GUIDANCE FOR AUDITING IN THE PUBLIC SECTOR

VOL. 1

AUDITOR-GENERAL
SOUTH AFRICA

INDEPENDENT REGULATORY BOARD FOR AUDITORS

GUIDANCE FOR AUDITING IN THE PUBLIC SECTOR

CONTENTS

Copies of this Guide may be downloaded free-of-charge from the IRBA website http://www.irba.co.za and the AGSA website: http://www.agsa.co.za.

Independent Regulatory Board for Auditors
Committee for Auditing Standards
PO Box 8237, Greenstone, 1616
Johannesburg

Auditor-General South Africa
PO Box 446
Pretoria 0001

MESSAGE BY THE CHIEF EXECUTIVE OFFICER OF IRBA

The mandate of the IRBA is to protect the public interest through issuing high quality auditing standards and guidance to auditors. The public interest is best served when audit quality is achieved in both the private and public sectors, which in turn enhances confidence in the financial markets, stimulates investment, transformation and employment opportunities in the South African economy.

I am pleased that the collaboration between the IRBA and the Auditor-General has developed guidance that supports registered auditors performing audits in the public sector, and which will ultimately improve governance and financial management in the public interest.

The IRBA regards the Auditor-General as an important stakeholder in the public sector financial reporting and governance framework, as well as in the auditing profession, and is confident that the co-operation with the Auditor-General on the current and future initiatives will benefit the public, government and our country.

Bernard Peter Agulhas

MESSAGE BY THE AUDITOR-GENERAL

It gives me great pleasure and pride as the Auditor-General of South Africa (AGSA) to have cooperated with the Independent Regulatory Board for Auditors (IRBA) on the development of these guides. This is a first in a series which, together with the AGSA directive, have been prepared to enhance the quality of public sector auditing in South Africa and ensure the value and benefit thereof to our Government and citizens.

I am grateful to IRBA for consenting to establish the Public Sector Standing Committee (PSSC) and for the opportunity that this has afforded the AGSA of collaborating with the auditing profession in this development process.

This cooperation between the private and public sector is especially gratifying as it demonstrates what can be achieved with the joint aim of improving financial management in the public sector. It is through these improvements that our mutual ambitions of an excellent public service characterised in part by clean administration and excellent audit outcomes can be realised.

I am also thankful that this cooperation with IRBA has resulted in public sector specific guidance being incorporated in the South African Auditing Practice Statements 2 and 3.

I trust that you will find the information in these guides useful and that they will be instrumental in building public confidence through public sector auditing

Terence Mncedisi Nombembe

PREFACE

The Guides for Registered Auditors: Auditing in the Public Sector and Audit of Predetermined Objectives (the Guides) have been developed by the Committee for Auditing Standards (CFAS) jointly with the Auditor-General of South Africa (AGSA) and provide information that will assist registered auditors in public practice in understanding the public sector environment, within which public sector audits are conducted and performing an audit of predetermined objectives, disclosed in the annual reports of entities in the public sector.

The Guides are approved by the Independent Regulatory Board for Auditors (IRBA) for joint publication with the AGSA for the purpose of improving the understanding of, and enhancing the performance of, quality public sector audits by registered auditors in public practice (registered with the IRBA), who are contracted by the AGSA or appointed as auditors of public entities or institutions where the AGSA has declined appointment in accordance with section 4(3) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Section 12(3)(a) of the PAA requires the AGSA to determine "the minimum qualifications, experience and competence of authorised auditors". Auditors performing public sector engagements shall ensure that they have the professional competence to perform such audit engagements in accordance with the applicable professional standards and more extensive legal and regulatory requirements and unique circumstances of the public sector. The guidance herein is intended to assist registered auditors to meet these requirements and enable the AGSA to fulfill its role more effectively.

The mission of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognized standards and processes.

In line with the IRBA's legislative mandate, its objectives are to create the framework and principles to contribute to the protection of members of the public who rely on the services of registered auditors, and to support registered auditors who carry out their duties competently, fearlessly and in good faith. The goal is to help create an ethical, value-driven financial sector that encourages investment and confidence and promotes sound practices by developing and maintaining auditing standards which are internationally comparable. The statutory responsibility of the Committee for Auditing Standards (CFAS) is to assist the IRBA to:

- develop, maintain, adopt, issue or prescribe auditing pronouncements,;
- consider relevant changes internationally by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and
- promote and ensure the relevance of auditing pronouncements.

AUDITING IN THE PUBLIC SECTOR

CONTENTS

FOREWORD

1. Auditing in the public sector is not an end in itself but rather an indispensable part of a regulatory system that aims to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, and to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.

2. The scope of an audit in the public sector includes the audit of the financial statements, performance against predetermined objectives and compliance with laws and regulations. In addition, performance audits and investigations are also undertaken.

3. The mandate of the AGSA to audit public sector entities is derived from the Constitution. In addition, the PAA prescribes the functions of the AGSA. Audits in the public sector are performed in accordance with ISAs, incorporating the guidance included in the ISSAIs.

4. Key stakeholders in the public sector include Parliament, provincial legislatures, national and provincial treasuries, the Accounting Standards Board (ASB), executive authorities, municipal councils, accounting officers, executive mayors and the public at large. When auditing in the public sector, it is important to have an understanding of the three different spheres of government and how they interact with one another.

5. There are a number of laws and regulations applicable to public sector entities. It is important for public sector auditors to be aware of the relevant legislation and to have a working knowledge of the application of those laws and regulations that are applicable to a specific public sector entity or enterprise in order to identify instances of non-compliance with these laws and regulations. Key laws and regulations include the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), Companies Act, 1973 (Act No. 61 of 1973), Division of Revenue Act (DoRA), Public Service Act, 1994 (Act No. 103 of 1994) (PSA) and Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA).

6. The AGSA subscribes to the principles contained in the *Framework for communicating and promoting the value and benefits of SAIs*[1] and by so doing setting an example in the public sector and the auditing profession as leaders in public finance management, related governance and performance management. It is with this solid foundation that the AGSA adds value and can make a difference in the lives of citizens.

7. Audits are generally undertaken in two cycles: national and provincial government subject to the PFMA and local government subject to the MFMA. In order to conduct these audits within the prescribed time frames, the AGSA contracts with private practitioners to obtain additional resources. The auditing standards applied in the conducting of these audits incorporate the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements and the ISSAIs.

1 Supreme audit institutions

1. AUDITING THE PUBLIC SECTOR IN SOUTH AFRICA

Introduction

1.1 This Guide provides information that will assist registered auditors in understanding the public sector environment within which public sector audits are conducted. Auditors performing public sector engagements[2] should ensure that they have the appropriate competence to perform the audit in accordance with the applicable professional standards and legal and regulatory requirements, taking cognisance of the unique demands of the public sector.

1.2 Auditing in the public sector is described as follows in the *Lima declaration of guidelines on auditing precepts* of the International Organisation of Supreme Audit Institutions (INTOSAI)[3]:

'The concept and establishment of an audit is inherent in public financial administration, as the management of public funds represents a trust. An audit is not an end in itself but rather an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.'

International Organisation of Supreme Audit Institutions

1.3 INTOSAI operates as an umbrella organisation for the external government audit community. It provides an institutionalised framework for supreme audit institutions (SAIs) to promote development and transfer knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries. The SAI of South Africa is known as the AGSA[4].

1.4 SAIs are generally established by the supreme law-making body of the country, or by constitutional provision. Commonly, the establishing law or regulation sets out the form of the SAI, the terms and conditions of incumbency,

2 In terms of section 12(3)(a) of the PAA, the AGSA must determine the minimum qualifications, experience and competence of authorised auditors, as defined in the PAA.

3 ISSAI 1, section 1 (Appendix 1), http://www.issai.org and http://www.intosai.org

4 http://www.agsa.co.za

tenure, powers, duties, functions and general responsibilities, and other matters governing the holding of office and the discharge of the functions and duties to be performed. Whatever the arrangements, the essential function of the SAI is to uphold and promote public accountability.

1.5 The central aim of INTOSAI is to reinforce the independence and professionalism of external government auditing on a sustainable basis. In 1977 the *Lima declaration of guidelines on auditing precepts* determined the principle of independence of government auditing in methodological and professional terms.

1.6 In the *Mexico declaration on SAI independence* 30 years later, these requirements were defined in more concrete terms and eight pillars for the independence of external government auditing were identified.

1.7 The eight principles enshrined in the Mexico Declaration[5] address aspects of legal certainty, transparency, information management, follow-up mechanisms and availability of resources that allow SAIs to carry out the work that society has entrusted to them, and it is their foremost duty to devote all their efforts to the benefit of society.

1.8 The Johannesburg Accords[6] of 2010 deal with the value and benefits of SAIs.

Value and benefits of SAIs[7]

1.9 The *Framework for communicating and promoting the value and benefits of SAIs* is constructed around two objectives: an external focus to make a difference to the lives of citizens; and an internal focus to lead by example by being a model institution. Each objective is explained with reference to a number of fundamental requirements, which in turn are supported by guiding principles. These are listed below.

- Responsiveness to changing environments and stakeholder expectations, without compromising independence
- Ensuring that government is held accountable for using resources legally and responsibly, for the purposes intended, and economically, efficiently and effectively

5 ISSAI 10 (Appendix 1)
6 Appendix 2
7 Refer to Appendix 2 for the full framework.

- Credible source of independent and objective insight and guidance to facilitate foresight and continuous improvements in government
- Empowering the public to hold government accountable and responsive, through objective information, simplicity and clarity of the message, and convenient access to auditor's reports and messages in relevant languages
- Enabling the legislature, one of its commissions, or those charged with governance to discharge their different responsibilities in responding to audit findings and recommendations and taking appropriate corrective action
- Following up on audit findings and implementation of recommendations
- Independence
- Transparency and accountability
- Code of ethics
- Service excellence and quality considerations
- Good governance
- Learning and knowledge sharing
- Effective communication

2. SCOPE OF AUDITING IN THE PUBLIC SECTOR

PART A: MANDATE OF THE AGSA

2.1 There are a number of key pieces of legislation that have a direct impact on conducting audits in the public sector. These are dealt with below.

Constitution of the Republic of South Africa

2.2 Section 188 of the Constitution outlines the functions of the AGSA. The AGSA is responsible for auditing and reporting on the accounts, financial statements and financial management of the public sector.

2.3 The reputation promise of the AGSA states that the AGSA has a constitutional mandate and exists to strengthen our constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

2.4 The following statement from the AGSA reiterates the importance of auditing to build public confidence: 'Instead of being concerned only with financial information, auditors should help to establish to what extent communities enjoyed their rights as citizens. Improving quality of life has to be at the forefront of auditors' responsibilities.'

Public Audit Act

2.5 In addition to the Constitution, the following requirements of the PAA prescribe the functions of the AG.

2.6 The PAA[8] requires the AG to audit and report on the accounts, financial statements and financial management of:

- all national and provincial state departments and administrations
- all constitutional institutions
- the administration of Parliament and of each provincial legislature
- all municipalities

8 PAA section 4(1)

- all municipal entities
- any other institution or accounting entity required by other national or by provincial legislation to be audited by the AG.

2.7 The AG is further required[9] to audit and report on the consolidated financial statements of:

- the national government as required by section 8 of the PFMA
- all provincial governments as required by section 19 of the PFMA
- a parent municipality and all municipal entities under its sole or effective control as required by section 122(2) of the MFMA.

PART B – ANNUAL AUDITS

2.8 As indicated in the Lima Declaration, the full scope of public sector auditing is broader than in the private sector and includes financial, compliance and performance audits. The scope of the annual audit, standards to be used and reporting requirements are determined by the AGSA and are set out in the annual AG Directive.

Financial audit[10]

2.9 A financial audit consists of an audit of financial statements, plus some or all of the following elements:

- Audit of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements
- Audit of financial accountability of the government administration as a whole
- Audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations
- Audit of internal control and internal audit functions
- Audit of the probity and propriety of administrative decisions taken within the audited entity
- Audit of performance against predetermined objectives
- Reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed

9 PAA section 4(2)
10 ISSAI 100.39

Audit of predetermined objectives

2.10 The audit of predetermined objectives forms an integral part of the financial audit process. Relevant audit procedures are performed during the financial audit process to gain assurance on the usefulness and reliability of the reported performance against predetermined objectives.

2.11 In terms of the PFMA, MFMA, MSA and related regulations, it is a legislated requirement for accounting officers or authorities to report annually on the performance of the entity against predetermined objectives. The performance reports are used to assess the success of service delivery and the use of funds appropriated by the legislatures.

2.12 The AGSA uses the following as a basis to evaluate the performance management system and annual performance report when drawing an audit conclusion:

- All relevant laws and regulations
- The National Treasury's framework for the managing of programme performance information

2.13 The audit of predetermined objectives involves the following:

- Understanding the internal policies, procedures and controls related to the management of, and reporting on, performance information
- Evaluating and testing systems and controls relevant to recording, monitoring and reporting of performance information
- Verifying the existence, measurability and relevance of planned and reported performance information
- Verifying the consistency of performance information between the strategic or annual performance or corporate or integrated development plan, the quarterly or mid-year reports and the annual performance report
- Verifying the presentation of performance against predetermined objectives in the annual performance report against the format and content requirements determined by the National Treasury
- Comparing reported performance information to relevant source documentation and verifying the validity, accuracy and completeness thereof

2.14 The *Guide for Registered Auditors: Audit of Predetermined Objectives* provides detailed guidance on performing an audit of predetermined objectives, as disclosed in the annual reports of entities in the public sector.

Compliance audit

2.15 Laws and regulations set out what activities public sector entities should carry out for the citizens and any limits or restrictions on such activities, the overall objectives to be achieved and how due process rights of individual citizens are protected. Public funds are entrusted to public sector entities for their proper management. It is the responsibility of these entities and their appointed officials to be transparent about their actions, accountable to the citizens for the funds with which they are entrusted, and exercise good stewardship over such funds.

2.16 The need to monitor that the activities of public sector entities are in accordance with relevant laws and regulations and that the rights of citizens are protected is an important public sector control function. Through compliance auditing, public sector auditors help to monitor that the basic principles of transparency, accountability, stewardship and good governance are being followed and put into operation[11].

2.17 In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the entity's compliance with any applicable legislation relating to financial matters, financial management and other related matters.

2.18 Currently, only material compliance deviations that come to the attention of the auditor and which may assist users of the financial and performance information in assessing the entity's compliance with, and adherence to, applicable laws and regulations are reported. The AGSA is in the process of phasing in the requirements of ISSAI 4200 to the stage where a reasonable assurance conclusion will be given on compliance with laws and regulations.

11 ISSAI 4200.4

2.19 Compliance audits in South Africa are carried out as part of the financial audit and include determining whether information related to a particular subject matter is in compliance, in all material respects, with relevant criteria.

2.20 The subject matter and criteria are determined per audit cycle based on the following:

- Public interest and expectations
- Specific areas that are the subject of significant legislative focus
- Discharge of accountability of the entity
- Decisions of the users of the financial and performance information reported regarding compliance with, and adherence to, laws and regulations
- Those areas where there is a risk of non-compliance

2.21 The materiality of compliance deviations is assessed in order to determine whether such deviations should be included in the auditor's report. The assessment of what represents a material compliance deviation is a matter of professional judgement and includes considering the context as well as quantitative and qualitative aspects of the transactions or issues concerned.

