

Proposed Guide

30 September 2011

Comments requested by 31 October 2011



A Proposed Guide for Registered Auditors

AUDIT OF PREDETERMINED OBJECTIVES

REQUEST FOR COMMENTS

The Committee for Auditing Standards (“CFAS”) a statutory committee of the Independent Regulatory Board for Auditors (“IRBA”) approved the release of this *Proposed Guide for Registered Auditors Audit of Predetermined Objectives* (the “Proposed Guide”), at its meeting in May 2011, which is now issued for public comment. The Proposed Guide has been prepared in consultation with the Auditor-General South Africa. To ensure that all relevant stakeholders are consulted and to streamline the consultation process, interested and affected stakeholders are invited to submit written comments to the IRBA. All comments will be considered a matter of public record.

Respondents are asked to submit their written comments by **31 October 2011**, preferably by email to standards@irba.co.za, or on a computer disk in MS Word format to:

The Director-Standards
Independent Regulatory Board for Auditors
PO Box 8237,
Greenstone,
1616

For Attention: Mrs S D van Esch

Enquiries should be directed to Mrs S D van Esch
Tel: +27 87 940 8871
Fax: +27 86 575 6535
E-mail svanesch@irba.co.za

Or

Mr Y Choonara
Tel; +27 87 940 8867
Fax: +27 86 575 8645
E-mail ychoonara@irba.co.za

Copies of the exposure draft may be downloaded free of charge from the IRBA website at <http://www.irba.co.za>. Should you have any queries or experience any technical difficulties in downloading the documents please do not hesitate to contact the Standards Department at +27 (0)87 940 8800 or send an email to standards@irba.co.za.

The proposed Guide may be modified in light of comments received before being issued in final form.

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AUDIT OF PREDETERMINED OBJECTIVES**

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EXPLANATORY MEMORANDUM

Introduction

This explanatory memorandum provides background to, and an explanation of, the *Proposed Guide for Registered Auditors: Audit of Predetermined Objectives (the Proposed Guide)* approved by CFAS for exposure in 2011.

Background

When performing audit engagements in the public sector, there are additional legal, regulatory and reporting requirements with which a private sector auditor will have to comply. In terms of the Public Audit Act, (PAA) the Auditor-General of South Africa (AGSA) and auditors in private practice must provide an audit opinion or conclusion on the reported information relating to the performance of the auditee against predetermined objectives.

The *Proposed Guide* assists private sector auditors with understanding those requirements when performing an audit of predetermined objectives as disclosed in the annual report of entities in the public sector.

The *Proposed Guide* has been developed by the CFAS Public Sector Standing Committee ("PSSC") in consultation with the Auditor General of South Africa. The PSSC is established for the purpose of improving the understanding of and enhancing the performance of quality public sector audits

This *Proposed Guide* should be read in conjunction with the *Proposed Guide for Registered Auditors Auditing in the Public Sector* issued 6 September 2011 for public comment.

The scope of the *Proposed Guide* includes:

- Difference between the audit of predetermined objectives and performance auditing;
- Background to an audit of predetermined objectives;
- The legislative requirements and application guidance;
- Standards and principles applied; and
- Application guidance.

Overview of the Proposed Guide

The Proposed Guide is informative and not technical in nature.

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

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.

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

Project Timetable

Following due consideration of comments received on exposure of the Proposed Guide, the CFAS will consider the final Guide at its meeting in November 2011 to recommend to the Board for approval to issue.

Guide for Respondents

The IRBA welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft it will be helpful for the IRBA to be made aware of this view.

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 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.

Request for Specific Comments

While the CFAS welcomes comments on any aspects, comments are sought on the following specific matters:

1. The Proposed Guide is intended to provide general guidance and clarity in understanding of the AG-SA's requirements when performing an audit of predetermined objectives. Too little information will impact negatively on the effectiveness of the guidance, but too much information will discourage auditors from taking the time to study it properly.

Do you think that an appropriate "balance" has been achieved?

2. Does the Proposed Guide provide clarity for an auditor, with no prior knowledge of the subject matter, to differentiate between the "audit of predetermined objectives" and "performance auditing"?
3. Does the Proposed Guide provide adequate references to the relevant legislation and authoritative standards to support the audit of predetermined objectives?
4. Is the description of the audit criteria against which the reporting on predetermined objectives is to be assessed adequate to ensure professional judgment can be exercised in formulating an opinion?
5. Are the reporting responsibilities clearly communicated?
6. Are there additional aspects that should be addressed in the Proposed Guide?

