

# Governance and Public Sector Transformation in South Africa

Reporting and Providing Assurance on Service Delivery Information

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## Abstract

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Reporting on performance was legislatively established in South Africa in terms of the *Public Finance Management Act*, Act 1 of 1999, section 40 (3)(a). The auditing of the reported information was legislated in the *Public Audit Act*, Act 25 of 2004, section 20(2) (c). The objectives of the article are firstly to provide an overview of the development and application of the reporting and secondly providing assurance on service delivery information and thirdly to reflect on challenges to the implementation thereof in South Africa. The aim through deploying these set objectives is to formulate possible future considerations for improved governance. As central part of the methodology, review of literature on reporting and audit of non-financial information was conducted. The research included scrutiny of the different philosophies and approaches adopted by different countries to the reporting and providing assurance on service delivery

information. In this respect, the research reflects a comparative element. In South Africa the Auditor-General adopted a phasing-in approach. The development of the audit approach and audit procedures has reached a stable stage, nine years after the initial process started. The audit of performance information now forms an integral part of the regularity audit process. The analysis of audit findings of the period under study indicates a considerable improvement once initiated, but stagnation persists in subsequent years. Numerous challenges remain around the application of performance reporting in South Africa including non-compliance, the lack of sufficient and appropriate audit evidence, inconsistencies between the various strategic documents and the need to improve the usefulness of performance information. In conclusion the article proposes some steps to address the challenges.

**Keywords:** Audit, non-financial information, public sector audit, audit findings and service delivery information.

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## INTRODUCTION

Although governance has been on the radar for the last few decades, recently receiving increasing attention, interest and criticism (Magrane & Malthus, 2010:427; van der Nest 2006:142). The increased focus can be attributed to many factors, including the demonstrated link between governance and its effect on performance and success, along with service delivery issues (Renz, 2010:125). The scandals in the corporate world, including fraud, the abuse of power, governance failures and the evasion of accountability are other factors (Jeavons, 2010:178). Public sector reform, as part of a broader initiative to improve service delivery, decision making, planning, accountability and monitoring in the public sector also received substantial attention, interest and criticism in the past (IFAC 2011; Roos, 2009:10; Radin, 2003:1360; Sawyer, Dittenhofer & Schiener, 2003:198-199).

While governance is a loaded concept (Nyamnjoh & Hagg, 2013:18, 19, 21; Muthien, 2000:361ff and Molomo, 1998:200), the concept of improved governance is intertwined with it.<sup>1</sup> Arguably for good governance and public sector transformation, public sector entities need to have an applied strategy to achieve results and outcomes (Renz, 2010:127). Governance through strategy means gathering information to enable decision making that will contribute to organisational success. Governance also means to assess or evaluate how the entity is performing and make further choices on what needs to be done to become more effective (Parsons, 1995: 23ff).

In the rest of the article, after addressing the objectives and methodology, the latter which includes a literature study with comparative elements, the author will address the South African case and will conclude with some relevant notes for the future.

The intention of this article is not to debate whether the legislative requirement to report and audit information on performance is correct. It is taken as a given that there are legislative requirements on the reporting and audit of non-financial information in South Africa.

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## AFRICA'S PUBLIC SERVICE DELIVERY AND PERFORMANCE REVIEW



*"Africa's Development Watch"*

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<sup>1</sup> For various definitions of and interpretation of governance and its link with service delivery and public policy see Nyamnjoh & Hagg; Molomo and Muthien, Khosa & Magubane. Despite differences on definitions of governance the improvement of governance and service delivery are all assumed by the authors mentioned.

### **RESEARCH OBJECTIVES, METHODOLOGY AND LINKING THE INTERNATIONAL WITH THE NATIONAL**

#### **Research objectives**

Governance consists of different principles (Institute of Directors Southern Africa, 2009:19). This article will focus on the principle of ensuring the integrity of integrated reporting (Institute of Directors Southern Africa, 2009:23) by way of the following three research objectives:

- Providing a brief overview of the development of the reporting and audit of non-financial information in South Africa;
- Providing information on the application thereof in South Africa; and
- Reflecting on challenges to the implementation thereof in South Africa.