2.22 A number of factors are taken into account in applying professional judgement to determine whether or not the non-compliance is material. Such factors may include the following:

- Importance of the amounts involved (monetary amounts or other quantitative measures such as the number of citizens or entities involved and time delays in relation to deadlines)
- Circumstances of the non-compliance
- Nature of the non-compliance
- Cause of the non-compliance
- Possible effects and consequences of the non-compliance
- Visibility and sensitivity of the programme in question (for example, is it the subject of significant public interest or does it impact vulnerable citizens)
- Needs and expectations of the legislature, the public or other users of the auditor's report
- Nature of the relevant authorities
- Extent or monetary value of the non-compliance

Special focus areas

2.23 In order to improve the efficiency and effectiveness of audits in the public sector, the financial audits performed by the AGSA include special focus on service delivery matters in certain specific sectors as well as human resource management, procurement and contract management.

2.24 The approach to the audit of human resource management, procurement and contract management focuses on the standardisation of the auditing process and procedures across all implicated audits.

2.25 The sector audit approach entails the coordination of the planning and identification of sector-specific risks to ensure a consistent audit approach to service delivery aspects relevant to the sector. It further entails the overall planning and coordination of reporting on sector-specific service delivery aspects to ensure consistency and uniformity of reporting on matters specific to the sector.

Identification of internal control deficiencies

2.26 In line with Appendix 2, fundamental requirement 13 of the *Value and benefits of SAIs* regarding effective communication, stakeholder engagements take place on a regular basis. These engagements are in addition to the annual audit and are aimed at deepening stakeholders' understanding of the messages in the auditor's report as well as to provide those in charge of public resources with insight into the key internal controls and to assist them in anticipating emerging risks so that they are enabled to take the necessary corrective action.

2.27 Effective interaction with legislative oversight mechanisms, executive authorities and those charged with governance of the auditee is aimed at leading to commitments for corrective actions required to improve audit outcomes, improved oversight and effective accountability, and ultimately to clean administration.

2.28 A written assessment of the drivers of internal control is provided to the stakeholders. These controls are categorised under leadership, financial and performance management as well as governance. Each control is three-dimensional, as it has an impact on financial information, performance information as well as compliance with laws and regulations.

2.29 The auditor's report includes reporting on the key drivers that resulted in the basis for the modified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations. This is not an opinion on internal control, but the AGSA will phase in reporting on internal control to a stage where a reasonable assurance conclusion will be given.

Legislated dates

2.30 The PFMA and the MFMA require that the financial statements and the audit thereof be finalised within certain deadlines. For this reason, audits in the public sector are conducted in two cycles, namely the PFMA and the MFMA.

2.31 The following table illustrates the legislated dates for the PFMA and the MFMA:

	Date of financial year-end	Date of submission of the financial statements for auditing	Date of the auditor's report	Submission to the executive authority/ council	Tabling of the annual report
PFMA	31 March	31 May	31 July	31 August by the accounting officer/ authority to the executive authority	30 September by the executive authority in Parliament/ provincial legislature
MFMA	30 June	31 August/ 30 September (consolidated)	30 November /31 December (consolidated)	31 January by the mayor to the council	Within seven days after the council has adopted the relevant oversight reports in the provincial legislature

PART C – PERFORMANCE AUDITS

2.32 A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively. Performance audits in the public sector are conducted by only the AGSA.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness, and embraces the audit of:

- **economy** in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost
- **efficiency** of the utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them
- **effectiveness** of performance in relation to the achievement of policy objectives, operational goals and other intended effects of the audited entity.

Difference between the audit of predetermined objectives and performance auditing

Audit of predetermined objectives	Performance auditing
• Mandatory audit (sections 20(2)(c) and 28(1)(c) of the PAA) • Reflects an opinion or conclusion on the reporting of performance against predetermined objectives • Reporting takes place annually as part of the regularity audit process • The audit is conducted by regularity auditors • Focuses on the planning, implementation, monitoring and reporting on performance information • Audit criteria: Existence, timeliness, presentation, consistency, relevance, measurability, validity, accuracy and completeness • Provides assurance on whether the annual reported performance against predetermined objectives is useful and reliable	• Discretionary audit (section 20(3) of the PAA) • Reporting is based on factual findings and does not include an audit opinion • Reporting is not limited to annual information and can cover more than one financial year • The audit is conducted by performance auditors and may include subject matter experts • Focuses on a specific government programme, project or management process • Audit criteria: Economy, efficiency and effectiveness • Factual report on whether goods and services have been acquired economically, applied efficiently and managed effectively towards achieving the desired goals

Process followed and principles applied to identify and prioritise performance audit topics

2.33 The process of selecting audit topics is critical. The impact of the audit depends largely on the audit topic; thus, great effort should be put into this process. There are many important factors to consider when performance audit topics are being selected.

2.34 The following processes are undertaken in order to identify topics:

- The public sector environment is scanned and all relevant sources of information are taken into consideration.
- Internal discussions are held, topics are debated where possible and the risks associated with the topics are assessed.
- External stakeholders are consulted.

2.35 The following criteria are considered when identifying topics:

	Criteria	Factors
1.	**Materiality**	Is the topic important to government/the public/the audited entity and does it involve a critical area?
2.	**Public accountability**	Will responsibility be taken/can the topic be explained?
3.	**Possible impact**	Will the topic have a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings?
4.	**Improvement**	Will the audit lead to improvements in government?
5.	**Legislative or public interest**	Will the topic address a legal concern or be to the advantage of the community?
6.	**Risks to the SAI**	Will the topic present a risk (strategic or reputational) to the SAI?
7.	**Departmental issues**	Will subjects of departmental concern be addressed by the topic?
8.	**Relevance**	Does the topic have some bearing on, or importance for, real world issues, present day events or the current state of society?
9.	**Auditability**	Can the topic be audited/is it practical to audit?
10.	**Timeliness**	Is this the right or appropriate time to audit the topic?
11.	**Previous audit work**	Has the topic been audited in the past?
12.	**Other major work planned or in progress**	Is other work being planned or done on the topic?

	Criteria	Factors
13.	Developments likely to affect assessment	Are there any events or processes of change that would probably affect the assessment (refers to the assessment as described below)?
14.	Request for performance audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of the request to determine the importance thereof, e.g. requests from Parliament versus requests from a department.
15.	High political sensitivity	Does the topic involve a delicate subject that is of governmental concern?

2.36 Each identified topic is assessed and all factors included in the assessment are measured or scored in a scoring matrix. The scores are totalled and the topics with the highest scores are deemed the most viable subjects and due for a performance audit.

Reporting responsibility of the auditor of the financial statements

2.37 The auditor is required to include information on performance audits completed or in progress in the auditor's report under *Other legal and regulatory requirements*.

PART D – OTHER AUDIT-RELATED SERVICES

Investigations

2.38 Investigations are undertaken on request and are conducted in terms of the *Standards and guidelines: Investigations*.

Special audits

2.39 These audits are conducted on request and in accordance with the International Standard on Related Services (ISRS) 4400 Engagements to perform agreed-upon procedures regarding financial information.

Audit-related services

2.40 These audits are conducted on request and in accordance with ISRS 4400 and the *Audit-related services: policy and guideline* developed by the AGSA.

Donor funding

2.41 These audits are conducted on request and are issued in accordance with the following, as appropriate:

- ISA 800 Special Considerations – Audits of Financial Statements prepared in accordance with special purpose frameworks
- ISA 805 Special considerations – Audits of single financial statements and specific elements, accounts or items of a financial statement
- ISRS 4400
- Specific requirements of the donor organisations

3. AUDITS NOT PERFORMED BY THE AGSA

3.1 In terms of section 12 of the PAA, the AG may authorise one or more persons to perform or to assist in performing an audit. Such a person could either be a staff member of the AGSA or a private practitioner. Private practitioners are contracted to perform engagements on behalf of the AGSA in terms of the AGSA's memorandum of agreement.

3.2 Private practitioners that do work on behalf of the AGSA are the AGSA's agents and must be seen to share the AGSA's business ethics, auditing standards and corporate values. To this end, the AGSA conducts training workshops for the audit firms that are contracted, resulting in their deepened understanding of the public sector environment. The AGSA also ensures that contracted private practitioners participate in the countrywide roadshows that are conducted with the AGSA's stakeholders.

3.3 The AG may opt[12] not to audit and report on the accounts, financial statements and financial management of:

- any public entity listed in the PFMA and
- any other institution not mentioned in the above-mentioned list which is funded from the National Revenue Fund (NRF), or
- a provincial revenue fund, or
- a municipality, or
- authorised in terms of any legislation to receive money for a public purpose.

3.4 When the AGSA decides whether to perform the audit of a public entity, the following criteria are taken into account:

- Request from Parliament
- Request from the entity itself
- Public interest
- Internal capacity
- Specialist industry and technical knowledge

3.5 Only if the AGSA opted not to audit these entities and did not advise them before the start of the financial year that the AGSA will not perform the audit, are these entities permitted to appoint their own auditors who may be in private practice. In this regard, the document, *Consultation of the AG on the appointment of an auditor*, attached to the AG Directive, should be completed.

3.6 When electing not to perform an audit of a public entity or institution in terms of section 4(3) of the PAA, the AGSA is mandated by the PAA in terms of the following sections to impose a wide spectrum of duties on private practitioners appointed as auditors to these entities:

- Section 27(1): An auditor appointed in terms of section 25(1)(b) must perform the functions of office as auditor in terms of section 20 of the Public Accountants' and Auditors' Act; now the Auditing Profession Act, 2005 (Act No. 26 of 2005).

12 PAA section 4(3)

- Section 27(2): In performing those functions as the auditor of an auditee, the auditor has the powers assigned to the AG in terms of section 15.
- Section 27(5): The AG or a person designated by the AG may request information regarding the audit from an auditor appointed in terms of section 25(1)(b).

The AG Directive

3.7 In terms of the powers vested in the AGSA by section 2(b) of the PAA and to promote consistency in reporting in the public sector, the AGSA issues a Directive to clarify:

- the nature of the audit functions performed in the public sector
- the standards, criteria and processes for performing audits in the public sector
- the responsibilities of private practitioners and the manner in which such private practitioners are required to perform audits in the public sector.

3.8 The requirements regarding audits not performed by the AGSA are aimed at ensuring full and consistent application of the PAA, read together with the relevant sections of the PFMA and the MFMA. In essence, auditors of these entities are required to audit and report in line with the requirements of the AGSA Directive and other related guidance issued by the AGSA.

3.9 Interactions with the auditors as well as the boards and senior management of these auditees are conducted to ensure an understanding of these requirements.

Auditing standards applicable in the public sector

3.10 In the public sector, assurance engagements are performed in accordance with the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements. In addition, INTOSAI issues ISSAIs[13] applicable to SAIs, which should also be taken into consideration in performing these engagements.

3.11 The ISSAIs consist of the following levels:

13 Refer to Appendix 1 for a list of the ISAs containing considerations specific to the public sector and the framework of the ISSAIs.

- Founding principles
- Prerequisites for the functioning of SAIs
- Fundamental auditing principles
- Auditing guidelines
- INTOSAI GOV

3.12 The auditing guidelines are presented in ISSAIs 1000 to 2999 and provide guidance on conducting financial audits of public sector entities.

3.13 Each INTOSAI financial auditing guideline consists of the relevant ISA and a practice note that provides relevant guidance on applying that ISA in financial audits of public sector entities. INTOSAI contributes to the development of ISAs by participating in the International Auditing and Assurance Standards Board (IAASB) task forces responsible for developing new standards or revising existing standards.

3.14 The purpose of the INTOSAI GOVs is to provide guidance to public authorities on the proper administration of public funds.

Reporting

3.15 The format and content of the auditor's report prepared by private practitioners where the AGSA has opted no to perform a public sector audit in terms of section 4(3) of the PAA is prescribed by the AGSA and is illustrated in the AGSA's *Public audit manual on reporting* as well as in South African Auditing Practice Statement (SAAPS) 3 issued by the IRBA.

3.16 Each year, the AGSA produces auditor's reports on government departments, public entities, municipalities and other public institutions. In addition to these entity-specific reports, the AGSA analyses the audit outcomes in general reports, which cover both the PFMA and the MFMA cycles. Private practitioners are required to supply the information required to facilitate the inclusion of such entities' audit outcomes in the general report.

Consultation by private practitioners on technical matters

3.17 Where a private practitioner is conducting an audit on behalf of the AGSA and wishes to consult on a technical matter concerning the audit, the firm should first inform the AGSA's engagement manager that a matter for consultation outside its engagement team has arisen and should indicate whether its own technical department has the required knowledge and experience to resolve the matter. The AGSA's engagement manager can then agree that the firm may consult with its technical unit or may decide to follow the AGSA's processes to obtain a resolution.

3.18 If the private practitioners consult with their technical department, the technical opinion or recommendation obtained should be documented and then be discussed and agreed with the AGSA's engagement manager and product champion prior to discussion with the auditee or any other party.

3.19 The consultation documentation should be included in the engagement file and should also be filed and shared by the product champion. Both the practitioner and the AGSA's engagement manager should ensure that the conclusions are implemented. Where the private practitioner or the AGSA's engagement manager does not agree with the opinion received, the individual consulted should be informed and the difference of opinion process must be followed.

3.20 Audit Research and Development (ARD) in the AGSA has periodic meetings with the National Treasury and the ASB to resolve auditing and accounting matters. Matters identified by the auditors are elevated to these meetings so that they can be dealt with on a centralised basis.

Reportable irregularities in terms of the Auditing Profession Act

3.21 If a private practitioner who is contracted to perform an audit on behalf of the AGSA identifies a reportable irregularity as contemplated by paragraph 10.1.12 of the *Reportable Irregularities Guide* of the IRBA, this matter is not required to be reported to the IRBA. The registered auditor in this instance should report the matter to the AGSA, who is the appointed auditor. However, in circumstances where the AGSA has opted not to audit the entity, and such public sector entity appoints the auditor, the registered auditor reports the reportable irregularity to the IRBA.

3.22 Specific guidance on reporting on compliance with laws and regulations in the public sector is included in the AGSA's *Public audit manual on reporting*.

4. KEY STAKEHOLDERS AND ROLE PLAYERS IN THE PUBLIC SECTOR

4.1 There are many stakeholders and role players in the public sector, as described below.

4.1.1 Constitutional

- *Parliament* – This consists of the National Assembly and the National Council of Provinces (NCOP) that participate in the legislative process in the manner set out in the Constitution. The National Assembly is elected to represent the people and to ensure government by the people under the Constitution. The NCOP represents the provinces to ensure that provincial interests are taken into account in the national sphere of government.
- *Provincial legislatures* – The legislative authority of a province is vested in its provincial legislature. The provincial legislature has the power to pass a constitution and legislation for its province in terms of the Constitution and to assign any of its legislative powers to a municipal council in that province.
- *National Treasury*[14] – The National Treasury is responsible for managing South Africa's national government finances. Supporting efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans. The Constitution mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances.

  The National Treasury's legislative mandate is also described in the PFMA. The National Treasury is mandated to promote government's fiscal policy framework; to coordinate macroeconomic policy and intergovernmental financial relations; to manage the budget preparation process; to facilitate DoRA, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government; and to monitor the implementation of provincial budgets.

  As mandated by the executive and Parliament, the National Treasury supports the optimal allocation and utilisation of financial resources in all spheres of government to reduce poverty and vulnerability among South Africa's most marginalised.

