



Paper prepared for the 10th Meeting of the INTOSAI working group on key national indicators

SAI South Africa: Audit approach to the audit of key national indicators

1. Legislative mandate to the audit of key national indicators in South Africa

The Auditor-General of South Africa (AGSA) derives its mandate to conduct the audit of key indicators from the Public Audit Act (PAA). In terms of sections 20(2)(c) and 28(1)(c) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's reported information on performance against predetermined objectives.

2. Short summary of implementation process since 2006

During 2006 the AGSA adopted a phasing-in approach to the audit of key national indicators. The 2006 AG directive (issued per Government Notice 808 of 2006, 23 June 2006) determined that “no separate opinion on performance against predetermined objectives should be included in the audit report. Reporting will be in respect of material shortcomings in the process of reporting against predetermined objectives that may come to the attention of the auditor and that may impact on the public interest.”

On 25 May 2007 the AG determined (as per Government Notice 646 of 2007) the following:

“ I have adopted a phasing-in approach to compliance with sections 20 and 28 of the PAA until such time as the environment promotes a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion. I have determined that, until further information is published in this respect, no separate opinion on performance against predetermined objectives should be include in the audit reports. Reporting will be in relation to material shortcomings in the process, systems and procedures of reporting against predetermined objectives that may come to the attention of the auditor during the audit and that may impact on the public interest. This reporting will be contained in the “other reporting responsibilities” section of the audit report.”

This phasing-in approach was finalized in 2008, and since 2009 it was determined that an audit conclusion will be prepared and included in the **management reports** for all organs of state, i.e. for all national and provincial departments, public entities as well as all municipalities and municipal entities.

3. The performance management and reporting framework applicable to performance information in SA

The performance management and reporting framework (PMRF) used by all organs of state when planning, preparing and reporting information about its performance against predetermined objectives in the annual performance report, as prescribed, constitutes:

3.1 Legislation applicable to performance planning, management and reporting which includes the following:

- Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
- Treasury Regulations (TR), 2005 issued in terms of the PFMA
- National Treasury Practice Note 4 of 2009/10
- Public Service Regulations, 2001 issued in terms of the Public Service Act
- Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)
- Local Government: Municipal Systems Act (Act No. 31 of 2000) (MSA)
- Local Government: Regulations for planning and performance management, 2001, issued in terms of the Municipal Systems Act.
- Local Government: Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the Municipal Systems Act.

3.2 The *Framework for the managing of programme performance information* (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.

3.3 The *Framework for strategic plans and annual performance plans* (FSAPP), issued by the National Treasury. This framework is applicable to all national and provincial departments, constitutional institutions and certain public entities.

3.4 Circulars and guidance issued by the National Treasury and Department of Planning Monitoring and Evaluation regarding the planning, management, monitoring and reporting of performance information.

4. The audit standards AGSA is using when auditing KNI

The audit is performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance engagements other than audits or reviews of historical financial information*.

It is thus important to note that the audit of key national indicators in South Africa is **NOT** performed as a performance audit, but as a reasonable or limited assurance engagement in terms of ISAE 3000. These engagements are performed annually as part of the regularity audit process during which AGSA auditors also audit the annual financial statements and compliance with laws and regulations.

5. Criteria against which the audit of KNI is performed

The performance management and reporting framework (as per paragraph 3 above) embodies the principles of managing and reporting performance information that is useful and reliable to intended



users in evaluating the auditee's performance against predetermined objectives for the period under review. Such information can reasonably be expected to assist intended users to assess:

- (a) the entity's service delivery activities and achievements during the reporting period,
- (b) the entity's financial results as per the financial statements in the context of its achievement of key indicators and
- (c) the efficiency and effectiveness of the entity's operations.

Reporting performance information that is *useful and reliable* to intended users is intrinsically linked to providing information at two primary levels:

- At the level of the entity's planned performance; i.e. how the entity planned to manage the achievement of its key strategic objectives and what it planned to achieve as reasonable measures for performance; for delivering on its mandate. This is reflected in the key performance indicators and targets developed for each organ of state. For purposes of the audit approach, this is referred to as the *usefulness aspects* of the entity's reported performance information.
- At the level of the entity's actual performance achievements; i.e. how the entity actually performed against the approved targets that were set for the performance indicators of each of the entity's programmes. Information on actual performance must be reliable in order for a user to perform a meaningful evaluation of achievements compared to what was planned. For purposes of the audit approach, this is referred to as the *reliability aspects* of the entity's reported performance information.

The following audit criteria (assertions), developed from the performance management and reporting framework are used during the audit:

Audit criteria	
Usefulness of reported performance information	
Consistency	Objectives, performance indicators and targets are consistent between planning and reporting documents
Measurability	Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound
Relevance	Performance indicators relate logically and directly to an aspect of the entity's mandate and the realisation of strategic goals and objectives
Presentation and disclosure	The requirements for presenting and disclosing performance information in the annual performance report as contained in the legislation, frameworks, circulars and guidance.
Reliability of reported performance information	
Recording, measuring, preparing and presenting of actual performance achievements that is valid, accurate and complete.	