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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 Proposed Guide sets out 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 Proposed Guide for Registered Auditors Auditing in the Public Sector issued by the Independent Regulatory Board for Auditors (IRBA) on 6 September 2011 for public comment.

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.

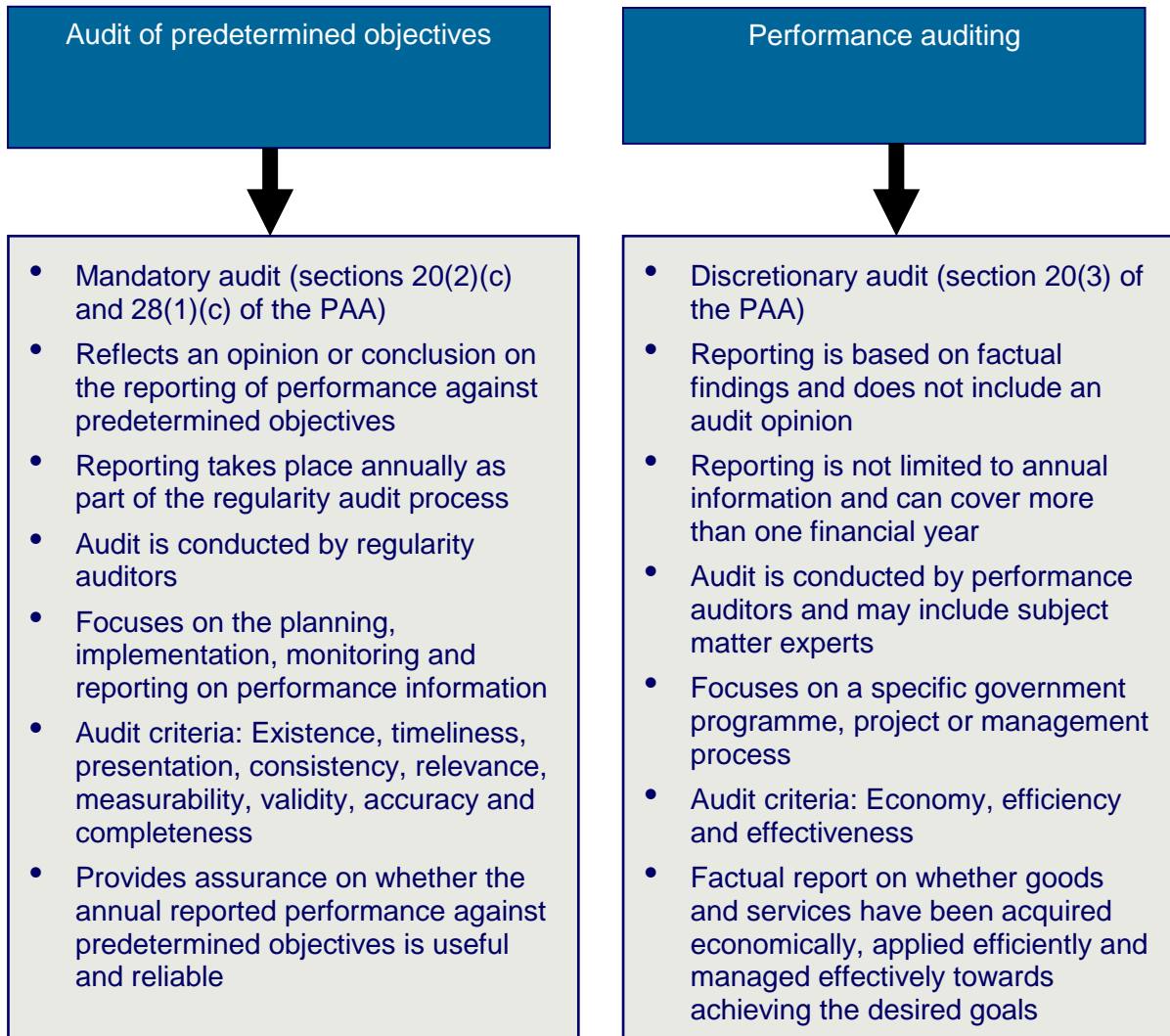
Importance of performance information

- 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 has further been emphasised with the issuing by the Presidency of two green papers on National Strategic Planning and Improving Government Performance respectively during 2009.