14 http://www.treasury.gov.za

The National Treasury's priorities include increasing investment in infrastructure and industrial capital; improving education and skills development to raise productivity; improving the regulation of markets and public entities; and fighting poverty and inequality through efficient public service delivery, expanded employment levels, income support and empowerment.

- *Office of the Accountant General (OAG)* – The responsibility of the OAG is to promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of institutions in all three spheres of government. This includes the administration of the NRF and the Reconstruction and Development Programme Fund (RDPF), as well as banking services for national departments. The OAG is also responsible for developing policies and frameworks on accounting, internal audit and risk management.
- *Provincial treasuries* – There is a provincial treasury in each province, consisting of the member of the executive council (MEC) for finance in the province, who is the head of the provincial treasury and the provincial department responsible for the financial matters in the province.
- *Accounting Standards Board* – The ASB is a juristic person and sets standards of generally recognised accounting practice, as required by the Constitution, for the annual financial statements of departments, public entities, constitutional institutions, municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality, Parliament and the provincial legislatures.

4.1.2 Key committees of Parliament

- Portfolio committees (PCs) – These are appointed from members of the National Assembly to shadow the work of the various national government departments. The role of PCs is to consider bills, deal with departmental budget votes, oversee the work of the department they are responsible for, and enquire and make recommendations about any aspect of the department, including its structure, functioning and policy.
- Standing Committee on Public Accounts (SCOPA) – The committee (established in terms of the Standing Rules for the National Assembly) is the mechanism through which the National Assembly exercises oversight over the expenditure of public money that it annually appropriates to executive organs of state in the national sphere of government. Similar committees, i.e. provincial accounts committees, exist at provincial level.
- Standing Committee on the Auditor-General (SCOAG) – This is the mechanism provided by the National

Assembly to maintain oversight over the AG. The AG determines the auditing standards after consulting with SCOAG. The AG submits his budget and business plan to SCOAG for consideration and recommendation. The AG submits his audited financial statements to SCOAG.

4.1.3 Other coordinating mechanisms at provincial level

- *Premier* – The executive authority of a province is vested in the premier of a province. The premier exercises the executive authority together with the executive council by, inter alia, implementing provincial legislation in a province, developing and implementing provincial policy, and coordinating the functions of the provincial administration and its departments.
  The premier's office is the visible flagship of the province, providing leadership in terms of policy and direction and setting the style and tone of government's administration. It is the driving force behind the Reconstruction and Development Programme. Its main strategic objectives and goals are growth and development objectives as well as transformation of the public service.
- The *MEC for finance* is responsible for the following:
  - Stimulate economic growth and employment creation through funding of strategic investment initiatives
  - Fund social needs of the province in line with national norms and standards
  - Ensure optimum financial and fiscal management in the province
  - Promote good governance in the province
- The *MEC for local government* is responsible for the following:
  - Municipal transformation and organisational development
  - Service delivery and infrastructure
  - Investment
  - Local economic development
  - Financial viability and management
  - Mainstream hands-on support
  - Build capacity of municipalities
  - Enhance monitoring and evaluation
  - Good governance and public participation and empowerment

- Institutional transformation and development
- Integration and alignment
- Enhance intergovernmental relations

4.1.4 Stakeholders directly related to the entities

- *Executive authority*
  - In relation to a national department, the cabinet member who is accountable to Parliament for that department
  - In relation to a provincial department, the MEC of a province who is accountable to the provincial legislature for that department
  - In relation to a national public entity, the cabinet member who is accountable to Parliament for that public entity or in whose portfolio it falls
  - In relation to a provincial public entity, the member of the provincial executive council who is accountable to the provincial legislature for that public entity or in whose portfolio it falls
- *Municipal council* – This is the council of a municipality that is accountable to meet the following objectives of the Constitution:
  - Provide democratic and accountable government for local communities
  - Ensure the provision of services to communities in a sustainable manner
  - Promote social and economic development
  - Promote a safe and healthy environment
  - Encourage the involvement of communities and community organisations in matters of local government
- *Accounting officer* – The head of a department or the chief executive officer of a constitutional institution. In relation to a municipality, it is the municipal manager. In relation to a municipal entity, it is the chief executive authority.
- *Accounting authority* – The board or controlling body of a public entity or, if there is no board or controlling body, the chief executive officer of the public entity.
- *Executive mayor* – The councillor elected as the executive mayor and who is responsible for identifying the needs of the municipality. The executive mayor also recommends to the municipal council strategies,

programmes and services to address needs and recommends or determines the best way to deliver those strategies, programmes and services to the maximum benefit of the community.

- *MEC* – The member of the executive council of a province.

4.1.5 *Professional*

- *INTOSAI* (see chapter 1 for a discussion on INTOSAI).
- *Southern African Institute of Government Auditors (SAIGA)*[15] – The institute was established for the promotion of members' interests by advancing accountability and auditing. Since the principles of government auditing are based on the generic principles of auditing, the institute strives to promote auditing in its wider context.
- *South African Institute of Chartered Accountants (SAICA)*[16] – SAICA serves the interests of the chartered accountancy profession and society, by upholding professional standards and integrity, and the pre-eminence of South African Chartered Accountants nationally and internationally.
- *IRBA*[17] – The IRBA is the statutory regulator of registered auditors. The IRBA's mandate is to protect the public interest in South African through the effective regulation of audits and other assurance engagements conducted by registered auditors, in accordance with internationally recognised standards and processes.

4.1.6 *Other* (parties who are also users of the financial statements relating to the public sector)

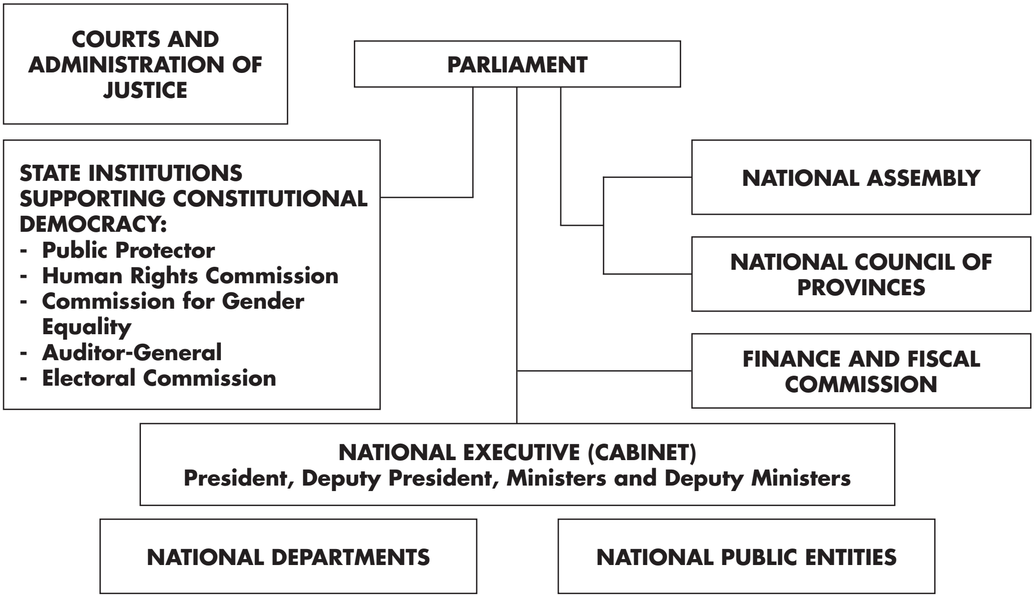
- Special interest groups
- Institutional and individual lenders
- General public

15 http://www.saiga.co.za
16 http://www.saica.co.za
17 http://www.irba.co.za

National and provincial government structures

4.2 The national and provincial governance structures are depicted in the figure below.

National Government



Provincial Government

LEGISLATURE

PROVINCIAL EXECUTIVE – EXECUTIVE COUNCIL
Premier and MECs

PROVINCIAL DEPARTMENTS
Accounting Officers (Heads of Departments)

The three spheres of government

4.3 The Constitution sets out the values and rights of our society and the rules that government must follow. The role, powers and functions of government are set out in the Constitution. Government is responsible for making policies and laws about the rights and responsibilities of citizens and the delivery of government services. Government collects revenue (income) from taxes and uses this money to provide services and infrastructure that improves the lives of all the people in the country.

4.4 There are three spheres of government in South Africa:

- National government
- Provincial government
- Local government

4.5 The spheres of government are autonomous and should not be seen as hierarchical. The Constitution states that the spheres of government are distinctive, interrelated and interdependent. At the same time, they all operate according to the Constitution and laws and policies made by Parliament.

4.6 The system of government is designed so that certain responsibilities are exclusive (performed by one sphere only), while others are concurrent (shared between the different spheres).

4.7 The government machinery is made up of three parts:

- The elected members (legislatures) – who represent the public, approve policies and laws, and monitor the work of the executive and departments
- The cabinet or executive committee (executive) – who coordinate the making of policies and laws and oversee implementation by government departments
- The departments and public servants – who are responsible for doing the work of government and account to the executive

SPHERE	LEGISLATURE	EXECUTIVE	ADMINISTRATION
NATIONAL	Parliament	President and cabinet	Director-general
PROVINCIAL	Legislature	Premier and executive council	Head of department
LOCAL	Council	Mayor and mayoral committee	Municipal manager

4.8 The judiciary is also defined as part of government, but is independent so that the courts can protect citizens without being influenced or pressurised by government. The independence of the judiciary is a cornerstone of constitutional democracy. It guarantees the supremacy of the Constitution. The judiciary is not dealt with further since it is not formally part of the policy-making or implementation machinery of government.

National: Role, powers and functions

4.9 Laws and policies are approved by Parliament, which is made up of the National Assembly and the NCOP. The National Assembly is made up of members of Parliament, elected every five years.

4.10 The NCOP was set up to ensure that provincial government and local government are directly represented in Parliament. It is made up of representatives of provincial legislatures and local government. Each province has a set number of permanent and rotating representatives. The NCOP has to debate and vote on any law or policy that affects provincial or local government.

4.11 The president is elected by Parliament and appoints a cabinet of ministers. They act as the executive committee of government and each minister is the political head of a government department.

4.12 Each government department is responsible for implementing the laws and policies decided on by Parliament or the cabinet. Government departments are headed by a director-general and employ directors (managers) and public servants (staff) to do the work of government.

4.13 Every department prepares a budget for its work. The budgets are put into one national budget by the treasury (Department of Finance), which has to be approved by Parliament. The treasury has to balance the income and expenditure of government in the budget.

4.14 The Presidency coordinates the work of government and provides direction and strategic support to ministers and departments. The Presidency monitors and evaluates overall progress towards achieving government goals.

4.15 The Department of Public Service and Administration (DPSA) sets the policies and framework for the public service at national and provincial level.

4.16 Provincial or local government may not do anything that is against the laws or policies set by national government. Provincial government gets most of its money from the national government through the treasury. Local government also gets grants and some loans through the treasury.

4.17 The Department of Cooperative Governance and Traditional Affairs (which resides at a national level) is responsible for national coordination of provinces and municipalities. In each province, the Department of Local Government monitors and supports municipalities.

Provincial: Role, powers and functions

4.18 There are nine provincial governments. Every province has a legislature made up of between 30 and 90 members of the provincial legislature (MPLs). Some provincial laws are approved by legislatures. The legislature also passes a provincial budget every year. Legislatures are elected in provincial elections that are held with national elections, every five years.

4.19 A premier is elected by the legislature and appoints MECs to be the political heads of each provincial department. The MECs and the premier form the provincial executive council (cabinet).

4.20 Provincial government is headed by a director-general, while provincial departments are headed by a deputy director-general or a head of department. They employ directors (managers) and public servants to do the work of government. Most of the public servants in the country fall under provincial government – these include teachers and nurses.

4.21 In each of the nine provinces there are usually at least 12 departments. The names are slightly different and in some provinces departments are combined.

4.22 Each province has to develop a provincial growth and development strategy that spells out the overall framework and plan for developing the economy and improving services. Provinces also have a spatial development framework that says where and how residential and business development should take place and how the environment should be protected.

4.23 The provincial MEC and Department of Local Government are responsible for coordinating, monitoring and supporting municipalities in each province.

Local (municipal): Role, powers and functions

4.24 The whole of South Africa is divided into local municipalities. Each municipality has a council where decisions are made and municipal officials and staff who implement the work of the municipality.

4.25 The council is made up of elected members who approve policies and by-laws for their area. The council has to pass a budget for its municipality each year. Councils must also decide on development plans and service delivery for their municipal area.

4.26 The work of the council is coordinated by a mayor who is elected by the council. The mayor is assisted by councillors in an executive committee (elected by the council) or a mayoral committee (appointed by the mayor). The mayor together with the executive or mayoral committee also oversees the work of the municipal manager and department heads. In some very small municipalities, the whole council forms the executive – this is called a plenary executive.

4.27 The work of the municipality is done by the municipal administration that is headed by the municipal manager and other officials. The municipal manager is responsible for employing staff and coordinating them to implement all programmes approved by the council.

Different categories of municipalities

4.28 There are three different kinds of municipalities in South Africa:

- *Metropolitan municipalities (category A)*
  Metropolitan municipalities exist in the six biggest cities in South Africa. The metropolitan municipality coordinates the delivery of services to the whole area. There are nine metropolitan municipalities, namely Buffalo City (East London), City of Cape Town, Ekurhuleni Metropolitan Municipality (East Rand), City of eThekwini (Durban), City of Johannesburg, Mangaung Municipality (Bloemfontein), Msunduzi Municipality (Pietermaritzburg), Nelson Mandela Metropolitan Municipality (Port Elizabeth) and City of Tshwane (Pretoria).

  These municipalities are divided into wards. Half the councillors are elected through a proportional representation ballot, where voters vote for a party. The other half are elected as ward councillors by the residents in each ward.

- *Local municipalities (category B)*
  Areas that fall outside of the six metropolitan municipal areas are divided into local municipalities, which are further categorised as high-, medium- or low-capacity municipalities by the National Treasury. These municipalities are also divided into wards. The residents in each ward are represented by a ward councillor. Only people who live in low population areas, like game parks, do not fall under local municipalities. These areas are called district management areas (DMAs) and fall directly under the district municipality.
  In local municipalities, half the councillors are elected through a proportional representation ballot, where voters vote for a party. The other half are elected as ward councillors by the residents in each ward.
- *District municipalities (category C)*
  District municipalities are made up of a number of local municipalities that fall into one district. Usually, between three and six local municipalities form a district council. Some district municipalities also include nature reserves and the areas where few people live, i.e. DMAs. These fall directly under the district council and have no local council. The district municipality coordinates development and delivery in the whole district. It plays a stronger role in areas where local municipalities lack capacity to deliver. It has its own administration (staff).

  The district council is made up of two types of councillors:
  - Elected councillors – they are elected for the district council on a proportional representation ballot by all voters in the area (40% of the district councillors)
  - Councillors who represent local municipalities in the area – they are local councillors sent by their council to represent it on the district council (60% of the district councillors)

  While metropolitan municipalities are responsible for all local services and development and delivery in the metropolitan area, local municipalities share these responsibilities with district municipalities. This is especially the case in very rural areas, where district municipalities will have more responsibility for development and service delivery.

