AUDITING PERFORMANCE MANAGEMENT IN GOVERNMENT

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Introduction

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Auditing performance information in government evaluates whether a public sector entity's reported achievements match its predetermined objectives and legal requirements.

In South Africa, the Auditor-General of South Africa (AGSA) and Internal Audit Functions (IAF) performs performance management audits to ensure transparency and accountability

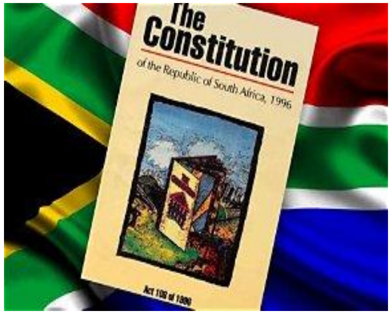
Core Focus Areas

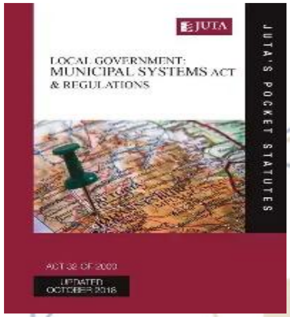
Usefulness: Checks if performance indicators and targets are relevant, clear, and consistent with what the department or municipality originally planned.
Reliability: Verifies that the reported data is valid, accurate, and complete enough to support fair measurement of actual achievements.
Compliance: Examines adherence to laws and regulations governing performance management, such as frameworks issued by the National Treasury.

Audit Criteria Sources

Auditors evaluate performance data against specific legal frameworks and guidelines:

1. The Constitution of the Republic of South Africa, 1996 (Sections 152 and 195).
2. Public Finance Management Act (PFMA).
3. Municipal Finance Management Act (MFMA).
4. Local Government: Municipal Systems Act (MSA).
5. National Treasury’s Framework for Managing Programme Performance Information.





Key Reasons for Auditing Performance Management

1. **Enhancing Accountability**: Audits hold elected officials and local administrators answerable for how they use public resources and whether they meet stated objectives.
2. **Validating Performance Data**: Independent reviews by IAF and AGSA confirm that reported data is credible, reliable, and matches actual service delivery.
3. **Promoting Efficiency and Economy**: Performance audits check if national, provincial and municipal programs use resources economically and achieve value for money.
4. **Driving Institutional Learning**: Audit findings highlight systemic weaknesses, encouraging government to fix administrative gaps and improve future planning.
5. **Building Public Trust**: Transparent reporting allows citizens to track local progress and see tangible results from their tax contributions.

IA Role on Auditing Performance Management

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In the public sector, Internal Audit plays a critical role in performance management by ensuring that taxpayer funds are translated into efficient, impactful public services. While private sector audits focus heavily on financial return on investment (ROI), public sector performance auditing is driven by the **Three Es: Economy, Efficiency, and Effectiveness**.

The primary responsibilities of Internal Audit organized into five key roles:

1. Auditing the "Three Es"

Internal audit evaluates how successfully government programs manage resources to deliver public value:

Economy: Assessing whether the inputs (funding, personnel, equipment) were acquired at the lowest cost without sacrificing quality.

Efficiency: Evaluating if the operation turned those inputs into the maximum number of public outputs.

Effectiveness: Reviewing whether the program actually achieved its broader societal outcomes, such as lowering crime rates or improving public health.

IA Role on Auditing Performance Management (cont.)

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2. Validating the "Audit of Performance Information" (AoPI)
Government agencies are legally required to publish their annual achievements against predetermined objectives. Internal audit plays a core verification role by:

- Reviewing the **reliability and accuracy** of reported performance data to ensure management isn't manipulating metrics to look successful.
- Checking the **relevance** of established key performance indicators (KPIs) to confirm they align with national development plans or legislative mandates.