Difference between the audit of predetermined objectives and performance auditing



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 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

Background to the audit of predetermined objectives

- 1.8 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.
- 1.9 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?
- 1.10 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.
- 1.11 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.
- 1.12 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

- 1.13 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.
- 1.14 In Western Australia, the auditor-general (AG) audits the relevance and appropriateness of the efficiency and effectiveness indicators while in Queensland the AG has discretion to perform an audit of the performance management system.
- 1.15 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 AG reviews the quality of performance information and issues several audit reports. In New Zealand, the AG provides audit opinions 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.

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

- 2.2 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.
- 2.3 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.'*

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

- 2.4 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.'*
- 2.5 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.'*
- 2.6 Other relevant chapters in the MFMA include:
- Chapter 7 – Budget process and related matters
 - Chapter 10 – Municipal entities

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

- 2.7 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.'*
- 2.8 Relevant chapters in the MSA include, but are not limited to:
- Chapter 5 – Integrated development planning
 - Chapter 6 – Performance management

- Chapter 8A – Municipal entities

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

- 2.9 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.'
- 2.10 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.'*
- 2.11 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.'*
- 2.12 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.'

Treasury Regulations

- 2.13 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 A** for the detailed requirements as per the Treasury Regulations.

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

- 2.14 PSR part III B 1(a)-(e) and (g) 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.
- 2.15 PSR part III B.1(f)(i)-(iii), J.1 and J.3 requires that specific and appropriate information systems exist to assist in the monitoring and management of performance information.

Local Government: Municipal Planning and Performance Management Regulations, 2001

- 2.16 Section 120, read with sections 37, 43 and 49 of the MSA, 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

Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006

- 2.17 These regulations detail how the performance of municipal managers will be uniformly directed, monitored and improved.
- 2.18 Regulations 23 and 25 are of particular importance as they require the alignment of the performance agreements for 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 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 determined¹ 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 Treasury²;
 - *Framework for strategic plans and annual performance plans (as from 2012-13)*³; and
 - Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information.

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 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 phasing-in approach to compliance with sections 20 and 28 of the PAA until such time as the environment promotes a state of readiness to provide reasonable assurance in the form of an audit 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.

¹Refer to annual AG Directive

²RP 86/2007 May 2007. Also available on www.treasury.gov.za

³Published by the National Treasury, August 2010, also available on www.treasury.gov.za

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	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
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, the conclusion 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 AG Directive when appointed to audit public entities where the AG has opted not to perform the audit. To assist such auditors in this regard, the Proposed 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 AG Directive. Private sector auditors are required to obtain the latest version of the AG Directive before commencing with a new audit cycle. The latest AG Directive and documentation relating to the directives are available on the AGSA website under the *Technical memos* link.

5: APPLICATION 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	<ul style="list-style-type: none"> • Obtain and document an understanding of the entity's internal control relevant to the performance management systems and processes • Obtain an understanding of the design of the entity's overall performance management systems and processes as well as the relevant controls. • 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
Select programmes or objectives for audit purposes	<ul style="list-style-type: none"> • Material programmes or objectives are selected for auditing against the reliability criteria (accuracy, completeness, validity), considering the following primary drivers: <ul style="list-style-type: none"> (a) Quantitative considerations - relating to the R-value (size) of the programme/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 	N/A

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Performance of the assurance engagement	Objective and short summary	Audit criteria tested
	<p>predetermined qualitative criteria.</p> <ul style="list-style-type: none"> • 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, inputs received are evaluated and the final selection of material programmes or objectives is made. 	
<p>Selected programme or objective level: Risk assessment</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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/other controls related to these processes. • Summarise control risks per audit criteria (validity, accuracy, 	<p>Validity, accuracy, completeness</p>