Functions of municipalities

4.29 Municipalities are responsible for the following functions, amongst others:

- Electricity delivery
- Sewage and sanitation
- Refuse removal
- Municipal health services
- Municipal roads
- Street trading
- Parks and recreational areas
- Local tourism
- Water for household use
- Storm water systems
- Firefighting services
- Decisions around land use
- Municipal public transport
- Abattoirs and fresh food markets
- Libraries and other facilities

Municipal entities

4.30 A municipal entity is a mechanism used by a municipality to deliver services to its community. Each municipal entity is an 'organ of state' and must comply with the legislative framework, which ensures accountability, transparency and consultative processes, similar to requirements that apply to a municipality in its own right.

4.31 Municipal entities are accountable to the municipality or municipalities that established them. Entities must perform according to a service delivery agreement and performance objectives set by the municipality. As their debts, liabilities and decisions are made on behalf of the municipality, they may be disestablished if they fail to perform satisfactorily or if they experience serious or persistent financial problems.

4.32 A legislative framework relating to municipal entities came into effect through amendments to the MSA and the enactment of the MFMA.

4.33 The MSA defines three types of entities that may be established by a municipality with effect from 1 August 2004, namely private company, service utility or multi-jurisdictional service utility. Prior to the MSA and MFMA requirements taking effect, municipalities used various arrangements to deliver services and manage the functions they performed. These included the formation of trusts, section 21 companies and private companies.

4.34 It is a requirement for municipalities to review these structures in view of the amended legislative framework and either convert them to an entity as per the amended legal framework or disestablish them if they are no longer required.

Intergovernmental relations and cooperative governance

4.35 'Intergovernmental relations' means the relationships between the three spheres of government. The Constitution states that the three spheres of government are distinctive, interdependent and interrelated. Local government is a sphere in its own right, and no longer a function or administrative implementing arm of national or provincial government. Although the three spheres of government are autonomous, they exist in a unitary South Africa, have to work together on decision-making and must coordinate budgets, policies and activities, particularly for those functions that cut across the spheres.

4.36 'Cooperative governance' means that the three spheres of government should work together to provide citizens with a comprehensive package of services. The Constitution states that the three spheres have to assist and support each other, share information and coordinate their efforts. The Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005) sets the structure for cooperation. At provincial level, municipal and provincial government meet regularly in a premier's intergovernmental forum.

4.37 Local government is represented in the NCOP and other important institutions like the Financial and Fiscal Commission. The Financial and Fiscal Commission is an independent body set up under the Constitution to advise government on the amount of money that should go to provincial and local government to subsidise services to poor people.

4.38 DoRA states how the total government income should be divided and allocated between the spheres of government and within government.

4.39 Local government is also represented on the Budget Council where the minister of finance discusses the proposed budget with provincial and local government. The South African Local Government Association (SALGA) is the official representative of local government.

4.40 SALGA has nine provincial offices. Local municipalities join SALGA at provincial level. Executive elections and decisions on policies and programmes happen at provincial or national general meetings. SALGA is also an employers' organisation for all municipal workers, and sits as the employer in the South African Local Government Bargaining Council. SALGA's main source of funding is membership fees payable by municipalities.

Public entities

4.41 To improve the quality and cost of services available to citizens, government is committed to 'do more with less'. One mechanism has been to create semi-autonomous entities at arm's length from parent ministries. Public entities are established in the public sector, but outside the public service, typically for reasons of:

- strategic, social or economic intervention by the state or to deal with strategic risks and dangers that the state or society faces to its security, health, prosperity or well-being
- adopting commercial and business principles in service delivery when it is required
- signalling that there is need for objectivity and more operational autonomy, yet retaining accountability in the delivery of services.

4.42 The formal definition of a national public entity as set out in section 1 of the PFMA is as follows:

- A board, commission, company, corporation, fund or other entity (other than a national business enterprise) which is:
  - o established in terms of national legislation
  - o fully or substantially funded from either the NRF or by way of tax, levy or other money imposed in terms of national legislation
  - o accountable to Parliament.

- A national government business enterprise means an entity[18] which:
  - o is a juristic person under the ownership control of the national executive
  - o has been assigned financial and operational authority to carry on a business activity
  - o as its principal business, provides goods or services in accordance with ordinary business principles
  - o is financed fully or substantially from sources other than
    - the NRF or
    - by way of a tax, levy or other statutory money.

4.43 'Ownership control', in relation to an entity, means the ability to exercise any of the following powers to govern the financial and operating policies of the entity in order to obtain benefits from its activities:

- To appoint or remove all, or the majority of, the members of that entity's board of directors or equivalent governing body
- To appoint or remove that entity's chief executive officer
- To cast all, or the majority of, the votes at meetings of that board of directors or equivalent governing body
- To control all, or the majority of, the voting rights at a general meeting of that entity

4.44 Public entities in accordance with their formats have different levels of autonomy. Government business enterprises, which generate their own income, have the most autonomy as these entities operate in a competitive market place and decisions are made in accordance with business principles. These entities normally pay tax and could in future be required to pay dividends.

4.45 Public entities, other than the government business enterprises, are normally extensions of a department with the mandate to fulfil a specific economic or social responsibility of government. These entities are more reliant on government funding and public money, either by means of a transfer from a revenue fund or through statutory money. As such, these entities have the least autonomy and are also accountable to government for this money. In addition, the relevant minister has the responsibility to approve these entities' annual budget.

18 Defined as a 'state-owned entity' in the Companies Act , 2008 (Act No. 71 of 2008), as amended.

5. LAWS AND REGULATIONS RELATING TO PUBLIC SECTOR ENTITIES

5.1 The key laws and regulations applicable in the public sector include the following:

5.1.1 Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)

The act introduces the Constitution. The Constitution establishes, inter alia:

- Cooperative government
- Parliament
- The president and the National Executive
- Provinces
- Local government
- State institutions supporting constitutional democracy
- Public administration

5.1.2 Public Finance Management Act, 1999 (Act No. 1 of 1999) and regulations and instructions issued in terms of the Act

The act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. The act forms the basis for a more effective corporate governance framework and covers, inter alia, the following:

- The establishment of the National Treasury and provincial treasuries as well as the ASB and their functions and powers.
- The national and provincial budgets and the appropriation of money by Parliament and provincial legislatures for each financial year for the requirements of the state and the provinces, respectively.
- The requirements for departments and constitutional institutions regarding the responsibilities and powers of accounting officers.
- The fiduciary duties, general responsibilities, annual budgets, information to be submitted and annual reports and financial statements to be prepared by accounting authorities of public entities.

- The financial responsibilities of executive authorities.
- The submission of financial statements by departments, trading entities and constitutional institutions within two months after the end of the financial year to the AG and relevant treasury.
- The submission of an auditor's report by the AGSA on the above financial statements within two months of receipt of the financial statements.
- The submission of an annual report, financial statements and the AGSA's auditor's report by departments, trading entities and constitutional institutions within five months after the end of the financial year, to the relevant treasury, and in the case of a department and trading entity, also to the executive authority.
- The submission of the annual report, financial statements and auditor's report by a constitutional institution to Parliament within one month of receipt of the AG's auditor's report.
- The submission of financial statements by public entities within two months after the financial year-end to their auditors. If the public entity is a business enterprise or under the ownership control of a national or provincial government, the financial statements must also be submitted to the relevant treasury.
- The submission of an annual report, financial statements and the auditor's report by public entities within five months after financial year-end, to the relevant treasury, executive authority and the AG if the AG is not the auditor of the entity.

5.1.3 Division of Revenue Act

The act provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government and the responsibilities of all three spheres pursuant to such division.

5.1.4 Appropriation Act

The act provides for the appropriation of money from the NRF for the requirements of the state.

5.1.5 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and regulations issued in terms of the Act

The act aims to modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximise the capacity of municipalities to deliver services to all its residents, customers, users and investors. The MFMA covers, inter alia, the following:

- The requirements for the opening and control of, and withdrawals from, municipal bank accounts.
- The appropriation of funds for expenditure and annual budgets of municipalities.
- The responsibilities of mayors and municipal officers.
- The establishment, financial governance and accounting officers of municipal entities.
- The submission of the financial statements by the accounting officer of a municipality within two months after the financial year end to the AG (three months for consolidated financial statements).
- The submission of the financial statements by the accounting officer of a municipal entity within two months after the financial year-end to the AG and the parent municipality.
- The submission of the auditor's report by the AG within three months after receipt of the financial statements of a municipality or municipal entity.
- The submission of the annual report by the accounting officer of a municipal entity within six months after the financial year-end to the municipal manager of the parent municipality.
- The tabling of the annual report by the mayor of a municipality and any municipal entity under the municipality's control within seven months after the financial year-end in the municipal council.

5.1.6 Municipal Systems Act, 2000 (Act No. 32 of 2000)

The act provides for the following:

- The core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all.
- The legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality's political and administrative structures.
- The manner in which municipal powers and functions are exercised and performed to provide for community participation.
- A simple and enabling framework for the core processes of planning, performance management, resource mobilisation and organisational change which underpin the notion of developmental local government.
- A framework for local public administration and human resource development.

- Empowerment of the poor and ensuring that municipalities put in place service tariffs and credit control policies that take their needs into account by providing a framework for the provision of services, service delivery agreements and municipal service districts.
- Credit control and debt collection.
- A framework for support, monitoring and standard setting by other spheres of government in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities in harmony with their local natural environment.

5.1.7 Municipal Structures Act, 1998 (Act No. 117 of 1998)

The act provides for the establishment of municipalities in accordance with the requirements relating to categories and all types of municipality. It further establishes criteria for determining the category of municipality to be established in an area and defines the types of municipality that may be established within each category. It also provides for an appropriate division of functions and powers between categories of municipality. It regulates the internal systems, structures and office-bearers of municipalities and provides for appropriate electoral systems.

5.1.8 Municipal Property Rates Act, 2004 (Act No. 6 of 2004)

The act regulates the power of a municipality to impose rates on properties and to exclude certain properties from rating in the national interest. The act makes provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies; fair and equitable valuation methods of properties; and an objections and appeals process.

5.1.9 Public Service Act, 1994 (Act No. 103 of 1994)

The act provides for the organisation and administration of the public service of South Africa as well as the regulation of the conditions of employment, terms of office, discipline, retirement and discharge of members of the public service.

5.1.10 Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)

The act provides a framework for the implementation of the procurement policy contemplated in section 217(2) of the Constitution.

5.1.11 Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the Act

The act provides for the establishment of the Construction Industry Development Board and the implementation of an integrated strategy for the reconstruction, growth and development of the construction industry.

5.1.12 State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and regulations issued in terms of the Act

The act provides for the establishment of a company that will provide information technology, information systems and related services to, or on behalf of, participating departments, and in regard to these services, act as an agent of the South African Government.

5.1.13 Specific enabling legislation of an entity (if any)

Entity-specific legislation that establishes the mandate of the entity; such legislation could define certain functions or disclosures.

Legislation governing the mandate and operational activities of the entity (if any).

Guidance and circulars issued by the National Treasury

5.2 The National Treasury issues handbooks, guidance and circulars on various topics from time to time, which should also be taken into consideration in auditing public sector entities.

Financial reporting frameworks applicable in the public sector

5.3 The following financial reporting frameworks are applicable in the public sector:

Entity	Financial reporting framework as referred to in the auditor's report
National and provincial departments	The Departmental Financial Reporting Framework prescribed by the National Treasury
Parliament and provincial legislatures	The Departmental Financial Reporting Framework prescribed by the National Treasury **Or** South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix D to ASB[19] Directive 5
Schedule 2, 3B and 3D public entities	South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP)[20]
Schedule 3A and 3C public entities	South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix C to ASB Directive 5
Constitutional institutions	South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix C to ASB Directive 5
Trading entities	South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP)
Entities for which legislation is not prescriptive in respect of the financial reporting framework and that fall under the scope of the 2011 AG Directive	South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix C to ASB Directive 5[21]

19 http://asb.co.za
20 Only schedule 2 public entities, whose ordinary shares, potential ordinary shares or debt is publicly tradeable on the capital markets may, in consultation with the National Treasury, apply IFRS.
21 Refer to paragraph 33 of the 2011 AG Directive.

Entity	Financial reporting framework as referred to in the auditor's report
Entities for which a departure/exemption from the applicable financial reporting framework has been granted in terms of section 79 or 92 of the PFMA	The basis of accounting, as set out in [accounting policy note xx/note xx to the financial statements]

GLOSSARY OF ABBREVIATIONS AND TERMS

Abbreviations	
AG:	Auditor-General
AGSA:	Auditor-General of South Africa
ARD:	Audit Research and Development
ASB:	Accounting Standards Board
DMA:	District management area
DoRA:	Division of Revenue Act
DPSA:	Department of Public Service and Administration
GRAP:	South African Standards of Generally Recognised Accounting Practice
IAASB:	International Auditing and Assurance Standards Board
INTOSAI:	International Organization of Supreme Audit Institutions
INTOSAI GOV:	INTOSAI Guidance for Good Governance
IRBA:	Independent Regulatory Board for Auditors
ISAs:	International Standards on Auditing
ISRS	International Standard on Related Services
ISSAIs:	International Standards on Supreme Audit Institutions
MEC:	Member of the executive council
MFMA:	Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MPL:	Member of the provincial legislature
MSA:	Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)
NCOP:	National Council of Provinces

Abbreviations	
NEMA:	National Environmental Management Act, 1998 (Act No. 107 of 1998)
NRF:	National Revenue Fund
OAG:	Office of the Accountant General
PAA:	Public Audit Act, 2004 (Act No. 25 of 2004)
PC:	Portfolio committee
PFMA:	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PPPFA:	Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
PSA:	Public Service Act, 1994 (Act No. 103 of 1994)
RDPF:	Reconstruction and Development Programme Fund
SA GAAP:	South African Statements of Generally Accepted Accounting Practice
SAAPS:	South African Auditing Practice Statements
SAI:	Supreme audit institution
SAICA:	South African Institute of Chartered Accountants
SAIGA:	Southern African Institute of Government Auditors
SALGA:	South African Local Government Association
SCOAG:	Standing Committee on the Auditor-General
SCOPA:	Standing Committee on Public Accounts

Terms	
Executive authority:	The cabinet member who is accountable to Parliament for a national department. The member of the executive council of a province who is accountable to the provincial legislature for a provincial department. The cabinet member who is accountable to Parliament for a national public entity. The member of the provincial executive council who is accountable to the provincial legislature for a provincial public entity.
Municipal council:	The council of a municipality that makes decisions concerning the exercise of all the powers and the performance of all the functions of the municipality.
Accounting officer:	The head of a department or the chief executive officer of a constitutional institution. The municipal manager of a municipality or the chief executive officer of a municipal entity.
Accounting authority:	The board or controlling body of a public entity. If the public entity does not have a board or controlling body, the chief executive officer of the public entity.
Fruitless and wasteful expenditure:	For PFMA and MFMA audits – expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Terms	
Irregular expenditure:	For PFMA audits – expenditure incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation. For MFMA audits – • Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA. • Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MSA, and which has not been condoned in terms of the MSA. • Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act. • Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of 'unauthorised expenditure'.

