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Agenda	No	Description
	A.	The Basics – IPPF - Definition and Purpose of Internal Audit
	B.	Purpose of Performance Management System
	C.	Roles and Responsibilities
	D.	Audit Process – Audit of Reliability
	E.	Audit of Performance Process Functionality
	F.	Audit Challenges
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	H.	Preparation For AGSA Audit Review
	I.	Conclusion

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## The Basics - International Professional Practice Framework



### Mission

"To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight."

This mission describes what the internal audit function aspires to accomplish within an organisation. This is different to the "Definition of Internal Auditing" which describes what Internal Audit is. Achievement of the mission is supported by all of the different elements of the IPPF, as illustrated.

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## IPPF - Core Principles for the Professional Practice of Internal Auditing

- Demonstrates integrity
- Demonstrates quality and continuous improvement
- Demonstrates competence and due professional care
- Communicates effectively
- Is appropriately positioned and adequately resourced
- Promotes organizational improvement
- Is objective and free from undue influence (independent)
- Provides risk-based assurance
- Aligns with the strategies, objectives, and risks of the organization
- Is insightful, proactive, and future-focused

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## International Professional Practice Framework

### Code of Ethics

### Principles

### Rules of Conduct



Integrity

Objectivity

Confidentiality

Competence

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## IPPF – Definition of Internal Audit Services

### Definition

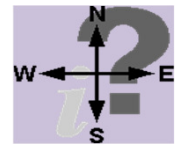
Independent  
Objective

Assurance

Consulting Activity

Add Value

Improve Operations



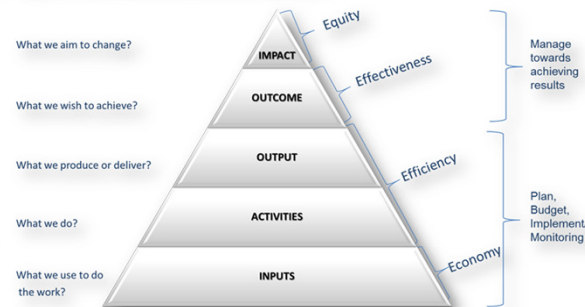
- It assists an organisation accomplish its objectives by bringing a systematic, disciplined approach
- Evaluate and improve the effectiveness of risk management, control and governance processes.

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## Purpose of Performance Management

Performance Management is defined as “a strategic approach to management, which equips leaders, managers, employees and stakeholders at different levels with a set of tools and techniques to regularly plan, continuously monitor, periodically measure and review performance of the organization in terms of indicators and targets for efficiency, effectiveness and impact”

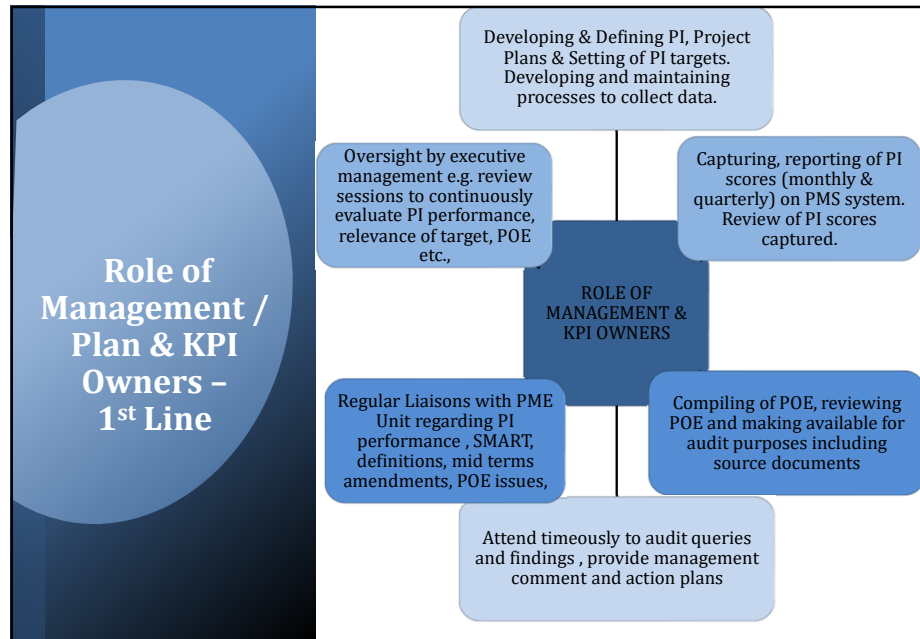
Its about continuous improvement in service delivery, enabling transparency and accountability.