3. Safeguarding Public Accountability & Trust
Public sector entities operate under high scrutiny from citizens, oversight committees, and politicians. Internal audit strengthens this environment by:

- Aligning performance data with compliance, ensuring that hitting targets did not involve illegal practices or unauthorized expenditures.
- Acting under specific mandates, like the Global Internal Audit Standards, which emphasize the professional courage required by public sector auditors to protect the public interest against fraud and resource diversion.

IA Role on Auditing Performance Management (cont.)

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4. Evaluating Service Delivery Controls

Performance drops when operational controls break down. Internal auditors systematically review processes to find:

Bottlenecks in service delivery

Clear lines of accountability, ensuring that specific managers are answerable for unmet departmental goals.

5. Proactive Advisory and Future Planning

Beyond historical reviews, the chief audit executive acts as an advisor to the public entity's oversight committee. By using a **risk-based audit approach**, internal auditors analyze performance trends to flag future spending overruns or failing initiatives before they become public scandals.

Difference between AoPI and PA

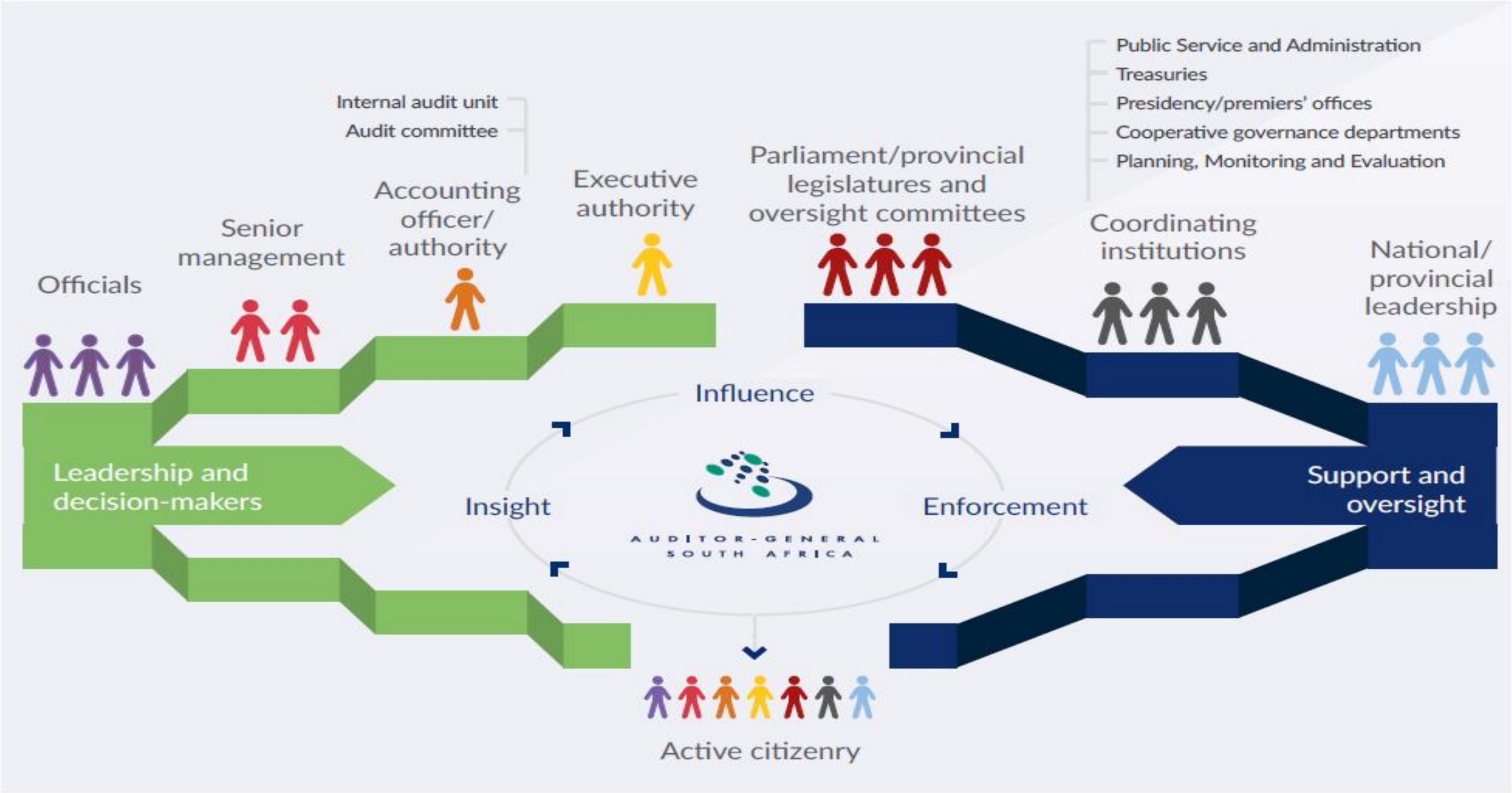
Auditing of Performance Information (AoPI)	Performance Auditing (PA)