Terms	
Unauthorised expenditure:	For PFMA audits - • Overspending of a vote or a main division within a vote. • Expenditure that is not in accordance with the purpose of a vote or a main division within a vote. For MFMA audits – • Overspending of the total amount appropriated in the municipality's approved budget. • Overspending of the total amount appropriated for a vote in the approved budget. • Expenditure from a vote unrelated to the department or functional area covered by the vote. • Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose. • Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of 'allocation' otherwise than in accordance with any conditions of the allocation. • A grant by the municipality otherwise than in accordance with the MFMA.
Vote:	One of the main segments into which an appropriation act is divided.

ACKNOWLEDGEMENTS

- Johannesburg Accords, 27 November 2010
- Lima Declaration of Guidelines on Auditing Precepts
- Mexico Declaration on SAI Independence
- Induction for Public Service Managers: Learner Guide – Public Administration Leadership and Management Academy
- Chief Financial Officer's Handbook, National Treasury, 1st Edition

APPENDIX 1

Table of ISSAIs and ISAs paragraphs applicable to public sector audit engagements

ISSAIs	
Level 1: Founding Principles	
ISSAI 1	The Lima Declaration
Level 2: Prerequisites for the Functioning of Supreme Audit Institutions	
ISSAI 10	Mexico Declaration on SAI Independence – Appendix
ISSAI 11	INTOSAI Guidelines and Good Practices Related to SAI Independence
ISSAI 20	Principles of Transparency and Accountability
ISSAI 21	Principles of Transparency – Good Practices
ISSAI 30	Code of Ethics
ISSAI 40	Quality Control for SAIs
Level 3: Fundamental Auditing Principles	
ISSAI 100	INTOSAI Auditing Standards – Basic Principles
ISSAI 200	INTOSAI Auditing Standards – General Standards
ISSAI 300	INTOSAI Auditing Standards – Field Standards
ISSAI 400	INTOSAI Auditing Standards – Reporting Standards
Level 4: Auditing Guidelines	
ISSAI 1000-2999 Implementation Guidelines on Financial Audit	
ISSAI 1200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards of Auditing
ISSAI 1210	Terms of an Engagement

ISSAIs	
ISSAI 1220	Quality Control for Audits of Historical Financial Information
ISSAI 1230	Audit Documentation
ISSAI 1240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
ISSAI 1250	Consideration of Laws and Regulations in an Audit of Financial Statements
ISSAI 1260	Communication with Those Charged with Governance
ISSAI 1265	Communicating Deficiencies in Internal Control to Those Charged with Governance
ISSAI 1300	Planning an Audit of Financial Statements
ISSAI 1315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment
ISSAI 1320	Materiality in Planning and Performing an Audit
ISSAI 1330	The Auditor's Responses to Assessed Risks
ISSAI 1402	Audit Considerations Relating to Entities Using Service Organisations
ISSAI 1450	Evaluation of Misstatements Identified During the Audit
ISSAI 1500	Audit Evidence
ISSAI 1501	Audit Evidence – Specific Considerations for Selected Items
ISSAI 1505	External Confirmations
ISSAI 1510	Initial Audit Engagements – Opening Balances
ISSAI 1520	Analytical Procedures
ISSAI 1530	Audit Sampling
ISSAI 1540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures
ISSAI 1550	Related Parties

ISSAIs	
ISSAI 1560	Subsequent Events
ISSAI 1570	Going Concern
ISSAI 1580	Written Representations
ISSAI 1600	Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)
ISSAI 1610	Using the Work of Internal Auditors
ISSAI 1620	Using the Work of an Auditor's Expert and Management
ISSAI 1700	Forming an Opinion and Reporting on Financial Statements
ISSAI 1705	Modifications to the Opinion in the Independent Auditor's Report
ISSAI 1706	Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report
ISSAI 1710	Comparative Information – Corresponding Figures and Comparative Financial Statements
ISSAI 1720	The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements
ISSAI 1800	Special Considerations – Audits of Special Purpose Financial Statements
ISSAI 3000-3999 Implementation Guidelines on Performance Audit	
ISSAI 3000	Implementation Guidelines for Performance Auditing
ISSAI 3100	Performance Audit Guidelines – Key Principles
ISSAI 4000-4999 Implementation Guidelines on Compliance Audit	
ISSAI 4000	General Introduction to Guidelines on Compliance Audit
ISSAI 4100	Compliance Audit Guidelines for Audits Performed Separately from the Audit of Financial Statements

ISSAIs	
ISSAI 4200	Compliance Audit Guidelines Related to Audit of Financial Statements
ISSAI 5100-5199 Guidelines on Environmental Audit	
ISSAI 5110	Guidance on Conducting Audits of Activities with an Environmental Perspective
ISSAI 5120	Environmental Audit and Financial Auditing
ISSAI 5130	Sustainable Development: The Role of Supreme Audit Institutions
ISSAI 5140	How SAIs May Co-Operate on the Audit of International Environmental Accords
ISSAI 5300-5399 Guidelines on IT Audit	
ISSAI 5310	Information System Security Review Methodology – A Guide for Reviewing Information System Security in Government Organisations
ISSAI 5400-5499 Guidelines on Audit of Public Debt	
ISSAI 5410	Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt
ISSAI 5411	Debt Indicators
ISSAI 5420	Public Debt: Management and Fiscal Vulnerability: Potential Roles for SAIs
ISSAI 5421	Guidance on Definition and Disclosure of Public Debt
ISSAI 5422	An Exercise of Reference Terms to Carry Out Performance Audit of Public Debt
ISSAI 5430	Fiscal Exposures: Implications for Debt Management and the Role for SAIs
ISSAI 5440	Guidance for Conducting a Public Debt Audit – The Use of Substantive Tests in Financial Audits
ISSAI 5600-5699 Guidelines on Peer Reviews	
ISSAI 5600	Peer Review Guidelines

ISSAIs	
INTOSAI Guidance for Good Governance (INTOSAI GOV)	
INTOSAI GOV 9100-9199 – Internal Control	
INTOSAI GOV 9100	Guidelines for Internal Control Standards for the Public Sector
INTOSAI GOV 9110	Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls
INTOSAI GOV 9120	Internal Control: Providing a Foundation for Accountability in Government
INTOSAI GOV 9130	Further Information on Entity Risk Management
INTOSAI GOV 9140	Internal Audit Independence in the Public Sector
INTOSAI GOV 9150	Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector
INTOSAI GOV 9200-9299 – Accounting Standards	
INTOSAI GOV 9200	Accounting Standards Framework
INTOSAI GOV 9210	Accounting Standards Framework Implementation Guide: Departmental and Government-wide Reporting
INTOSAI GOV 9220	Accounting Standards Framework Implementation Guide for SAIs: Management Discussion and Analysis of Financial Performance and Other Information
INTOSAI GOV 9230	Guidance on Definition and Disclosure of Public Debt

List of ISAs that include considerations specific to the public sector	Paragraphs
ISA 200	A11, A57
ISA 210	A27, A37
ISA 220	A7, A9, A12, A30, A31

List of ISAs that include considerations specific to the public sector	Paragraphs
ISA 240	A6, A57, A67
ISA 250	A6, A20
ISA 260	A10, A23, A35, A44
ISA 265	A27
ISA 315	A21, A35, A65, A113
ISA 320	A2, A9
ISA 330	A17
ISA 402	A10, A11
ISA 450	A19, A20
ISA 510	A1, A2
ISA 520	A11
ISA 540	A11
ISA 550	A8
ISA 560	A5, A10, A14, A17
ISA 570	A1
ISA 580	A9
ISA 600	A18
ISA 705	A14
ISA 720	A7

APPENDIX 2

ANNEXURE A TO THE JOHANNESBURG ACCORDS – FRAMEWORK FOR COMMUNICATING AND PROMOTING THE VALUE AND BENEFITS OF SUPREME AUDIT INSTITUTIONS

PREAMBLE

1. Accountability is an indispensable part of a democracy.

2. In a democracy structures are created and elected representatives are empowered to implement the will of the people and act on their behalf, through legislative and executive bodies. An important point of departure in constructing democratic institutions is that power and resources can be misused, leading to an erosion of trust that can undermine the essence of the democratic system. It is therefore critical that the citizens of a country should be able to hold their representatives accountable. The democratically elected representatives can only be held accountable if they, in turn, can hold accountable those who have to implement their decisions. Legislatures therefore need a body in the form of a Supreme Audit Institution (SAI) that can scrutinise or audit the fulfilment of accountability. Such a body has to be independent in order to be trustworthy.

3. Auditing should have a positive impact on trust in society because custodians of the public purse could act differently if they know that they can be scrutinised. Such awareness supports desirable values and underpins accountability mechanisms, which leads to better decisions and enhances good behaviour in governmental organisations.

4. The overall objective of independent audits is therefore to make a difference in the lives of citizens by contributing to trust, efficiency and effectiveness. An independent and effective SAI is accordingly a necessary precondition for democracy. This does imply that the mandate of an independent auditor in the public sector goes far beyond the traditional definition of external auditing because it also addresses matters of public interest – the interest of the citizens.

5. Acting in the public interest places a further responsibility on SAIs to be exemplary in responding to the challenges of societies, the changing environments in which audits are conducted, and the needs of different stakeholders in the democratic process, all within the parameters of their independence.

6. To be able to fulfil their functions and ensure their potential value to a democratic society, the SAIs must be seen as trustworthy. The audit institutions can only deserve trust if they themselves are objectively judged as being credible, independent and accountable. In order to make this possible they have to set an example to the rest of the public sector and the auditing profession at large, as leaders in public finance management, related governance and performance management. It is only with such a solid foundation in their own functioning that SAIs can add value and make a difference in the lives of citizens.

7. The Framework for Communicating and Promoting the Value and Benefits of Supreme Audit Institutions is therefore constructed around two objectives: an external focus to make a difference to the lives of citizens; and an internal focus to lead by example by being a model institution. Each objective is explained with reference to a number of fundamental requirements, which in turn are supported by a number of guiding principles. It is important to note that the two objectives are interrelated. For ease of use and assessment, however, each fundamental requirement has been linked to the objective with which it appears to have the most direct relation.

8. SAIs operate under different mandates and models. The fundamental requirements and related guiding principles may not apply equally to all SAIs. However, they are intended to serve as a basis for SAI self-assessment and improvement, as well as enabling SAIs to communicate and promote the value and benefits that a SAI can bring to the democracy in a country.

OBJECTIVE 1: TO BE RECOGNIZED AS AN INSTITUTION THAT MAKES A DIFFERENCE TO THE LIVES OF CITIZENS

In order to meet **Objective 1,** there are **six fundamental requirements** that SAIs must fulfil. These requirements are set out below, along with compelling reasons for each of them to be included in the framework as a fundamental requirement, and the guiding principles that SAIs must follow in order to fulfil the fundamental requirements.

FUNDAMENTAL REQUIREMENT 1: *Responsiveness to changing environments and stakeholder expectations, without compromising independence*

Compelling reasons for inclusion as a fundamental requirement

- SAIs are in a position to proactively assess risks in the environment and identify stakeholder expectations in order to remain relevant, but without compromising independence.
- Strategic planning processes of SAIs are cognizant of the changing environment and stakeholder expectations.
- The ability of SAIs to adjust and adapt activities to maximise the potential of beneficial impact and reduce the risk of unforeseen and unintended adverse impacts.
- The ability to be responsive will strengthen national and international networking through improved knowledge sharing, thereby positioning SAIs to be more responsive globally.

Guiding principles

- SAIs should enhance staff's awareness of stakeholders' expectations to enable them to factor these into strategic, business and audit plans, as appropriate.
- SAIs should establish mechanisms for information gathering and decision making to promote better communication with stakeholders.
- SAIs should evaluate changing and emerging risks in the audit environment and respond to these in a timely manner.
- SAIs should establish self-assessment systems whereby a SAI obtains feedback from key stakeholders in order to gauge their responsiveness.
- SAIs should participate in domestic and international debates and forums on topical matters.

FUNDAMENTAL REQUIREMENT 2: *Ensuring that government is held accountable for using resources legally and responsibly, for the purposes intended, and economically, efficiently and effectively*

Compelling reasons for inclusion as a fundamental requirement

- This requirement is the fundamental reason why SAIs exist: to provide assurance and credible information to stakeholders in the interest of the public.

Guiding principles

- SAIs should submit audit reports to the legislature that has an interest in the audit.
- SAIs should make audit reports available to the public in an accessible media format.
- SAI mandates should address the following:
    - Forming an opinion, concluding, or performing a judicial review on financial information
    - Forming an opinion, concluding, or performing a judicial review on financial management and internal control
    - Forming an opinion, concluding, or performing a judicial review on performance information
    - Forming an opinion, concluding, or performing a judicial review on compliance with legislation and regulations
    - Conducting performance audits
    - Performing any other form of audit, review, or investigation on matters where public funds are being used or the public interest is at stake

FUNDAMENTAL REQUIREMENT 3: *Credible source of independent and objective insight and guidance to facilitate foresight and continuous improvements in government*

Compelling reasons for inclusion as a fundamental requirement

- SAIs provide an objective basis for decision making.
- SAIs' shared insight improves the foresight of decision makers with regard to continuous improvements and government reforms.
- SAIs assess readiness for government reforms (such as the readiness to migrate to the accrual basis of accounting).
- Audit outcomes foster the opportunity for continuous learning and professional development in a wide variety of disciplines.

- SAIs are capable of auditing key programmes of respective governments that impact the lives of its citizens.

Guiding principles

- SAIs should stand out for being independent, objective and transparent in their work, which is based on facts, figures and knowledge.
- As active partners in the national and international audit network, SAIs should constantly advocate innovations and reforms, sharing their knowledge and insights in a manner that does not compromise independence.
- Results of SAIs' audit work should provide a basis for reforms in the public administration sector.

FUNDAMENTAL REQUIREMENT 4: *Empowering the public to hold government accountable and responsive, through objective information, simplicity and clarity of the message, and convenient access to audit reports and messages in relevant languages*

Compelling reasons for inclusion as a fundamental requirement

- Draw attention to SAI messages and make these easily actionable.
- Avoid misinterpretation of SAI messages.
- Facilitate focused feedback to SAIs, allowing them to be responsive to the expectations of stakeholders.
- Facilitate understanding and dialogue among the public.

Guiding principles

- SAIs should be free to decide on the content of their reports.
- Legislation should specify minimum audit reporting requirements of SAIs and, where appropriate, specific matters that should be subject to a formal audit, review, or certification.
- SAIs should make their reports public in a timely fashion.
- SAIs should present a combined analysis of their individual audit reports based on common findings, trends, root causes and audit recommendations and discuss this with key stakeholders.
- SAIs should report in a language that is understood by their stakeholders, allowing them to action these reports.
- SAIs should ensure appropriate access to reports by all stakeholders.
- SAIs should use the media appropriately to communicate effectively to the public.

FUNDAMENTAL REQUIREMENT 5: *Enabling the legislature, one of its commissions, or those charged with governance to discharge their different responsibilities in responding to audit findings and recommendations and taking appropriate corrective action*

Compelling reasons for inclusion as a fundamental requirement

- The effectiveness with which SAIs fulfil their role of holding government to account for the use of public money not only depends on the quality of their work, but also on how effectively they are working in partnership with the accountability functions of the legislature as well as the executive arm of government in making use of audit findings and enacting change.
- The relationship with Parliament is particularly crucial in ensuring the effective use of audit findings, as SAIs and the legislature can mutually support each other in ensuring effective governance.
- While SAIs provide Parliament with the necessary information and evidence to exert their oversight function effectively, Parliament provides an important forum for the use and discussion of SAIs' findings and is also a partner in encouraging corrective action and monitoring progress.
- Ideally SAIs also need to be an important catalyst for change, being a source of information about areas for corrective action as well as good practice.