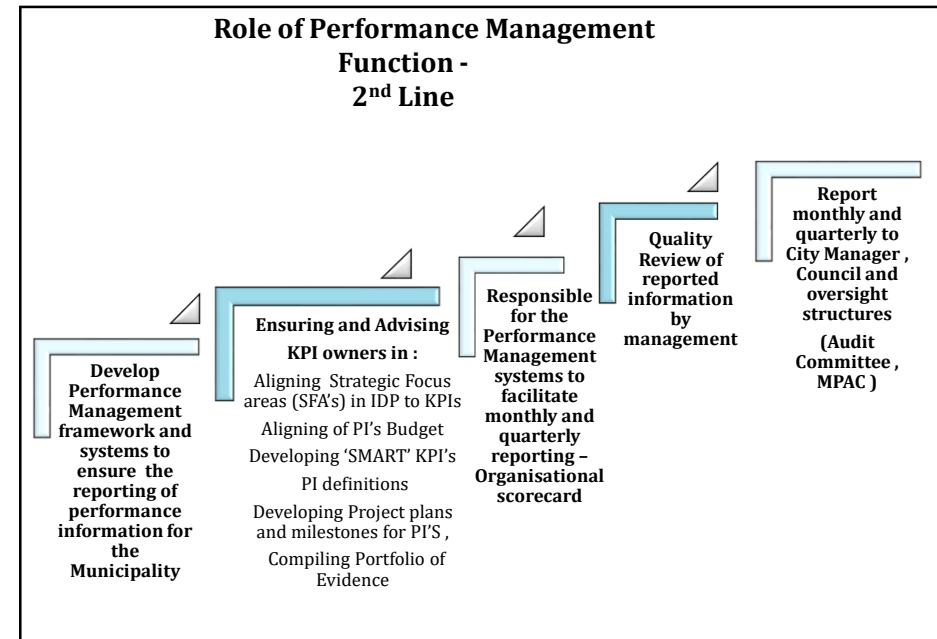
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## ROLES & RESPONSIBILITIES – 3 LINES MODEL

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## THE ROLE OF INTERNAL AUDIT – 3RD LINE

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## Legislative - Audit Mandate

**Municipal Systems Act, Act no.32 of 2000, Section 45** states that the results of performance measurements in terms of section 41 (1) (c) must be audited:

As part of the Municipality's Internal Auditing processes; and  
Annually by the Auditor General.

**Section 165(2)(b) of the Municipal Finance Management Act, 2003** (Act 56 of 2003) prescribes that the Internal Audit Unit of the Municipality or Municipal Entity must advise the Accounting Officer and report to the Audit Committee on the implementation of the Internal Audit plan and matters relating to:

Internal Audit;  
Internal controls;  
Accounting procedures and practices;  
Risk and risk management;  
**Performance management;**  
Loss control; and  
Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation.

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## Legislative - Audit Mandate

### Municipal Planning And Performance Management Regulations, 2001

Section 14. (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

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## Audit of Performance Management System

- Summary of Requirement
  - Assess the functionality
  - Evaluate compliance
  - Assess if performance measures are reliable
  - Report quarterly

How?

- 2 audits
  - Process of Performance Management (functionality) - annually
  - Review of the Reliability of information - quarterly

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## Objectives and Risks

- Of the 4 Internal controls objectives:
  - Compliance to laws and regulations
  - Safeguarding of Assets
  - Reliability and Integrity of Information
  - Economy, Efficiency and Effectiveness
- Audit of Performance Systems
  - Compliance to Laws, Regulation and Policies
  - Reliability of Information
- Risks
  - Non-compliance with laws, regulation and policies
  - Inaccurate, incomplete and or invalid performance reporting
  - Thus compromising transparency, oversight, monitoring and or accountability

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## Risk Based Approach

**Quantitative consideration** – relate to the Total budget both Capital and Operating budget size) of the development priority and strategic objectives as reflected in the Integrated Development Plan (IDP).

**Qualitative consideration** - take into account the information needs of the stakeholders and users of the performance information, the qualitative significance of the development priorities and strategic objectives against qualitative criteria (basic service delivery, financial sustainability).

**Legislative reporting requirements** of PIs – PIs that require monthly reporting to National Treasury and other external parties

**PIs financed by external or grant funding** - PIs that require compliance with conditions of finance or grant agreement.