• Part of Regulatory Auditing
• Focus: Non-financial information in Annual Reports
• Audit Criteria:
  ◦ Compliance (Did it happen?) as part of regularity audit process
  ◦ Quality of Performance Information
• Done by Audit Professionals
	• Individual audits
	• Focus on specific government policy or management process
	• Audit Criteria:
	  ◦ Economy
	  ◦ Efficiency
	  ◦ Effectiveness
	• Done by Subject Matter Experts

Source: https://www.agsa.co.za/Auditinformation/Performanceauditing.aspx

AGSA 2024/25 NATIONAL AND PROVINCIAL GOVERNMENT

Accountability ecosystem for national and provincial government



Northern Cape: Performance Management Key Pointers

1. Material Misstatements and Reliability Issues

- The Northern Cape experienced material misstatements in its performance reports, indicating that reported achievements were often not credible or could not be substantiated by supporting evidence.
- Departments and entities struggled to provide reliable documentation for reported performance, leading to audit findings.

2. Usefulness of Performance Information

- There were issues with the usefulness of reported information, such as poorly defined indicators and targets that were not specific, measurable, or time-bound.
- Some provincial departments reported on indicators that did not align with their core mandates or failed to capture the intended outcomes.

3. Planning and Monitoring Weaknesses

- Weaknesses in the planning process were evident, with performance plans lacking clear, relevant, and measurable indicators.
- Insufficient in-year monitoring of performance information resulted in late detection of errors and missed opportunities for corrective action.

4. Internal Controls and Oversight

- The province faced challenges with internal controls over performance information. Manual processes and lack of robust IT systems increased the risk of errors and unreliable reporting.
- Audit committees and internal audit units were not always effective in identifying and addressing weaknesses in performance reporting.

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5. Leadership and Capacity Challenges

- Leadership instability and vacancies in key positions contributed to weak performance management, affecting the ability to implement and sustain effective controls and oversight.