Guiding principles

- SAIs should develop strong relationships with relevant parliamentary oversight committees and auditees' governing boards to help them better understand the audit reports and conclusions and take appropriate actions.
- SAIs should provide the legislature, one of its commissions, or auditees' governing boards with relevant, objective, and timely information.
- SAIs should actively assist the recipients of their audit findings in using these to the greatest effect.
- SAIs should assist in ensuring a cycle of accountability, with systematic follow-up of appropriate parliamentary recommendations.

FUNDAMENTAL REQUIREMENT 6: *Following up on audit findings and implementation of recommendations*

Compelling reasons for inclusion as a fundamental requirement

- Enable auditees and governments to action audit findings, thereby strengthening accountability.
- Assist SAIs to demonstrate the impact of findings.
- Facilitate learning and continuous improvement, within both SAIs and governments.
- Demonstrate how keen SAIs are to promote improvement and reforms in government and in the broader society.

Guiding principles

- SAIs should regularly meet with officials to ensure follow-up of audit findings.
- SAIs should report on the follow-up measures taken with respect to their recommendations.
- SAIs should assist those who implement changes through the provision of tailored guidance and good practice, without compromising their independence.

OBJECTIVE 2: TO BE RECOGNIZED AS AN INDEPENDENT MODEL INSTITUTION

In order to meet **Objective 2**, there are **seven fundamental requirements** that SAIs must fulfil. The following are these requirements, along with compelling reasons for them to be included in the framework as fundamental requirements, and the guiding principles that SAIs must follow in order to fulfil the fundamental requirements.

FUNDAMENTAL REQUIREMENT 7: *Independence*

Compelling reasons for inclusion as a fundamental requirement

- Independence of SAIs is an essential prerequisite in a democracy.
- SAIs need to be trustworthy, ensuring that stakeholders remain confident in the SAIs' work and the audit conclusions reached.
- Independence provides the necessary credibility required by providers of donor funding to ensure that intended benefits from donor-funded projects reach the ordinary citizen.
- An independent review or audit needs to provide sufficient credibility for multiple users of the information reviewed or audited.

- SAIs need to be accountable to legislatures, on behalf of citizens, and not to the administration.
- Independence is defined as a fundamental prerequisite for all SAIs in the International Standards of Supreme Audit Institutions (ISSAIs).

Guiding principles

- The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework.
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties.
- A sufficiently broad mandate and full discretion, in the discharge of SAI functions.
- Unrestricted access to information.
- The right and obligation to report on their work.
- The freedom to decide on the content and timing of audit reports and to publish and disseminate them.
- The existence of effective follow-up mechanisms on SAI recommendations.
- Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.

FUNDAMENTAL REQUIREMENT 8: *Transparency and accountability*

Compelling reasons for inclusion as a fundamental requirement

- Accountability and transparency are important tools to balance a perceived fundamental contradiction in democratic societies. In such societies, structures are created and elected officials are empowered to implement the will of the people and act on their behalf. This creates the potential for abuse of power, leading to mistrust that can reduce the efficiency of the service delivery process, thereby undermining the whole democratic system.
- This contradiction can only be solved by enhancing accountability. Institutions that, in an independent manner, scrutinize governmental activities are therefore essential. These audit institutions can only fulfil their function if they themselves can be scrutinized and be held accountable.

- The audit institutions can only deserve trust if they allow themselves to be judged by others and if they are transparent in such a way that it is possible for different audiences to discuss their strategies, methods and actual impact. In doing this, they further set an important example to the rest of the public sector and the auditing profession at large and therefore further epitomize the accountability of SAIs.

Guiding principles

- SAIs perform their duties under a legal framework that provides for accountability and transparency.
- SAIs make public their mandate, responsibilities, mission and strategy.
- SAIs adopt audit standards, processes and methods that are objective and transparent.
- SAIs apply high standards of integrity and ethics for staff of all levels.
- SAIs ensure that these accountability and transparency principles are not compromised when they outsource their activities.
- SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and report publicly on these matters.
- SAIs report publicly on the results of their audits and on their conclusions regarding overall government activities.
- SAIs communicate timeously and widely on their activities and audit results through the media, websites and by other means.
- SAIs make use of external and independent advice to enhance the quality and credibility of their work.

FUNDAMENTAL REQUIREMENT 9: *Code of Ethics*

Compelling reasons for inclusion as a fundamental requirement

- It is absolutely essential, in the interest of effectiveness of SAIs and acceptance and credibility of the work done by SAIs, that their entire staff (auditors, support staff, officials, in-sourced specialists and other representatives) are looked upon as qualified, credible, reliable and trustworthy.
- A Code of Ethics is defined in the ISSAIs as a fundamental prerequisite for all SAIs.

Guiding principles

- SAIs should adopt a Code of Ethics that meets or exceeds the requirements of the INTOSAI standards and addresses at least the following issues:

- Integrity
- Independence, objectivity and impartiality
- Political neutrality
- Dealing with conflict of interest
- Professional secrecy
- Professional competence
- Professional development

- SAIs should institute appropriate policies and processes to create awareness of the requirements of the Code of Ethics.
- SAIs should oversee adherence to the requirements of the Code of Ethics and consider appointing an Ethics Officer.

FUNDAMENTAL REQUIREMENT 10: *Service excellence and quality considerations*

Compelling reasons for inclusion as a fundamental requirement

- SAIs need to be trustworthy, ensuring that stakeholders retain confidence in their work, as well as the audit opinions and conclusions reached.
- SAIs need to demonstrate achieving the highest standards in their own performance as institutions so that they maintain their credibility.
- SAIs need to be responsive at all times to current issues and stakeholder expectations.
- A commitment to audit quality, covering considerations both at the organizational level and per individual audit, is defined as a fundamental prerequisite for all SAIs in the ISSAIs.

Guiding principles

- The Head of the SAI should set policies and procedures that are designed to promote an internal culture that recognizes that quality is essential in performing all the SAI's work.
- SAIs' policies and procedures should require all personnel and all parties contracted to conduct work on behalf of the SAI to comply with the relevant ethical requirements.
- SAIs' policies and procedures should set out that the SAI will only undertake work that it is competent to perform, while managing the risks to quality.

- SAIs should ensure that they have sufficient and appropriate resources to perform their work in accordance with relevant standards and other requirements.
- SAIs' policies and procedures should promote consistency in the quality of work performed, including setting out supervision and review responsibilities.
- SAIs should establish a monitoring process that ensures the SAI's system of quality control is relevant, adequate and operating effectively.

FUNDAMENTAL REQUIREMENT 11: *Good governance*

Compelling reasons for inclusion as a fundamental requirement

- In keeping with the principle of "leading by example", SAIs need to adhere to the same, appropriate rules and philosophy that SAIs expect from auditees as a minimum.
- Good governance is applicable to any organization with a view to assisting its leadership to make better decisions and manage risks towards achieving the organization's objectives.
- Good governance and accountability are interrelated: SAIs need to epitomize accountability.
- Globally, good governance has been reconfirmed as a fundamental requirement for any successful organization.

Guiding principles

- The establishment, mandate and functioning of SAIs should be governed by a strong legislative framework that also promotes good governance principles.
- A process of independent oversight of a SAI's performance and accountability, either through an independent body or a committee of Parliament, should be formalized, without compromising independence of the SAI.
- SAIs should have an appropriate organizational management structure that will give effect to good governance processes.
- SAIs should assess organizational risk (risk internal to a SAI) on a regular basis and supplement this with appropriately implemented and regularly monitored risk management initiatives.
- An appropriately objective internal audit function should be an integral part of the SAI's operational risk management strategy to respond to organizational risk.
- SAIs should apply proper information technology governance.

- SAIs should consider sustainability issues within the SAI and within the legislative and regulatory framework in which the SAI operates and report appropriately thereon.

FUNDAMENTAL REQUIREMENT 12: *Learning and knowledge sharing*

Compelling reasons for inclusion as a fundamental requirement

- Learning and knowledge sharing within a SAI ensures that it can leverage on its collective knowledge to respond to the issues that confront it, its auditees and its stakeholders.
- International problems should be handled at an international level. Thus, SAIs can take joint action to handle issues of international concern. (The INTOSAI Ad Hoc Group on Disaster Relief and the Task Force on the Global Financial Crisis are excellent examples of how SAIs can add value by cooperating in describing global problems and creating a foundation for lessons learned, thus providing better instruments for dealing with future challenges.)
- Sharing learning and knowledge with other SAIs ensures that the excellence and authority of the world's audit community are available for the benefit of all, in line with INTOSAI's motto: "Mutual experience benefits all".
- Sharing knowledge with auditees and stakeholders ensures that the learning from the full breadth of audit activity is available to any individual auditee, thus helping the auditee to improve.

Guiding principles

- The propensity on the part of SAIs to learn from other SAIs and share knowledge and experience with other SAIs benefits the whole INTOSAI community.
- Collective knowledge is greater than that of any one individual and is applied to audit and other work conducted by the SAI.
- SAI leaders should understand that knowledge sharing supports delivery of outputs and outcomes. They should model the behaviour that makes it effective.
- Continual learning contributes to individual, team and organizational excellence.
- If challenged by an auditee or stakeholder, an individual auditor should be supported by the collective advice, guidance and authority of colleagues and SAI leaders.
- SAI staff should be confident that they have the skills to find, manage and share the information and knowledge they need to do their work.

- SAI staff should be confident that they have the latest and definitive version of an output of another SAI or of INTOSAI so that they can build on the work of others.
- Auditees should be confident that the information they provide to the SAI is held appropriately and treated with at least the same level of security and confidentiality they would apply themselves.
- SAIs should participate in INTOSAI activities and build networks with other SAIs and relevant institutions to keep abreast of topical issues and promote knowledge sharing.
- SAIs should share knowledge with the broader auditing profession.

FUNDAMENTAL REQUIREMENT 13: *Effective communication*

Compelling reasons for inclusion as a fundamental requirement

- It increases the visibility and prominence of SAIs.
- It adds to the reputation of and confidence in a SAI, confirming its credibility.
- It will contribute to stakeholders' acceptance of audit opinions and recommendations and their response thereto.
- A SAI's reputation is an intangible asset, vital for the SAI to create and realize public value.

Guiding principles

- SAIs should identify the expectations of stakeholders (including citizens and Parliament) and respond to these in a timely manner, without compromising their independence.
- SAIs should live their core values and commitment to professional ethics to the extent that it is recognized and valued by stakeholders.
- SAIs should strengthen communication with stakeholders for better understanding of the SAI's responsibilities, audit work, and results.
- SAIs should correct improper behaviours that impact negatively on the SAI's reputation, and publicize follow-up actions in time.
- SAIs should be actively involved in national and international audit affairs to lift the profile of and continuously develop the public sector external audit function.
- SAIs should periodically assess whether stakeholders believe the SAI is adding value and benefits.

AUDIT OF PREDETERMINED OBJECTIVES

CONTENTS

1. OVERVIEW

Objective of this guide

1.1 In terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the Auditor-General of South Africa (AGSA) and private sector auditors in public practice must provide an audit opinion or conclusion on the reported information relating to the performance of the auditee against predetermined objectives. This Guide sets out a high level understanding and guidance for registered auditors performing an audit of predetermined objectives, as disclosed in the annual reports of entities in the public sector, and should be read in conjunction with the *Guide for Registered Auditors Auditing in the Public Sector* issued by the Independent Regulatory Board for Auditors (IRBA) in January 2012. The intention of this Guide is to be informative and not technical in nature and should be read in conjunction with other guidance applicable to the audit of predetermined objectives issued by the AGSA.

Purpose of performance information

1.2 Performance information indicates how well an entity is performing against strategic objectives. Strategic objectives indicate what an entity intends doing (or producing) to achieve its legislative mandate. The strategy of an entity is normally included in a five-year strategic plan. The annual performance targets that an entity aims to achieve in pursuit of goals and objectives based on strategic outcomes are included in the annual performance plan of an entity. Performance indicators and targets are used to track and measure performance in relation to the strategic objectives. The indicators also reflect equity concerns and value for money in the use of resources.

Importance of performance information

1.3 Performance information is essential to focus the attention of the public and oversight bodies on whether public institutions are delivering public services, by comparing their performance against their budgets and strategic plans and to alert those charged with governance to areas where corrective action is required. Performance information also facilitates effective accountability enabling legislators, members of the public and other interested parties to track progress, identify the scope for improvement in service delivery, and better understand the issues involved.

Purpose of the audit of predetermined objectives

1.4 The audit of predetermined objectives of public institutions is an annual engagement to provide assurance to Parliament, legislators, members of the public and other relevant parties that the actual performance reported is useful and reliable.

1.5 The concepts of performance management and reporting were formally introduced to the public sector in South Africa with the implementation of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). Since then the focus on reporting on performance against predetermined objectives in the public sector has continued to gain momentum. The importance thereof was further emphasised when the Presidency issued two green papers on *National strategic planning* and on *Improving government performance* during 2009.

Differences between the audit of predetermined objectives and performance auditing

Audit of predetermined objectives	Performance auditing
• Mandatory audit (sections 20(2)(c) and 28(1)(c) of the PAA) • Reflects an opinion or conclusion on the reporting of performance against predetermined objectives • Reporting takes place annually as part of the regularity audit process • The audit is conducted by regularity auditors • Focuses on the planning, implementation, monitoring and reporting on performance information • Audit criteria: Existence, timeliness, presentation, consistency, relevance, measurability, validity, accuracy and completeness • Provides assurance on whether the annual reported performance against predetermined objectives is useful and reliable	• Discretionary audit (section 20(3) of the PAA) • Reporting is based on factual findings and does not include an audit opinion • Reporting is not limited to annual information and can cover more than one financial year • The audit is conducted by performance auditors and may include subject matter experts • Focuses on a specific government programme, project or management process • Audit criteria: Economy, efficiency and effectiveness • Factual report on whether goods and services have been acquired economically, applied efficiently and managed effectively towards achieving the desired goals

1.6 The audit of predetermined objectives is defined as an annual audit of reported actual performance against predetermined objectives. This is executed as an integral part of the annual regularity audit, confirming compliance with applicable laws and regulations as well as the usefulness and reliability of the reported performance information as published in the annual reports of government institutions.

1.7 In terms of section 20(3) of the PAA, the AGSA may report on whether the auditee's resources were procured economically and utilised efficiently and effectively. This discretionary audit is generally referred to as a performance audit.

1.8 Performance auditing is defined as an independent audit of the management measures instituted by a government entity to ensure the economical procurement and efficient and effective utilisation of resources. The key concepts to be audited can further be defined as follows:

Economy: To procure resources of the right quality in the right quantities at the right time and place at the lowest possible cost.

Efficiency: To achieve the optimal relationship between the output of goods, services or results and the resources used to produce them.

Effectiveness: To achieve policy objectives, operational goals and other intended effects.

1.9 Performance audits are conducted only by the AGSA. Refer to section 2, part C of *A Guide for Registered Auditors: Auditing in the Public Sector* for further information on performance auditing.

Background to the audit of predetermined objectives

1.10 Supreme audit institutions (SAIs) around the world have progressed from carrying out only financial audits to a wide range of value-for-money and performance audits. Less widely known is the gradual growth of another 'line of business', namely that of providing assurance on performance information produced by governments for reporting to Legislatures and Parliament.