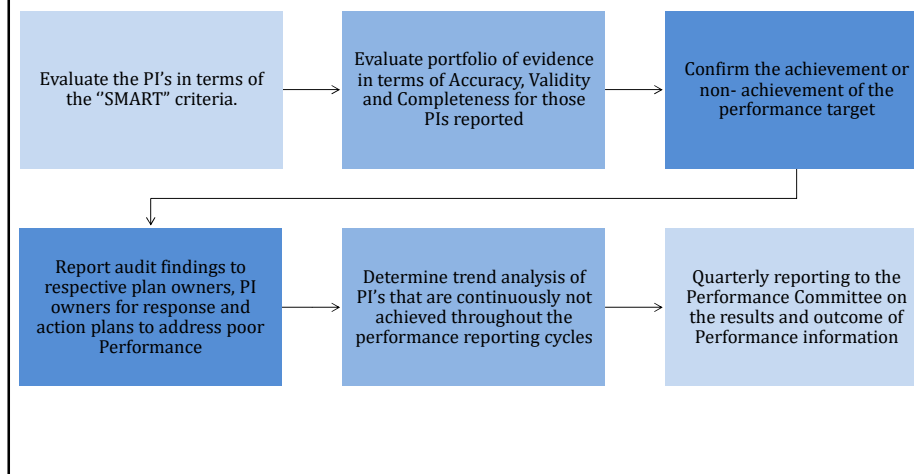
**Service Delivery Backlogs** – PIs directly relate to the level of service in addressing backlogs, performance of business against objectives

**Frequency** of the PIs in the relevant Performance Management reporting cycle. (quarterly, biannually and annually per plan)

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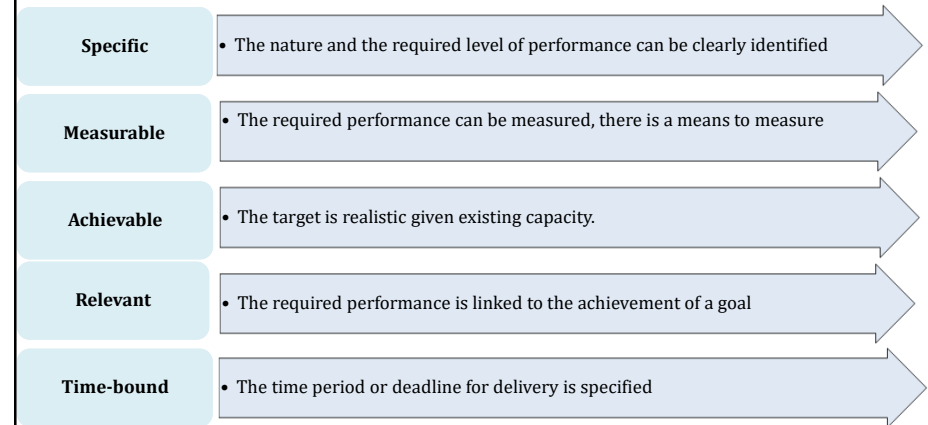
## Audit Process – Quarterly



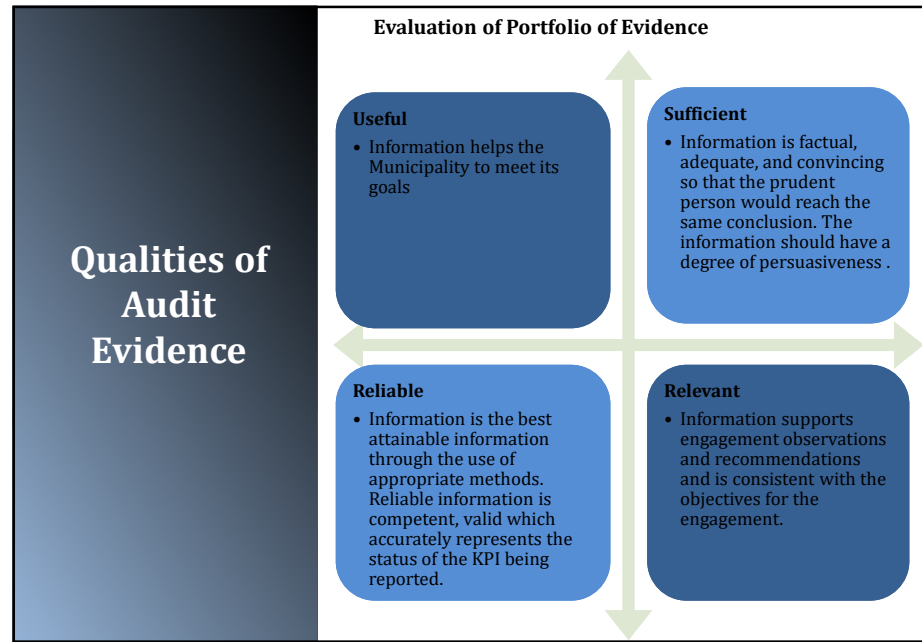
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## “SMART” Acronymy