6. A high level summary of the audit work performed

During the audit the auditor make an assessment of the usefulness and reliability of the reported performance of selected material subject matters (usually performance programmes) as included in the annual performance report, using the audit criteria as explained in the paragraph above.

The auditor performs procedures with an objective to provide assurance to the user of the annual performance report that the reported information is useful and reliable.

As part of the audit the following procedures are performed per selected subject matter:

- Assessment of risks of material misstatement of the reported performance information, design and performance of audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the opinion/conclusion. In making those risk assessments, internal control relevant to the management and reporting of performance information per selected subject matter is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the auditee's internal control.
- Evaluation of the documentation maintained by the auditee that supports the generation, collation, aggregation, monitoring and reporting of performance indicators/measures and their related targets for the selected subject matters.
- Evaluation and testing the usefulness of planned and reported performance information, including presentation and disclosure in the annual performance report, its consistency with the approved performance planning documents of the auditee and whether the indicators and related targets are measurable and relevant.
- Evaluation and testing the reliability of information on performance achievement to determine whether it is valid, accurate and complete.
- Concluding on the usefulness and reliability of the selected subject matters as contained in the annual performance report.

6. Reporting on the results of the audit

Management report

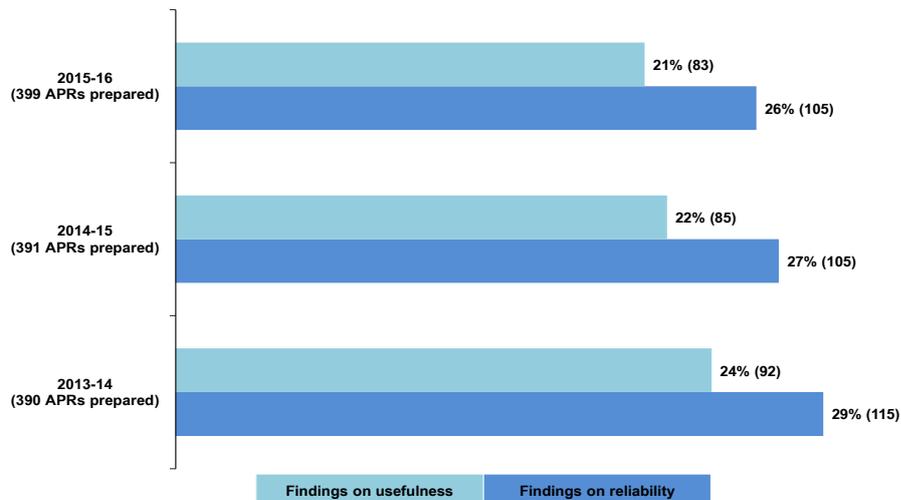
Assurance in the form of an audit opinion (for reasonable assurance engagements) or a conclusion (for limited assurance engagements) on the usefulness and reliability of the reported performance information against key indicators for selected subject matters i.e. selected performance programmes is currently only included in the report to management.

Auditor's report

Material findings on usefulness and reliability, for each subject matter scoped in, are reported in the auditor's report.

7. Summary of recent audit results

The figure below reflects the audit findings on the usefulness and reliability of annual performance reports over the three years for all national and provincial auditees.



A slight improvement in the **usefulness** of the information in the annual performance reports (APRs) over the three years is evident.

The most common findings on usefulness in 2015-16 were that auditees reported on indicators that were not well defined (11%) or verifiable (7%) and reported information that was not consistent with the planned indicators and targets (7%), while targets were also not measurable (9%) or not specific enough (10%) to ensure that the required performance could be measured and reported in a useful manner.

The usefulness of the reported information continued to improve as auditees corrected their performance indicators and targets as part of the annual planning and budget processes based on the recommendations we provided and their increased understanding of the application of the requirements for performance planning.

The processes and controls required to produce **reliable information** on performance have shown little improvement over the period as the reported performance information continued to be invalid, inaccurate or incomplete.

While the quality of the annual performance reports has slightly improved, the low number of auditees that submitted their reports without material misstatements (42%) indicates that most of the auditees were still struggling to produce credible performance reports.

8. Conclusion

Quality financial statements are an important accountability mechanism as they enable oversight to assess the financial performance and position of an auditee. However, in the public sector the focus of oversight is also on whether the auditee used the money and its resources to deliver on its service delivery objectives and mandate.

Performance reports on delivery against key indicators that do not include useful information or that are unreliable hamper the ability of oversight bodies to assess the performance of the auditee and call them to account. They also weaken decision-making at different levels, including by the management of the auditee.

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