1.11 This was necessitated by, amongst other factors, public sector reform in certain countries, such as South Africa, which included significant initiatives to improve public sector reporting. This included providing legislatures and the public with better information on what government programmes are accomplishing, in answer to the question: What value are taxpayers getting for their taxes?

1.12 The sooner credible performance information is recognised as playing a significant role in governance and accountability, the greater focus there will be on the quality and timeliness of the information reported. Consequently, legislatures have in some instances turned to their auditors to provide them with some assurance that the performance information provided by government can be trusted, with the main objectives of increasing accountability and ensuring the credibility of the information.

1.13 Globally, performance reporting is increasingly becoming an integral part of an effective accountability framework. In several other countries it is a legislated requirement, for example, the Government Accountability Act (1995) in Alberta, Canada; the Budget Transparency and Accountability Act (2000) in British Columbia; and the Public Administration Act (2000) in Quebec. In Western Australia, under the provisions of the Financial Administration and Audit Act (1985), and as detailed in Treasurer's Instruction 904, accountable officers and authorities are required to report on performance indicators as part of their annual reporting process.

1.14 Performance information and reporting focus the attention of the public and oversight bodies on whether public institutions are delivering value for money, by comparing their performance against their budgets and service delivery plans, and alert managers to areas where corrective action is required. The most important reason for measuring performance is that what gets measured gets done. If an institution knows that its performance is being monitored, it is more likely to perform the required tasks – and perform them well.

Benchmarking with practices in other countries

1.15 A study of the practices followed by SAIs showed that countries have different legislative requirements for reporting on performance information and for auditing or assessing performance information. This study included an analysis of the legislative requirements, including the scope of the audits, applicable audit criteria and audit standards used as well as the type of audit opinion expressed.

1.16 In Western Australia, the relevance and appropriateness of the efficiency and effectiveness indicators is audited, whilst in Queensland an audit of the performance management system is discretionary.

1.17 In Canada, three agencies (similar to public entities in South Africa) are required to have their performance information audited, while in the Canadian province of Alberta, agreed upon procedures are adopted. In the Canadian province of British Columbia, the quality of performance information is reviewed. In New Zealand, audit opinions are provided on all departmental and municipal performance reports.

2. LEGISLATIVE REQUIREMENTS

2.1 It is important that auditors have a clear understanding of the legislative requirements in South Africa relevant to the audit of predetermined objectives as well as the legislative requirements within which the performance management systems and processes should be implemented and operated at the various public sector entities. These are set out below.

LEGISLATIVE REQUIREMENTS RELEVANT TO THE AUDIT OF PREDETERMINED OBJECTIVES

Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)

2.2 Sections 20(2)(c) and 28(1)(c) of the PAA requires that:

'An audit report must reflect an opinion or conclusion relating to the performance of the auditee against predetermined objectives.'

2.3 Section 4(1) of the PAA states the following:

'The Auditor-General must audit and report on the accounts, financial statements and financial management of –

(a) all national and provincial state departments and administrations;
(b) all constitutional institutions;
(c) the administration of Parliament and of each provincial legislature;
(d) all municipalities;
(e) all municipal entities; and
(f) any other institution or accounting entity required by other national or by provincial legislation to be audited by the Auditor-General.'

2.4 Section 4(3) of the PAA requires the following:

'The Auditor-General may audit and report on the accounts, financial statements and financial management of –

(a) any public entity listed in the Public Finance Management Act; and
(b) any other institution not mentioned in subsection (1) and which is –
  (i) funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
  (ii) authorised in terms of any legislation to receive money for a public purpose.'

2.5 Section 4(4) of the PAA states that:

'In the event of any conflict between a provision of this section and any other legislation existing when this section takes effect, the provision of this section prevails.'

LEGISLATIVE REQUIREMENTS GOVERNING PERFORMANCE MANAGEMENT SYSTEMS TO NATIONAL AND PROVINCIAL GOVERNMENT

2.6 In addition to the information below, refer to **Appendix A** for an overall summary of the legislative requirements governing the different stages of the performance management system. Details of the performance management system are further explained in **Appendix D**.

Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)

2.7 In terms of the PFMA, it is a legislative requirement for accounting officers to report annually on the performance of the entity against predetermined objectives.

2.8 Section 40(3)(a), applicable to departments, constitutional institutions and trading entities, and section 55(2)(a), applicable to public entities, of the PFMA require that:

'The annual report and audited financial statements must fairly present the state of affairs of (...) and its performance against predetermined objectives.'

Treasury Regulations

2.9 The requirements for performance management planning, monitoring and reporting are included in the following chapters of the Treasury Regulations:

- Chapter 5: Strategic planning requirements for departments, trading entities and constitutional institutions
- Chapter 18: Reporting requirements for departments, trading entities and constitutional institutions
- Chapter 28: Reporting requirements for all public entities
- Chapter 29: Corporate planning requirements for schedule 2, 3B and 3D public entities
- Chapter 30: Strategic planning requirements for schedule 3A and 3C public entities

Refer to **Appendix B** for the detailed requirements as per the Treasury Regulations.

Public Service Regulations (PSR) (only applicable to departments)

2.10 Part III, B.1(a)-(e) and (g) of the PSR requires that the medium-term strategic plan (with its annual performance plan) be provided to Parliament or the relevant legislature so as to facilitate the annual discussion of individual votes.

2.11 Part III, B.1(f)(i)-(iii), J.1 and J.3 of the PSR requires that specific and appropriate information systems exist to assist in the monitoring and management of performance information.

LEGISLATIVE REQUIREMENTS GOVERNING THE PERFORMANCE MANAGEMENT SYSTEMS APPLICABLE TO LOCAL GOVERNMENT

2.12 In addition to the information below, refer to **Appendix A** for an overall summary of the legislative requirements governing the different stages of the performance management system.

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

2.13 Section 121(3)(d) of the MFMA requires the following:

'The annual report of a municipality must include an assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in section 17(3)(b) for revenue collection from each revenue source and for each vote in the municipality's budget for the relevant financial year.'

2.14 Section 127(1) of the MFMA states the following:

'The annual report of the municipal entity includes an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.'

2.15 Other relevant chapters in the MFMA include:

- Chapter 7: Budget process and related matters
- Chapter 10: Municipal entities

Refer to **Appendix C** for further details on the requirements of these chapters.

Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

2.16 Section 46 of the MSA states the following:

'The municipality prepares for each financial year a performance report reflecting –

- *the performance of the municipality and of each service provider;*
- *a comparison of the performance with targets set for and performances in the previous financial year; and*
- *measures taken to improve performance.'*

2.17 Relevant chapters in the MSA include, but are not limited to:

- Chapter 5: Integrated development planning
- Chapter 6: Performance management
- Chapter 8A: Municipal entities

Refer to **Appendix C** for further details on the requirements of these chapters.

Municipal Planning and Performance Management Regulations, 2001

2.18 Section 120 of the MSA, read with sections 37, 43 and 49, regulates, amongst others, the following important aspects pertaining to the performance management process in local government:

- Establishing and maintaining a performance management system
- The setting, identification and regular review of key performance indicators
- The setting of a framework for performance targets by municipalities consistent with the development priorities, objectives and strategies as per their integrated development plan (IDP)
- Mechanisms, systems and processes for the monitoring and measurement of performance
- The internal auditing of performance measurements
- The assessment of progress by a municipality with the implementation of its IDP
- The improvement of performance

Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006

2.19 These regulations detail how the performance of municipal managers will be uniformly directed, monitored and improved.

2.20 Regulations 23 and 25 are of particular importance as they require the alignment of the performance agreements of municipal managers and managers directly accountable to them, with the IDP, service delivery and budget implementation plan (SDBIP), and the budget of the municipality.

3. STANDARDS USED IN THE AUDIT OF PREDETERMINED OBJECTIVES

3.1 The audit of predetermined objectives is conducted, and assurance conclusions are expressed, in terms of the International Standard on Assurance Engagements (ISAE) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Information*.

3.2 In the absence of a comprehensive framework for performance management and reporting in government, the AG has further determined[1] the following to be the sources of criteria against which the subject matter will be evaluated as a basis for the audit conclusions:

- All relevant laws and regulations
- *Framework for the managing of programme performance information*, issued by the National Treasury[2]
- *Framework for strategic plans and annual performance plans* (as from 2012-13)[3]
- Relevant frameworks, circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance information

3.3 It is public sector auditors' professional responsibility to ensure that they are competent to perform performance information audit engagements by familiarising themselves with the relevant requirements at a sufficiently detailed level, with a clear reference to the underlying standards, principles and applicable legislation.

2 Refer to annual AGSA Directive

3 RP 86/2007, May 2007; also available on www.treasury.gov.za

4 Published by the National Treasury, August 2010. Also available on www.treasury.gov.za. This framework only applies to national and provincial departments, constitutional institutions and Schedule 3A and 3C public entities.

4. PRINCIPLES OF THE AUDIT OF PREDETERMINED OBJECTIVES

4.1 The objective of an audit of predetermined objectives is to enable the auditor to conclude on whether the reported performance against predetermined objectives is useful and reliable, in all material respects, based on predetermined criteria.

4.2 Since 2004 the AG has adopted a phased-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 conclusion. This constitutes an audit of the policies, processes, systems and procedures for the management of, and reporting on, performance against predetermined objectives as part of the regularity audit process.

Audit criteria

4.3 During the audit of predetermined objectives, the performance information is audited against the criteria of existence, timeliness, presentation, measurability, relevance, consistency, validity, accuracy and completeness. Although the existence and timeliness of performance information form part of the audit of predetermined objectives, audit findings in this regard are reported in the section pertaining to compliance with relevant legislative requirements. Refer to the table below for detailed explanations of the audit criteria.

Main criteria	Sub-criteria	Explanation of audit criteria
Compliance with legislative requirements	**Existence**	Objectives, indicators and targets must be predetermined and performance information must be reported against them
	Timeliness	The annual performance report, together with the annual financial statements, must be submitted for audit purposes to the auditors, within two months after the financial year-end
	Presentation	Performance information must be presented using the National Treasury guidelines Actual performance information in tables and other information included in the annual report must be consistent Material differences between actual and planned performance must be explained
Usefulness[5]	**Measurability**	Objectives must be made measurable by means of indicators and targets Indicators should be well defined and verifiable Targets should be specific, measurable and time bound
	Relevance	Clear and logical links should exist between the objectives, outcomes, outputs, indicators and performance targets
	Consistency	Objectives, indicators and targets must be consistent between planning and reporting documents

5 The usefulness criterion specifically excludes the criteria of appropriateness. This decision is based on the INTOSAI Mexico declaration on SAI independence Principle 3 in terms of which SAIs do not audit policy but restrict themselves to the audit of policy implementation (www.intosai.org).

Main criteria	Sub-criteria	Explanation of audit criteria
Reliability	**Validity**	Actual performance reported has occurred and pertains to the entity
	Accuracy	Amounts, numbers and other data relating to actual performance reported have been recorded and reported appropriately
	Completeness	All actual results and events that should have been recorded have been included in the annual performance reports

Reporting requirements – management and auditor's reports

4.4 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 entity's reported performance against predetermined objectives. Until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit conclusion in the auditor's report, a limited assurance opinion on the reported performance against predetermined objectives is included in the report to management, with material findings being reported under the *Predetermined objectives* heading in the *Report on other legal and regulatory requirements* section of the auditor's report.

4.5 Private sector auditors are required to comply with the AGSA Directive when appointed to audit public entities where the AGSA has opted not to perform the audit. To assist such auditors, this Guide provides Application Guidance in part 5 regarding the audit process, objective summary of audit requirements to obtain evidence for each of the 'audit criteria' tested, and matters to be included in the engagement documentation.

4.6 The requirement for a reasonable assurance conclusion in the auditor's report will be communicated in the annual AGSA Directive. Private sector auditors are required to obtain the latest version of the AGSA Directive before commencing with a new audit cycle. This information is available on the AGSA website under the *Technical memos* link.

5. APPLICATION GUIDANCE

5.1 The information below describes the current AGSA audit approach of a typical audit of predetermined objectives.

5.2 Auditors in private practice are to apply and comply with the basic principles, procedures and guidance as set out in ISAE 3000 during the audit of predetermined objectives when auditing the subject matter.

5.3 The application of materiality in the context of the audit of predetermined objectives is unique and has been specifically defined for the subject matter, based on generally accepted practices and requirements in this regard. The AGSA has formulated specific guidance regarding materiality for the audit of predetermined objectives; details of which can be found in the AGSA guidance.

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Agreeing on the terms of the engagement	Agree on the terms of the engagement with the client. The standard engagement letter for the regularity audit includes reference to, and details on, the audit of predetermined objectives.	N/A
Planning: Risk assessment	• Obtain and document an understanding of the entity's internal control relevant to the performance management systems and processes[6]. • Obtain an understanding of the design of the entity's overall performance management systems and processes as well as the relevant controls[7]. • Confirm if the entity's overall performance management systems and processes are designed in terms of the requirements of the applicable laws and regulations and National Treasury frameworks. • Identify deficiencies in the implementation of the overall performance management systems during the walkthrough tests. • Summarise and communicate audit findings to the auditee.	Compliance, existence, presentation, consistency, measurability, relevance

6 Refer to appendix D for a description of the overall performance management system and processes.
7 Evaluation of these controls includes the analysis of quarterly performance reports, amongst others.