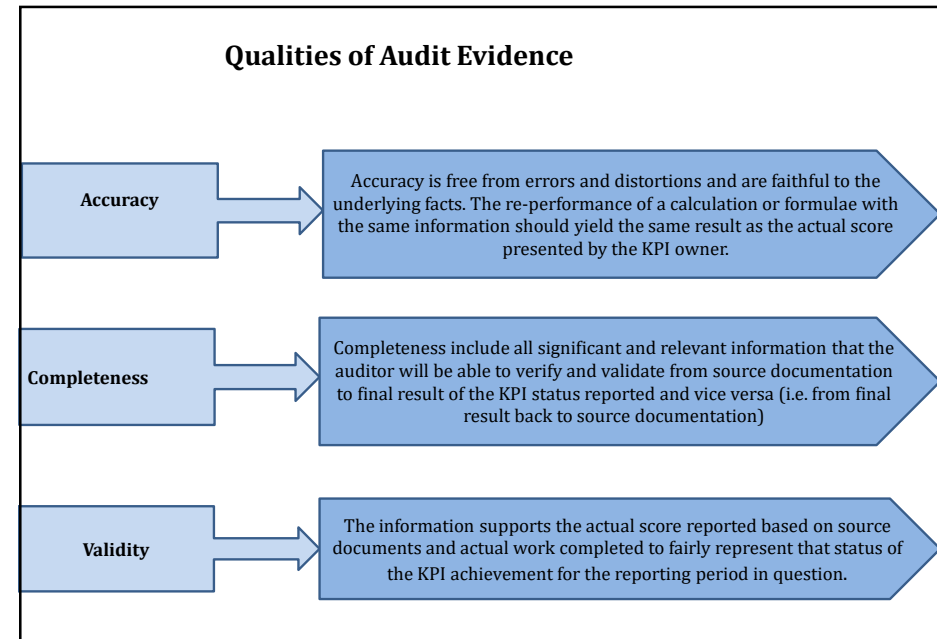
A strategic outcomes oriented goal should ideally be written as a statement of intent that is specific, measurable, achievable and time bound. A useful set of criteria for selecting performance targets is the "SMART" criteria:



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## PERFORMANCE AUDIT FUNCTIONALITY

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## Audit of the Process

This is a mandatory AGSA Regulatory audit for all municipalities in terms of **Municipal Planning And Performance Management Regulations, 2001**

Section 14. (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.

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## Audit of the Process

- A compliance audit of the performance regulations relating to the:
  - IDP;
  - Budget; and
  - Performance Management.
- Audited using a comprehensive compliance checklist of the relevant regulations and supporting evidence of the process / events / activities that occurred in the previous, current and future financial reporting periods of the Municipality.

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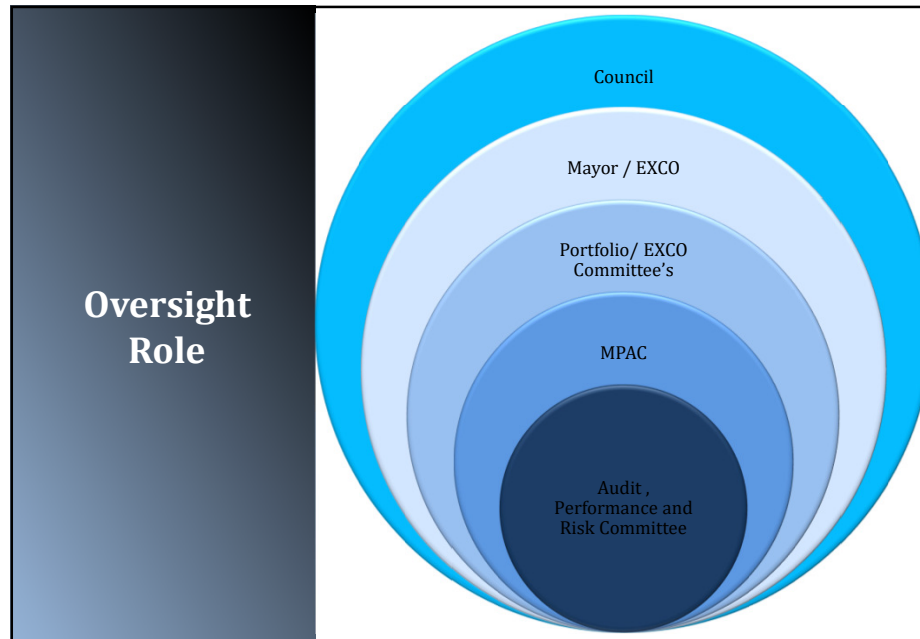
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## Audit of the Process