6. Compliance with Legislation

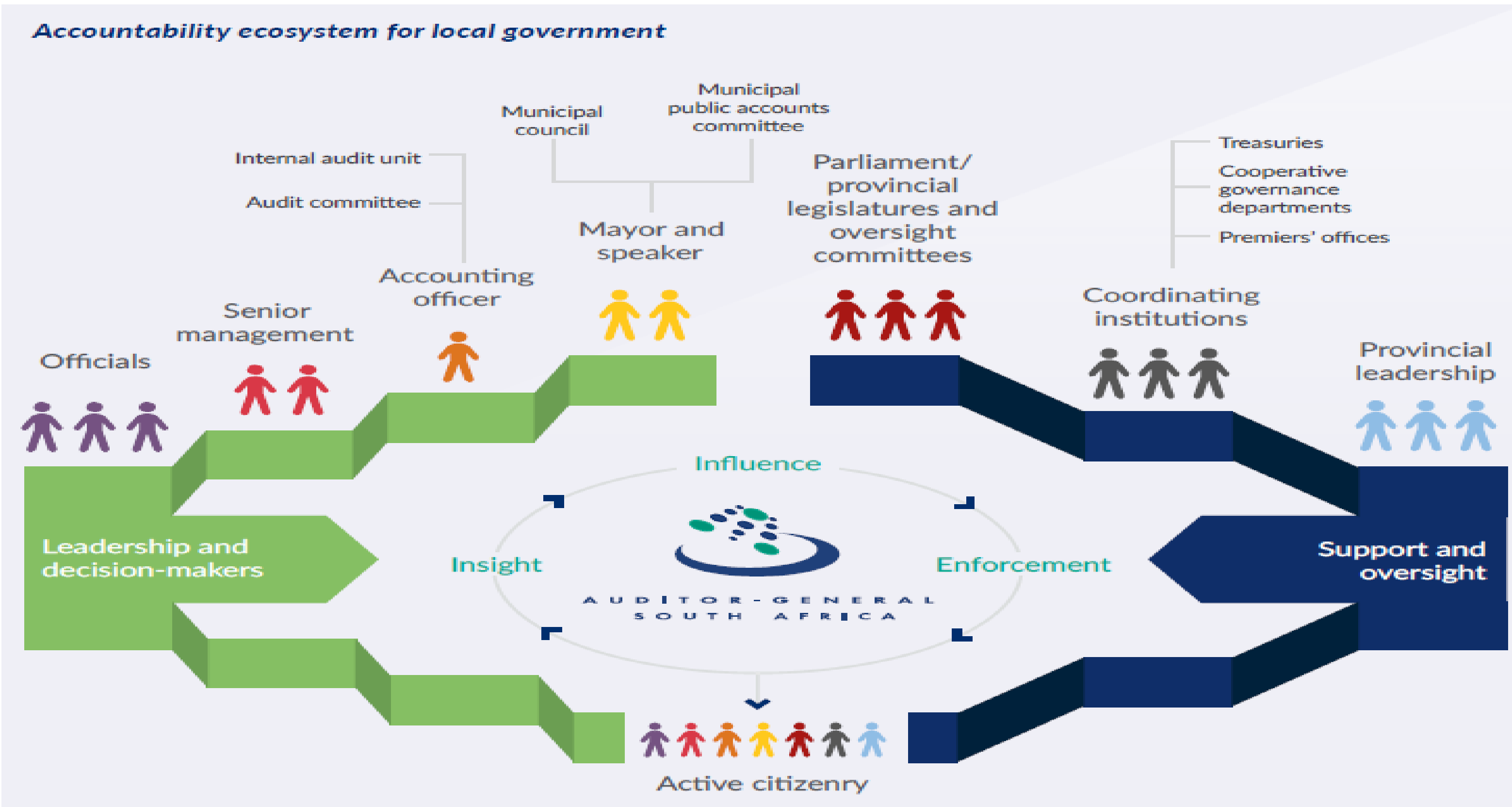
- Some departments did not fully comply with legislative requirements for performance management, such as preparing quarterly performance reports or maintaining adequate systems for monitoring objectives.

Recommendations for Improvement

1. Strengthen planning by ensuring that performance indicators and targets are well defined, measurable, and aligned to departmental mandates.
2. Enhance internal controls by investing in IT systems and strengthening manual controls to improve the reliability of performance information.
3. Empower Audit Committees and Internal Audit Units to play a more active role in monitoring and verifying performance information.
4. Fill key vacancies and stabilise leadership to support consistent performance management practices.
5. Monitor adherence to legislative requirements and implement consequence management for non-compliance.

AGSA 2024/25 LOCAL GOVERNMENT

Accountability ecosystem for Local Government



Key Pointers: Performance Management and AOPI in the NC

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Overall Performance Reporting Quality

- Only **11 out of 31 municipalities (35%)** in the Northern Cape had no material findings on their performance reports after audit corrections. This is a slight improvement from previous years but still indicates widespread weaknesses.
- Only **8 municipalities (26%)** submitted good-quality performance reports for auditing, up from 5 (19%) in 2020-21.