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Select programmes or objectives for audit purposes	• Material programmes or objectives are selected for auditing against the reliability criteria (accuracy, completeness, validity), considering the following primary drivers: (a) Quantitative considerations – relating to the rand value (size) of the programme or objective. (b) Qualitative considerations – taking into account the information needs of the users of the performance information and the qualitative significance of the programmes or objectives against the predetermined qualitative criteria. • The quantitative and qualitative nature of each programme or objective is considered and evaluated and the material programmes or objectives are selected for audit purposes. • Selected programmes or objectives are discussed with management, the inputs received are evaluated and the final selection of material programmes or objectives is made.	N/A

<table>
<tr><th>Performance of the assurance engagement</th><th>Objective and short summary</th><th>Audit criteria tested</th></tr>
<tr><td>Selected programme or objective level: Obtain understanding: risk assessment</td><td>• Obtain an understanding of the entity’s performance information systems, processes and procedures for each selected programme or objective and its related performance indicators, by clearly identifying and distinguishing between:
- the inputs (identify the source information and documentation, and indicate from where the source documentation and/or information originates)
- the processing of actual achievements (the actions by which the source information is processed into actual achievements of planned performance information)
- the outputs/reporting (the nature, extent and format of reporting on actual performance information).
• Obtain and document an understanding of the risks that exist in the detailed performance management process per selected programme or objective.
• Identify direct and indirect controls related to these processes that address the risks identified.
• Summarise control risks per audit criteria (validity, accuracy, completeness) based on the evaluation of the performance management system, operating procedures and processes for each selected programme or objective.</td><td>Validity, accuracy, completeness</td></tr>
</table>

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Selected programme or objective level: Risk assessment	• Assess the risks of material misstatement at the selected programme or objective level. • Determine whether indicators or measures (for the selected programme or objective) are material or not based on the predetermined qualitative materiality criteria. • Identify the direct and indirect controls that are in place to address standard and significant risks identified for material indicators or measures. • Assess whether the controls are **designed** appropriately (i.e. can they prevent or detect and correct misstatements) and whether they have been **implemented** as designed. • Where controls are identified on which reliance is intended the **operating effectiveness** of such controls should be tested and any weaknesses or deficiencies identified should be reported. • Decide on the nature, timing and extent of further audit procedures.	Validity, accuracy, completeness
Selected programme or objective level: Analytical review	• Analyse the trend in variances between the performance information contained in quarterly and annual performance reports (where applicable) to determine the reasonableness of such trends based on the knowledge of the client's business as well as professional judgement of the auditor. • Identify inconsistencies between planned targets and actual targets reported in the quarterly reports. • Identify inaccurate, incomplete and invalid quarterly performance information through the identification and analysis of trends from quarter to quarter as well as analysis of the consolidated results at year-end. • Inspect supporting evidence regarding significant variances and follow up with management.	Validity, accuracy, completeness

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Overall performance report level: Obtaining audit evidence	• Assess, review and test the performance information in the relevant planning documents to verify the existence, measurability, relevance and consistency of planned performance information. • Assess performance indicators and targets to verify the measurability thereof. • Assess and evaluate annual objectives, indicators and targets for relevance to the strategic or corporate plan and the mandate of the organisation. • Assess and review the consistency of objectives, indicators and targets between the strategic, corporate or annual performance plan documents and the budget documents of the organisation. This will include the assessment and review of unapproved changes to planned performance information.	Existence, measurability, relevance, consistency
Overall performance report level: Obtaining audit evidence	• Assess the consistency of objectives, indicators and targets between the strategic, corporate or annual performance plan and the annual performance report. • Assess and inspect changes to objectives, indicators and targets to validate that the proper approval process had been followed. • Assess reported performance information to ensure that a logical and relevant link exists between objectives, indicators and targets. • Confirm that the annual performance report was prepared and submitted for auditing on time. • Assess whether the format of the annual performance report is simple, accessible and useful as per the National Treasury annual report guidance and requirements.	Existence, measurability, consistency, timeliness, presentation

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Selected programme or objective level: Obtaining audit evidence	• If reliance can be placed on controls, test the controls in place for the validity, accuracy and completeness criteria for all targets in relation to the selected indicators. • The key control, as well as the alternative compensating control, to be tested for each of the applicable audit criteria is documented. • Procedures are designed to test the key control and/or compensating controls. • The population and sampling unit for each applicable audit criteria to be tested are defined. • Samples sizes are calculated as per AGSA guidance. • Sample items are selected and tested. • All deficiencies identified are communicated to management.	Validity, accuracy, completeness
Selected programme or objective level: Obtaining audit evidence	• Assess the validity, accuracy and completeness of reported performance information using substantive analytical procedures (where applicable). • Document details regarding the target to be tested, and the objective of the analytical procedure. • The required level of assurance from substantive analytical procedures can only be obtained subject to prerequisites as documented in the working paper.	Validity, accuracy, completeness

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Selected programme or objective level: Obtaining and documenting audit evidence	Consists of various working papers of which the objectives are detailed below. • The level of assurance required from the test of details per audit criteria for each selected indicator and its related targets is documented. • The sample sizes per audit criteria are calculated based on the applicable materiality amount, the level of assurance that is required from tests of details in response to the risks identified, and the size of the population. • Audit procedures are documented and executed, and audit results are recorded. • Misstatements identified during the tests performed for each target (includes 100% testing and sampling) are summarised and categorised between disagreement misstatements and limitation misstatements (evidence could not be obtained) per the audit criteria of validity, accuracy and completeness. • The nature, cause and circumstances that gave rise to the misstatements are then evaluated. • The misstatements identified for each target are accumulated per category of misstatement, projected to the population in cases where sample testing occurred, and evaluated for materiality. • All misstatements identified for each target are communicated to the auditee and adjustments (where applicable) are made.	Validity, accuracy, completeness

Performance of the assurance engagement	Objective and short summary	Audit criteria tested
Selected programme or objective level: Audit conclusion on reliability of performance information	• All uncorrected misstatements identified for each reported target in relation to the selected indicator or measure are summarised and evaluated for misstatements, individually and in aggregate. • Misstatements relating to indicators of the selected programme or objective are summarised and evaluated for materiality. • Each selected programme or objective is evaluated to determine if it is materially misstated, and serves as a basis for the audit conclusion on the reliability of the selected programme or objective.	Validity, accuracy, completeness
Overall performance report level: Audit conclusion on the usefulness of the performance information	• All misstatements as identified during the audit are summarised per audit criteria and communicated to the auditee, and adjustments (where applicable) are made. • All uncorrected misstatements are evaluated for materiality as per predetermined criteria and form the basis for the audit conclusion on the usefulness of the reported performance information.	Existence, consistency, relevance, measurability, timeliness, presentation

REFERENCES

- AG Directive, *General Notice 1111 of 2010* issued in *Government Gazette No. 33872*, 15 December 2010
- AG Directive, *General Notice 1570 of 2009* issued in *Government Gazette No. 32758*, 27 November 2009
- AG discussion paper on the audit of performance information prepared and presented at the 2008 APAC meeting, Cape Town
- Canada National, Auditor-General's Report to Parliament No. 1 for 2008, executive summary
- Canada Auditor-General Alberta, Report of the Auditor-General on the results of applying specified auditing procedures to performance measures, Edmonton, Alberta, 18 June 2008
- Controller and Auditor-General New Zealand, An assurance audit of the annual performance report of the Electricity Commission for the period ended 30 June 2004 http://www.oag.govt.nz/2005/electricity/index/htm
- Controller and Auditor-General New Zealand, Exposure draft, Auditor-General's Auditing Standard 4, The audit of service performance reports, November 2008
- Framework for managing programme performance information, issued by the National Treasury, RP 86/2007
- Framework for strategic plans and annual performance plans, issued by the National Treasury, August 2010
- Government-wide monitoring and evaluation framework, issued by the Presidency
- Green paper: National strategic planning, issued by the Presidency, September 2009
- Green paper: Improving government performance, issued by the Presidency, September 2009
- International Standards on Auditing, SAICA Handbook 2009/2010
- Local Government: Municipal Systems Act, Act No. 32 of 2000
- Local Government: Municipal Planning and Performance Management Regulations 2001, GNR.796 of 24 August 2001
- Municipal Finance Management Act, Act No. 56 of 2003
- Public Audit Act, Act No. 25 of 2004
- Public Finance Management Act, Act No. 1 of 1999 (as amended by Act No. 29 of 1999)
- Treasury Regulations for departments, trading entities, constitutional institutions and public entities, issued in terms of the Public Finance Management Act, 1999

APPENDIX A

Overall summary of the legislative requirements governing the different stages of the performance management process, per category of entity

Performance management process	Departments, trading entities and constitutional institutions	Schedule 3A and 3C public entities	Schedule 2, 3B and 3D public entities	Municipalities and municipal entities
Strategic planning	Treasury Regulations (TR) – chapter 5 Public Service Regulations (PSR) – part III, B.1(a)-(e) & (g) (only applicable to departments)	TR – chapter 30	TR – chapter 29	Municipal Systems Act (MSA) – chapters 5 & 6
Budgeting and implementation planning	TR – chapter 5	TR – chapter 30	TR – chapter 29	Municipal Finance Management Act (MFMA) – chapters 7 & 10 MSA – chapters 5, 6 & 8A

Performance management process	Departments, trading entities and constitutional institutions	Schedule 3A and 3C public entities	Schedule 2, 3B and 3D public entities	Municipalities and municipal entities
Implementation planning	TR – chapter 5 PSR – part III, B.1(f)(i)-(iii), J.1 & J.3 (only applicable to departments)	TR – chapter 30	TR – chapter 29	MFMA – chapter 10 MSA – chapter 6 LG: Planning and performance management regulations
Reporting (in-year and annual reporting)	PFMA – section 40(3) TR – chapter 18.3.1(b)	PFMA – section 55(2)(a) TR – chapter 28	PFMA – section 55(2)(a) TR – chapter 28	MFMA – section 121 MSA – section 46

APPENDIX B

The performance management planning, monitoring and reporting requirements as per the Treasury Regulations

Chapter 5 (applicable to departments, trading entities and constitutional institutions)

TR 5.1.1: The accounting officer must prepare the ***strategic plan*** that is consistent with the medium-term expenditure framework period for approval by the relevant executive authority.

TR 5.2.1: To facilitate annual discussion of individual votes, the accounting officer must provide Parliament or the relevant legislature with the institution's medium-term strategic plan, and where applicable, with its annual performance plan.

TR 5.2.2: Parliament or the relevant legislature should receive the plans of departments at least 10 days prior to discussion of the department's budget vote.

TR 5.2.3 (d): The strategic plan must include the measurable objectives, expected outcomes, programme outputs, indicators (measures) and targets of the institution's programmes.

TR 5.2.4: The strategic plan must form the basis for the annual reports of accounting officers as required by section 40(1)(d) and (e) of the act.

TR 5.3.1: The accounting officer must establish procedures for ***quarterly reporting*** to the executive authority to facilitate effective performance monitoring, evaluation and corrective action.

Chapter 18 (applicable to departments, trading entities and constitutional institutions)

TR 18.3.1(b): The annual report must include information about the institution's efficiency, economy and effectiveness in delivering programmes and achieving its objectives and outcomes against the measures and indicators set out in the strategic plan for the year under consideration.

Chapter 28 (applicable to all public entities)

TR 28.2.2: Particulars of the entity's strategic objectives and outcomes as identified and agreed by the executive authority, the key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives, and the entity's actual performance against the strategic objectives and outcomes must be disclosed in the ***annual report*** of the public entity.

Chapter 29 (applicable to schedule 2, 3B and 3D public entities)

TR 29.1.1(a) & (c): The ***corporate plan*** must cover three years and must include strategic objectives and outcomes identified and agreed on by the executive authority in the shareholders' compact as well as key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives.

TR 29.2.1: The accounting authority for schedule 2, 3B or 3D public entities must, in consultation with its executive authority, annually conclude a shareholders' compact.

TR 29.2.2: The shareholders' compact **must document the mandated key performance measures and indicators** to be attained by the public entity as agreed between the accounting authority and the executive authority.

TR 29.3: The accounting authority must establish procedures for ***quarterly reporting*** to the executive authority to facilitate effective performance monitoring, evaluation and corrective action.

Chapter 30 (applicable to schedule 3A and 3C public entities)

TR 30.1.1: The accounting officer must annually submit a ***strategic plan*** for approval by the relevant executive authority. Such a plan must be submitted at least six months before the start of the financial year of the designated department or another time period as agreed to between the executive authority and the public entity.

TR 30.1.2: The strategic plan must be finalised and submitted to the relevant executive authority no later than 1 April of each year.

TR 30.1.3: The strategic plan must:

(a) cover a period of three years
(b) include objectives and outcomes as identified by the executive authority
(d) include key performance measures and indicators for assessing the entities' performance in delivering the desired outcomes and objectives
(f) be updated annually on a rolling basis
(g) form the basis for the annual reports of accounting authorities in terms of section 55 of the PFMA.

TR 30.2.1: The accounting authority must establish procedures for ***quarterly reporting*** to the executive authority to facilitate effective performance monitoring, evaluation and corrective action.

APPENDIX C

The performance management planning, monitoring and reporting requirements as per the Municipal Finance Management Act (Act No. 56 of 2003)

Chapter 7: Responsibilities of mayors

- Section 53: Budget process and related matters
- Section 54: Budgetary control and early identification of financial problems

Chapter 8: Responsibilities of municipal officials

- Section 72: Mid-year budget and performance assessmen

The performance management planning, monitoring and reporting requirements as per the Municipal Systems Act (Act No. 32 of 2000)

Chapter 5: Integrated development planning

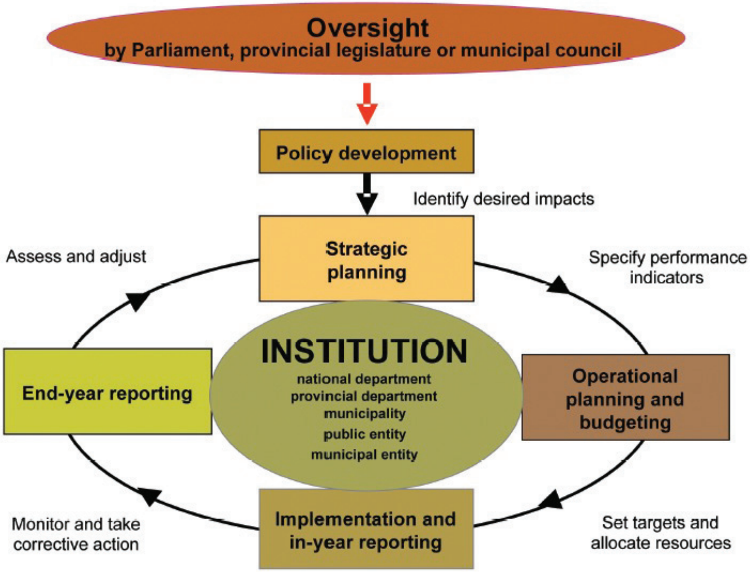
- Section 25: Adoption of integrated development plans
- Section 26: Core components of integrated development plans
- Section 27: Framework for integrated development planning
- Section 28: Adoption of process
- Section 29: Process to be followed
- Section 30: Management of drafting process
- Section 31: Provincial monitoring and support
- Section 32: Copy of integrated development plan to be submitted to member of the executive council for local government
- Section 34: Annual review and amendment of integrated development plan
- Section 35: Status of integrated development plan
- Section 36: Municipality to give effect to integrated development plan
- Section 37: Regulations and guidelines

Chapter 6: Performance management

- Section 38: Establishment of performance management system
- Section 39: Development of performance management system
- Section 40: Monitoring and review of performance management system
- Section 41: Core components of performance management system
- Section 42: Community involvement
- Section 43: General key performance indicators
- Section 44: Notification of key performance indicators and performance targets
- Section 45: Audit of performance measures
- Section 46: Annual performance reports
- Section 47: Reports by the member of the executive council
- Section 48: Reports by minister
- Section 49: Regulations and guidelines

APPENDIX D

Overall performance management process and system[8]



8 This is an abstract from the Framework for managing programme performance information as issued by the National Treasury, May 2007, RP 86/2007.

AUDIT OF PREDETERMINED OBJECTIVES

The planning, budgeting and reporting cycle describes the relationship between these processes and emphasises that the executive is accountable to the relevant elected representative body for the entire process. Full and regular reports are required at each stage of the process.

Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

Performance information should also be available to managers at each stage of the planning, budgeting and reporting cycle so that they can adopt a results-based approach to managing service delivery. This approach emphasises planning and managing with a focus on desired results, and managing inputs and activities to achieve these results.

Further information with regard to performance planning, management, monitoring and reporting can be obtained from the following links:

http://www.treasury.gov.za/publications/guidelines/FMPI.pdf

http://www.presidency.gov.za/pebble.asp?relid=1905

http://www.thepresidency.gov.za/pebble.asp?relid=1689

ABBREVIATIONS

AG	Auditor-General
AGSA	Auditor-General of South Africa
IDP	Integrated development plan
IRBA	Independent Regulatory Board for Auditors
ISAE 3000	International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
PAA	Public Audit Act, 2004 (Act No. 25 of 2004)
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PSR	Public Service Regulations
SAI	Supreme audit institution
SDBIP	Service delivery and budget implementation plan
TR	Treasury Regulations