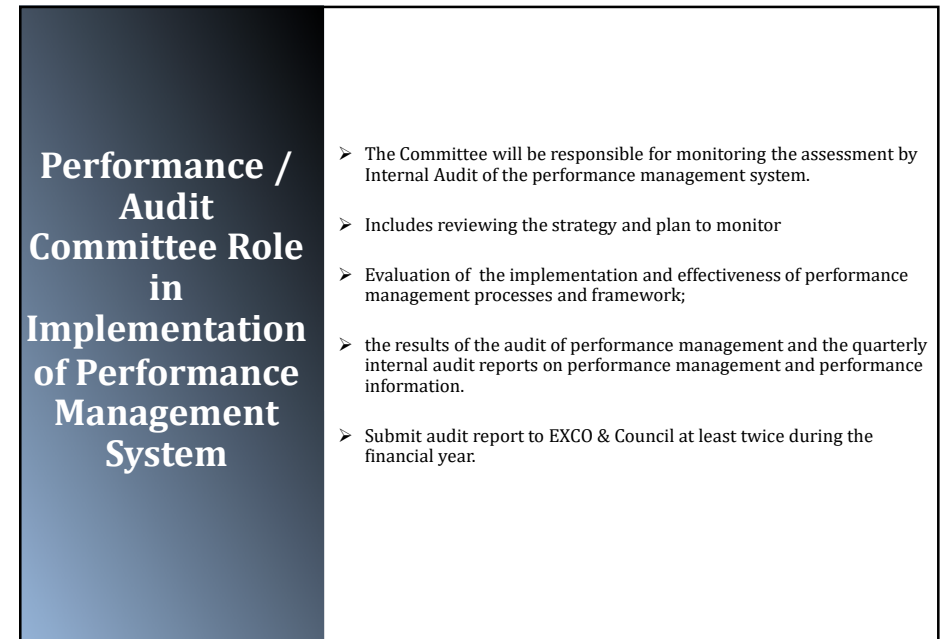
- Obtain an understanding of the Internal Controls
  - Environment
  - Information Systems and Communication
  - Monitoring
- Understanding of the system of performance management from inception
- Review the policies and framework for adequacy
- Review for implementation
  - Consistency and alignment
  - Quality and presentation
  - Monitoring and reporting
  - Compliance

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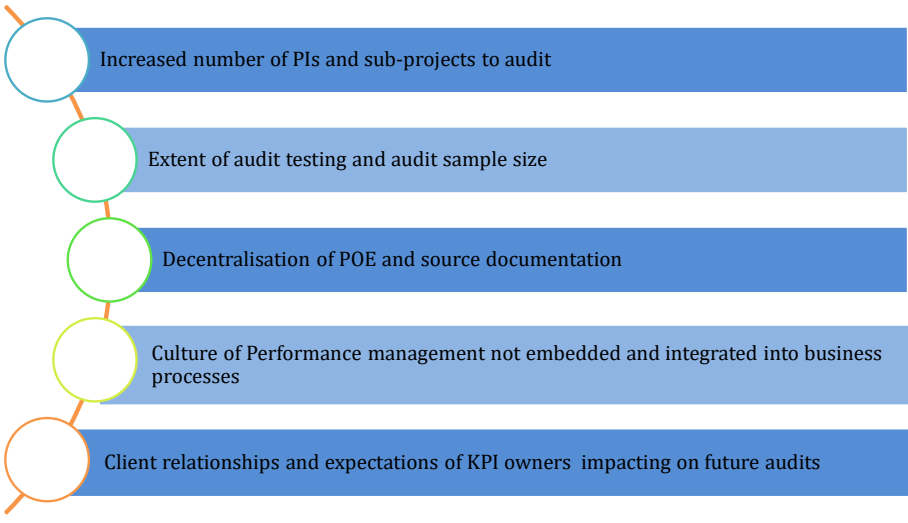