#### **Methodology**

Through a literature review of current reporting and auditing applications of non-financial information and supported by empirical evidence obtained from analysing the content of the General Reports of the Auditor-General of South Africa for the period 2003/2004 to 2011/12 the objectives of the research will be achieved.

While the research is exploratory in nature it is meant to investigate whether there has been an improvement in the quality of performance information being reported from the time the information was subjected to audit.

#### **Linking the International with the National**

Before the South African environment is analysed it is important to consider international developments and requirements in this area. One of the many organisations that recognised the importance of reporting on non-financial information was the International Federation of Accountants (IFAC), International Public Sector Accounting Standards Board that issued a consultation paper on *Reporting Service Performance Information* in October 2011 (IFAC 2011). Insights gained from this consultative paper will inform the argument here. The consultation paper utilised numerous inputs and extensive feedback from interested parties to enable the development of a framework for the reporting of service performance information of public sector entities. The reference to service performance information refers to information about services being provided and includes information about the reporting entity that is necessary to demonstrate accountability and to assist in the decision-making process. The afore includes financial and non-financial, quantitative and qualitative information about the achievement of financial and service delivery objectives. The Consultation Paper also analysed existing approaches to reporting on service performance information used by public sector entities around the world (26

jurisdictions are listed in Appendix A of the Consultation Paper) and this is further discussed in the section on the *Different countries' philosophies and approaches to the reporting and audit of non-financial information*.

This article also explores some of the differences in philosophies and approaches of other countries in order to be able to possibly map a trend and help identify some of the challenges and formulate possible future considerations for governance in South Africa. This could contribute towards a more complete and informative collage.

Different countries adopted different philosophies and approaches to the reporting and audit of non-financial information (IFAC 2011). One of the interesting deductions made when an analysis<sup>2</sup> was made of the commentary received from respondents, indicated in Figure 1 on the next page, was that the majority of respondents were not in favour of the IFAC providing authoritative guidance requiring public sector entities to report service performance information. In a ratio of 9:8 entities preferred non-authoritative guidance for those public sector entities that choose to report service performance information; or authoritative guidance requiring public sector entities that choose to issue a service performance report to apply the guidance.

The following section explores some of the differences in philosophies and approaches adopted in some jurisdictions worldwide for the reporting and audit of non-financial information/service performance information before the South African context will be further analysed.

### **Different Philosophies and Approaches to the Reporting and Audit of Non-Financial Information**

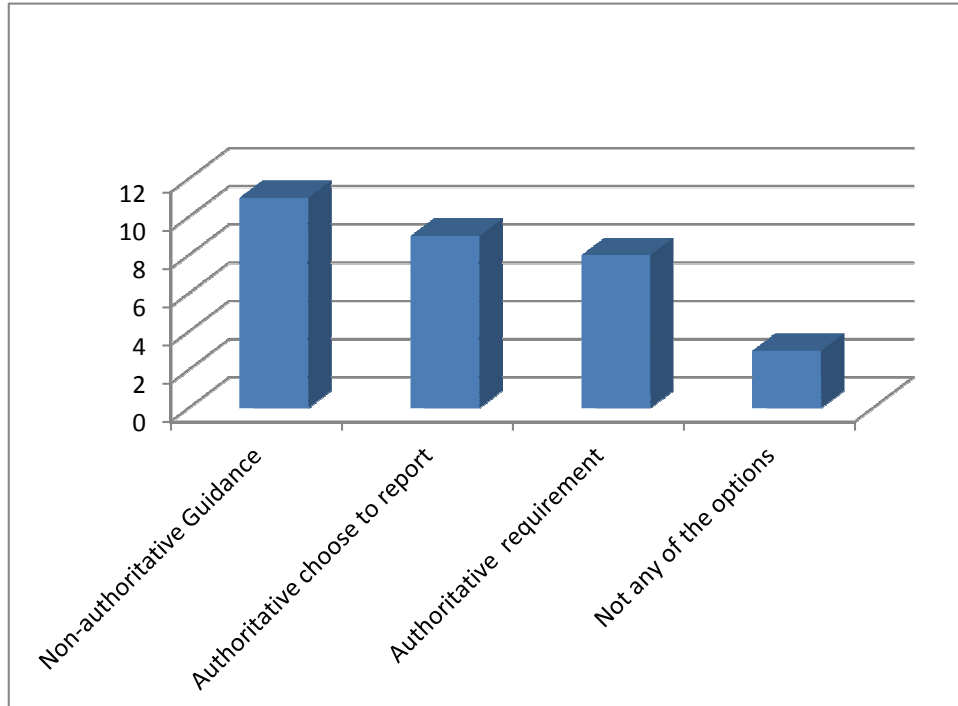
The analysis by the IFAC International Public Sector Accounting Standards Board revealed different jurisdictions have their own approaches to managing public sector performance and reporting, thereon varying from country to country (IFAC 2011). The public sector entities also have different objectives for the services they deliver, and as a result would consider different indicators to be relevant. The Public Sector Accounting Standards Board suggested in the Consultation Paper that specific indicators of service performance within the framework would not be identified or prescribed, and all but two respondents (8%) agreed with this suggestion.

