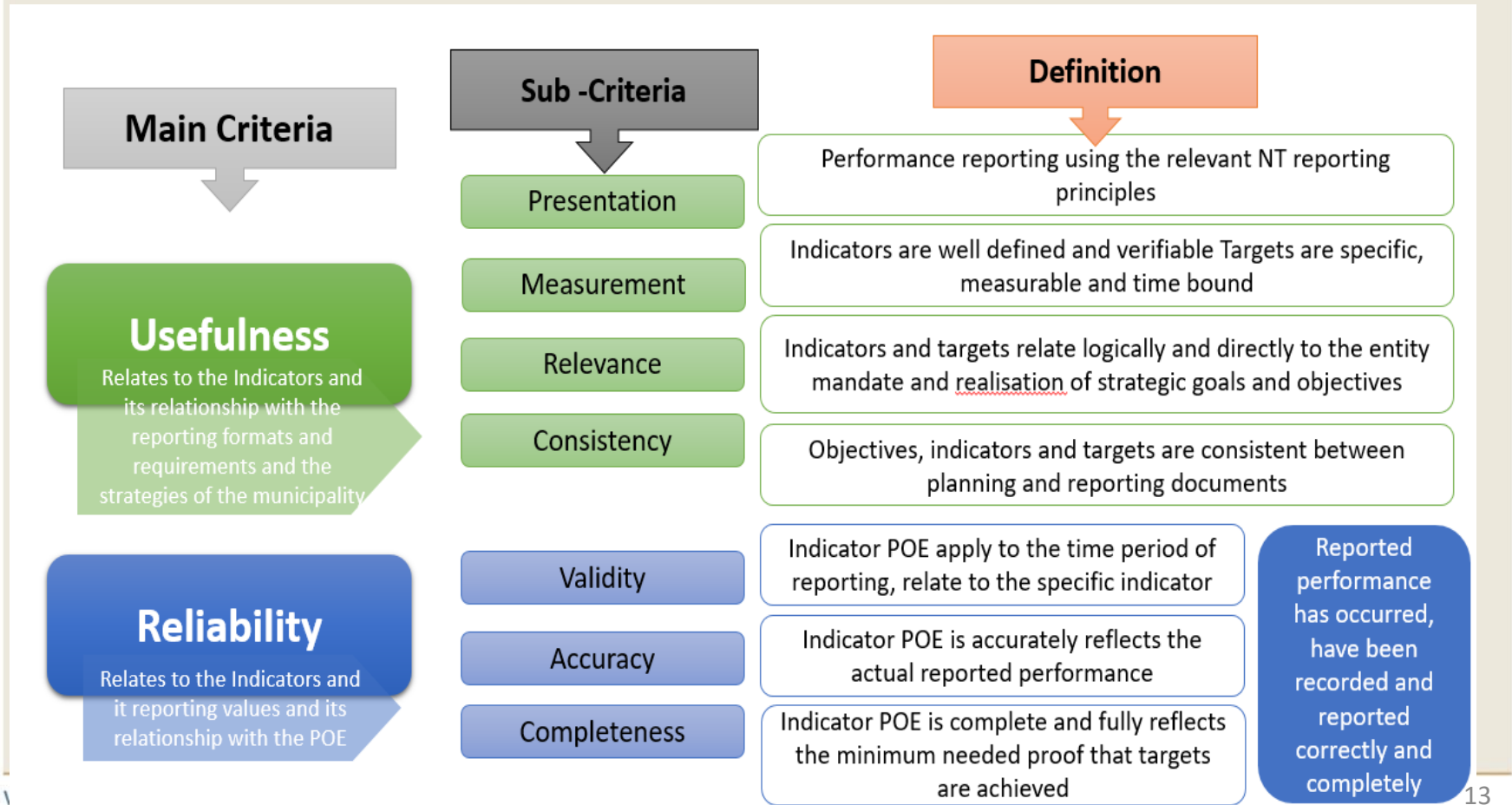
Obtaining sufficient appropriate evidence on which to base the conclusion on the validity, accuracy, and completeness of reported performance information.

Auditees need to instill the relevant controls to ensure that the reported performance for each indicator is valid, accurate and complete in the same way controls are implemented to ensure line items in the financial statements are valid, accurate and complete

Proper record-keeping measures should be in place to ensure that information is accessible and available to support performance reporting

AG PROCESSES AND APPROACH

- As a starting point, we should be reminded of the AG Audit Criteria used for the auditing of Annual Performance Reports:



AG PROCESSES AND APPROACH



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- AG material findings on auditing of the Annual Performance Reports will highlight the areas which are most prevalent and guide the focus of the IA and PAC

AG Audit Criteria	Number of Findings		Responsibilities of IA and PAC
	21/22	22/23	
Usefulness: Measurement	18	14	<ul style="list-style-type: none"> Understand standardised and best practices for development of TIDs Provide guidance on development/refinement of TIDs
Usefulness: Relevance	7	0	<ul style="list-style-type: none"> Assess Draft and Final IDPs, including SDBIPs Assess SDBIPs quarterly Audit Quarterly PMS reports and associated POE
Usefulness: Consistency	5	3	
Reliability: Validity	2	0	
Reliability: Accuracy	7	9	
Reliability: Completeness	19	15	<ul style="list-style-type: none"> Assist municipalities to develop and set the POE to ensure the calculation and evidence is adequate Provide guidance with development of specific indicators to ensure correct processes are followed and most complete and accurate POE is provided

In conclusion each municipality must:

- Ensure that there is **adequate skills and resources** to perform proper strategic planning, performance monitoring and reporting in line with applicable requirements.
- Ensure that **Formal processes and systems for the collection, collation, verification and storing** of actual performance information is developed, documented and approved by municipal manager and IA must validate these through PMS functionality audit.
- **Maintain portfolios of evidence** to support reported targets, which are reviewed monthly and audited by the Internal Auditors.
- There needs to be **sufficient oversight and monitoring of performance** during the reporting cycle to ensure that performance targets are reported as planned.
- **Prepare an audit action plan** based on the audit findings of the previous financial year, including definite actions to address these audit findings and audit this prior to consideration by the AC.

RECOMMENDATIONS



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- Internal audit and the Audit/Performance Audit Committee need to work together closely to ensure that it serves as a safeguard against any possible AG Audit findings.
- Management needs to allow sufficient time for IA to consider reports and POE for auditing. In this regard, it is proposed that the municipality utilize the Calendar for implementation of PMS, as provided by COGTA MPMRE.
- It is recommended that a process of recourse be institutionalized whereby the recommendations that the AC/PAC makes to Council be tracked and monitored, until addressed.
- Municipalities need to ensure that it has complete, relevant and accurate TIDs in place, which are reviewed regularly and approved by management and Council.
- It is recommended that TIDs be continuously assessed by IA and recommendations be made for the development and improvement.
- Municipalities to ensure efficient and effective records management and compilation of timely and accurate POE.



Q & A



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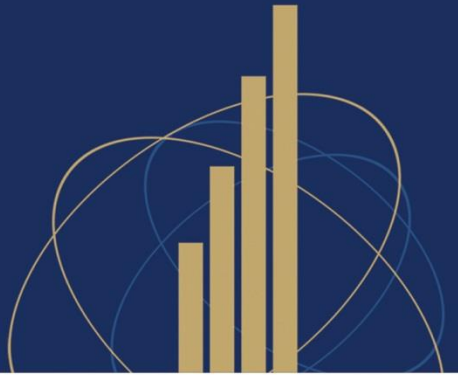


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Thank You!



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