# AUDIT CHALLENGES

## Challenges

- 
 Tight reporting timelines to Audit Committee on performance information.
- 
 Non Availability and lack of timeous response from PI owners to audit queries and issues
- 
 Weak management responses and action plans to address audit findings.
- 
 Oversight of changes/deletions of PIs during Midterm.
- 
 Lack of automation of reporting system and systems for POE gathering

**Challenges**



**TYPICAL AUDIT FINDINGS**

### Typical Audit Findings

- No Portfolio of evidence submitted for Audit purposes.
- Non Achievement due to Portfolio of evidence with insufficient, irrelevant, or inaccurate information.
- PIs not meeting the 'SMART' principle.
- Pure non-achievement as reflected on the scorecard.
- Lack of Project plans / milestones / PI definitions.
- PI Scores not reported on scorecard.

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### Typical Audit Findings

- Incorrect weighting of sub projects failure of one sub project leads to total non achievement of the PI.
- Evidence not uploaded on the Performance Management system.
- Consistent Non achievement of PI's in the past 3 years.
- No Targets defined for PI's to enable quarterly reporting.
- Absence of PI definition with No defined linkage to sub-projects and milestones negatively contributing to overall achievement of PI's.
- Oversight of changes/deletions of PIs during Midterm.
- Impact on non achievement on individual performance plans and consequence management.

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### Recommended Areas of Improvement & Learnings

Management review of draft performance scores for the quarter before capturing on the automated system.	Monthly Action tracking as part of management meetings; and quarterly Self Assessment outcome prior to audit	Quarterly business Performance tracking on holistic basis and reporting to CM
Engagement between 1 <sup>st</sup> line and 2 <sup>nd</sup> line on Performance related matters	Account to oversight structures (Audit Committee , MPAC) on audited outcome	Setting of targets, ensuring adherence to SMART principle.
Evidence supporting actual scores must be gathered, reviewed and filed on a monthly basis, in line with the monthly performance reporting process prior to audit commencing.	Gaps identified during the audit process must be taken into account during mid term amendments process and during the setting of KPI targets for the ensuing year.	Audit evidence must be sufficient, relevant and accurate in support of the reported score

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### Impact on Risk Profile

- Non-achievement of predetermined objectives indicates a risk to the achievement of organizational strategic objectives.
- The reasons associated with not meeting the targets, may also be indicative of other emerging risks.
- Risk treatment plans to be put in place to expedite delivery.
- This must inform the quarterly risk reviews.
- Consideration must be given in the development of the following year scorecard and organizational risk profile.

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## Guidelines to Prepare for AGSA Audit Review

- Attending and resolving previously reported Internal Audit and AG findings and queries and incorporating learnings and lessons to improve efficiencies in the AOPI processes.
- Preferably an automated performance management systems that is reliable and accurate performance information
- Regular communication and engagement with AGSA prior and post audit on:
  - Understanding AGSA approach; and
  - Technical matters and updated legislation.
- Clearly defined roles and responsibilities in the Performance management policy & framework between KPI owners, PME and Internal audit including understanding of the AOPI process.
- Increasing AG reliance on the work of Internal Audit through:
  - Comprehensive and detailed audit methodology on AOPI;
  - Adequate audit sample size, working papers, evidence etc; and
  - Competent and skilled staff resources.
- AGSA predominately focusses on service delivery and financial plans / KPIs requires management systems , process and information to be adequate and effective.

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## Reflection - Culture of the Organisation

- |   |
|---|
| What is the level of maturity regarding compliance to performance information reporting?  |
| How serious does the Organisation take the reporting of performance ?   |
| Is the on the agenda of senior and executive management meetings? Is the evaluation an holistic approach?                                 |
| Does the scorecard represent the business of the organisation and the reality on the ground?  |
| Is performance viewed as a Team effort or 1 person relied upon?   |
| Is the individual performance linked to the performance of the organisation?  |
| Are PI owners , project managers being held to account and take responsibility for their PIs and projects ?                               |
| Action plans for PIs consistently not achieved (spending budget but PI not achieved)? The measures to improve will achieve the objective? |

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## References

- The Institute of Internal Auditors International Professional Practices Framework.
- Framework for Managing Programme Performance information, National Treasury , 2007.
- Municipal Systems Act ( MSA) 2000 and its amendments : Local Government.
- Municipal Financial Management Act ( MFMA) No.56 of 2003

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## Thank you



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