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<sup>2</sup> Comments by respondents on the Consultation Paper are published on the IFAC website at <http://www.ifac.org>. An analysis of 33 of the responses was completed by the researcher. Respondents were from different jurisdictions and various organisations and interest groups including, but not limited to, Accounting Standards Boards of different countries, Treasuries, Auditor-Generals, Ministries, Institutes of Chartered Accountants and Registered Accountant firms.

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**Figure 1: Preference for type of guidance on the reporting of service performance Information**



With the increased focus on performance information as part of governance, the importance of the quality of the information is also under the spotlight. One of the methods of ensuring the quality of performance information is for the auditors to provide assurance that the performance information provided by government can be trusted, with the main objectives being to increase accountability and to ensure the credibility of the information. Over the past several decades audit offices around the world have moved from carrying out audits on finances alone to a wide range of audits, including providing assurance on performance reports produced by governments (Leclerc, Moynagh, Boisclair & Hanson, 1996:228). This was necessitated by, amongst others, public sector reform and the need to provide better information on what government programmes were accomplishing.

Different philosophies and approaches for the audit of non-financial information have been adopted in different countries (Radin, 2003:1360). Only a limited number of Auditors-General provide assurance on performance information. In Western Australia, the role of the Auditor-General is described in the Audit Practice Statement to include "...perform an audit of key performance indicators adopted by public sector agencies and assess whether they are relevant, appropriate and fairly represent agency

performance ... evaluate the efficiency and effectiveness of public sector agencies' services and programs" Office of the Auditor-General Western Australia (2013:3). In 1989 New Zealand passed legislation which required the auditing by the Auditor-General of "statements of service performance" prepared by central and local government agencies. Under specific regulations, the Swedish National Audit Office has provided opinions on the performance information in agency annual reports since the 1995-96 financial year. Reflecting on the development of performance reporting in Canada indicates that the first annual report on performance and accountability was released in 1995 (CCAF 2008(a)). Since 1997 the Canadian government has created three service agencies. The government included in its legislation the requirement for the Auditor-General to provide an assessment of the fairness and reliability of the performance information in the annual report in relation to the corporate objectives of its corporate plans.<sup>3</sup>

The application section of this article will discuss the progress/lack of progress in the quality of the performance information in South Africa from the time the Auditor-General started auditing performance information in South Africa.

### **Overview of the Development of the Reporting and Audit of Non-Financial Information in South Africa**

Reporting on performance other than financial performance was legislatively established in South Africa in terms of the *Public Finance Management Act*, Act 1 of 1999. Section 40 (3)(a) of the PFMA requires accounting officers to annually report on the performance of the entity against predetermined objectives. As part of the legislative accountability framework, performance reports are primarily used by legislature to assess the success of service delivery that has utilised funds that have been approved by the legislature. Although performance information is reported publicly in the annual report, the performance information process begins when policies are developed and continues through each of the planning, budgeting, implementation and reporting stages. In South Africa the widely accepted terminology is performance information (Framework for Managing Programme Performance Information, 2007:3) or reporting against pre-determined objectives (Guidance for Auditing in the Public Sector, 2012:9).