The most common material findings were:

- **Accuracy**: 14 municipalities (45%) had reported information that did not match supporting evidence.
- **Validity**: 13 municipalities (42%) had reported information that was not a reasonable or accurate representation of actual achievements.

Key Pointers: Performance Management and AOPI in the NC

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Nature of Material Findings:

1. Performance reports were often not useful or reliable due to:

- Poorly defined or irrelevant indicators and targets.
- Missing key indicators for mandated functions (e.g., road maintenance, water quality).
- Inconsistent or unapproved changes to planned indicators and targets.
- Lack of comparison to prior-year performance and insufficient disclosure of corrective actions for underachievement.

Example: Khâi-Ma Municipality omitted key road infrastructure indicators, leading to poor planning and reporting, which contributed to dilapidated roads and negative community impact.

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2. Compliance with Performance Management Legislation

Material non-compliance with strategic planning and performance management legislation was reported at **17 municipalities (55%)** in the Northern Cape.

Common issues included:

- No or inadequate performance management systems and controls (12 municipalities).
- No performance management system established/adopted (Renosterberg and Phokwane).
- Failure to perform mid-year performance assessments (Khâi-Ma).
- Unapproved revisions to service delivery and budget implementation plans (Kareeberg, Siyathemba, Kai !Garib, Tsantsabane).

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3. Accountability and Consequence Management

- **Consequence management remains weak**: 74% of municipalities had material findings on compliance with consequence management legislation.
- **Audit committees and internal audit units** were often ineffective due to vacancies, lack of skills, or not receiving necessary information from management.
- **Mayors and councils** often noted audit reports but failed to implement oversight or corrective actions.

4. Material Irregularities (MIs) and Interventions

- Five MIs relating to significant deficiencies in performance management systems (including lack of adequate records) were raised during the term.
- Provincial and national interventions (e.g., mandatory interventions, financial recovery plans) were implemented in some municipalities but often had limited impact due to slow response, political instability, or lack of follow-through.

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Root Causes of Weaknesses

1. **Institutional Capability**: Persistent vacancies, lack of skills, and poor understanding of performance management requirements.
2. **Internal Control Deficiencies**: Manual, error-prone processes; poor record-keeping; lack of daily/monthly controls; and weak review mechanisms.
3. **Ineffective Internal Audit and Audit Committees**: Most municipalities had these structures, but they were not effective in providing assurance or enforcing corrective actions.
4. **Over-reliance on Consultants**: 26 municipalities (84%) used consultants for financial reporting, but 97% still submitted materially misstated statements, indicating poor oversight and skills transfer.

Key Pointers: Performance Management and AOPI in the NC

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Recommendations for Improvement

1. **Strengthen internal controls**: Prioritize proper record-keeping, regular reconciliations, and in-year tracking of performance information.
2. **Build institutional capacity**: Fill key vacancies, invest in staff training, and reduce reliance on consultants by ensuring effective skills transfer.
3. **Enhance oversight**: Audit committees and internal audit units must be empowered and held accountable for their roles in performance management.
4. **Enforce consequence management**: Mayors, councils, and provincial leadership must act decisively on non-performance and non-compliance.
5. **Improve planning and reporting discipline**: Make financial and performance reporting a quarterly discipline, with regular monitoring and corrective action.
6. **Provincial support**: The MEC for local government should assist with reviewing integrated development plans and service delivery indicators, and the provincial treasury should intensify support for financial and performance reporting.

Conclusion

DRIVING ACCOUNTABILITY • DELIVERING RESULTS • CREATING PUBLIC VALUE.

BETTER AUDITS. BETTER PERFORMANCE. BETTER COMMUNITIES.

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Thank You!

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