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Performance of the assurance engagement	Objective and short summary	Audit criteria tested
	completeness) based on the evaluation of the performance management system, operating procedures and processes for each selected programme or objective.	
<p>Selected programme or objective level:</p> <p>Risk assessment</p>	<ul style="list-style-type: none"> • Assess risks of material misstatement at the selected programme/objective level. • Determine whether indicators/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/measures. • Assess whether the controls are designed appropriately (i.e. can it prevent or detect and correct misstatements) and whether it has been implemented (i.e. is the control working as intended throughout the period). • Identify and report on the resulting weaknesses and deficiencies in internal control. • Decide on the nature, timing and extent of further audit procedures. 	<p>Validity, accuracy, completeness</p>
<p>Selected programme or objective level:</p> <p>Analytical review</p>	<ul style="list-style-type: none"> • Analyse the trend in variances between 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. • Identify inconsistencies between planned targets and actual targets reported in the quarterly reports. • Identify inaccurate, incomplete and invalid quarterly performance 	<p>Validity, accuracy, completeness</p>

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Performance of the assurance engagement	Objective and short summary	Audit criteria tested
	<p>information through the identification and analysis of trends from quarter to quarter as well as analysis of the consolidated results at year-end.</p> <ul style="list-style-type: none"> • Inspect supporting evidence regarding significant variances and follow up with management. 	
<p>Overall performance report level: Obtaining audit evidence</p>	<ul style="list-style-type: none"> • 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/corporate plan and the mandate of the organisation. • Assess and review the consistency of objectives, indicators and targets between the strategic/corporate/annual performance plan documents and the budget documents of the organisation. 	<p>Existence, measurability, relevance, consistency</p>
<p>Overall performance report level: Obtaining audit evidence</p>	<ul style="list-style-type: none"> • Assess the consistency of objectives, indicators and targets between the strategic/corporate/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 	<p>Existence, measurability, consistency, timeliness, presentation</p>

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Performance of the assurance engagement	Objective and short summary	Audit criteria tested
	<p>for auditing on time.</p> <ul style="list-style-type: none"> • Assess whether the format of the annual performance report is simple, accessible and useful as per the National Treasury annual report guidance and requirements. 	
<p>Selected programme or objective level: Obtaining audit evidence</p>	<ul style="list-style-type: none"> • If reliance can be placed on controls, test 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. 	<p>Validity, accuracy, completeness</p>
<p>Selected programme or objective level: Obtaining audit evidence</p>	<ul style="list-style-type: none"> • 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 thereof. • The required level of assurance from substantive analytical procedures can only be obtained subject to pre-requisites as documented in the 	<p>Validity, accuracy, completeness</p>

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Performance of the assurance engagement	Objective and short summary	Audit criteria tested
	working paper.	
Selected programme or objective level:	Consists of various working papers of which the objectives are detailed below.	Validity, accuracy, completeness
Obtaining audit evidence	<ul style="list-style-type: none"> • 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 the 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 per 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 is communicated to the auditee and adjustments (where applicable) are made. 	Validity, accuracy, completeness
Selected programme or	<ul style="list-style-type: none"> • All uncorrected misstatements identified for each reported target in relation to the selected indicator/measure are summarised and evaluated 	Validity, accuracy,

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Performance of the assurance engagement	Objective and short summary	Audit criteria tested
<p>objective level:</p> <p>Audit conclusion on reliability of performance information</p>	<p>for misstatements, individually and in aggregate.</p> <ul style="list-style-type: none"> • Misstatements relating to indicators of the selected programme/objective are summarised and evaluated for materiality. • Each selected programme/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/objective. 	<p>completeness</p>
<p>Overall performance report level:</p> <p>Audit conclusion on the usefulness of the performance information</p>	<ul style="list-style-type: none"> • 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. 	<p>Existence, consistency, relevance, measurability, timeliness, presentation</p>

All audit findings are reported in the management and auditor’s report as per the guidance contained in the latest AGSA reporting guidance (*R3 guide*).

REFERENCES

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- Framework for managing programme performance information, issued by the National Treasury, RP 86/2007
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- Green paper: National strategic planning, issued by the Presidency, September 2009
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- 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

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 (AO) must prepare the **strategic plan** that is consistent with the MTEF period for approval by the relevant executive authority.

TR 5.2.1: To facilitate annual discussion of individual votes, the AO 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 AO 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 shareholder's 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 shareholder's compact.

TR 29.2.2: The shareholder's 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 AO 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: Strategic plan to 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 Act.

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.

ABBREVIATIONS

ABBREVIATIONS	
AG	Auditor-general
AGSA	Auditor-General South Africa
IDP	Integrated development plan
IRBA	Independent Regulatory Board for Auditors
ISAE 3000	International Standard on Assurance Engagements (ISAE) 3000: <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>
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