In 2007 the Framework for Managing Programme Performance Information was released by National Treasury, South Africa. According to this framework cabinet initiated plans in 2004 for a monitoring and evaluation system and the presidency subsequently developed the government-wide Monitoring and Evaluation Framework. There are three components: Programme performance information; Social, economic

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<sup>3</sup> A detailed comparison of the practices within different countries is indeed valuable (Roos 2009: 47, 53)). Given the scope of the article it is not possible. It remains however, an area of potential valuable future research.

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and demographic statistics; and Evaluations. The framework includes a set of agreed terms for performance information to be used in the public sector (2007:3).

The legislative requirements in South Africa are not limited to reporting on performance. The auditing of the reported information was legislated in the *Public Audit Act, Act 25 of 2004*, section 20(2)(c). The audit report is to reflect an opinion on the reported information relating to the performance of the auditee against pre-determined objectives. The scope of the requirements includes the national, provincial and local spheres of government.

The Auditor-General in South Africa anticipated the possible inclusion of the requirement to audit non-financial information and pro-actively developed the first strategy for the audit of pre-determined objectives in 2003. The directive issued by the Auditor-General in 2011 in terms of the *Public Audit Act, Act 25 of 2004* (paragraph 5) indicates the Auditor-General will include the conclusion on performance against predetermined objectives in the report to management until such time as the environment was in a state of readiness to provide reasonable assurance in the form of an audit conclusion.

### **Application – Audit Procedures in South Africa**

The Auditor-General in the audit outcomes reports indicated the audit procedures as part of the phasing-in approach for the audit of performance information focused more on the existence and quality of the reported information (2003:36) (2004:17). Thereafter the audit procedures progressed to also include testing the significant systems used by the audited entity to collate, record, and process the actual performance information. These systems are reviewed during the audit by means of identifying, documenting and testing the relevant controls in the system to ensure that the inputs, processing and reporting of actual performance is valid, accurate and complete. The existence of adequate evidence or source documentation to verify the reported performance information is also confirmed for selected indicators and targets (2006:24) (2007:5). The development of the audit approach and audit procedures has reached a stage of stability nine years after the initial process started, and the audit of performance information now forms an integral part of the regularity audit process (Guidance for Auditing in the Public Sector, 2012:16) .

One of the challenges for reporting and auditing performance information is the selection of suitable criteria. The challenges experienced by those preparing the information can be appreciated if the different responses to the IFAC Consultation paper are analysed. The International Framework on Assurance Engagements describes criteria as the benchmarks used to evaluate or measure the subject matter. It further states that criteria can be formal, IFRS, IPSAS, an established internal framework or individual control objectives, or less formal, for example an internally developed code of conduct or an agreed level of performance. Suitable criteria are required for consistent evaluation or measurement of a subject matter within the context of professional judgement. The

characteristics of suitable criteria are described as relevance, completeness, reliability, neutrality and understandability (IFAC 2005).

According to the International Framework on Assurance Engagements, criteria can be established or specifically developed. Established criteria are embodied in laws and regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process. The Framework for Managing Programme Performance Information issued by National Treasury prescribes the criteria to be used for preparing performance indicators (2007:7) and targets (2007:10). Indicators need to be reliable, well defined, verifiable, cost-effective appropriate and relevant (2007:7) and targets must comply with the SMART principles namely specific, measurable, achievable, relevant and time-bound (2007:10).

In South Africa the *Public Audit Act*, Act 25 of 2004, section 13(1)(a) allocates the power to determine the standards to be applied in performing audits to the Auditor-General. The standards adopted by the Auditor-General for the audit of performance against pre-determined objectives is the International Standard on Assurance Engagements (ISAE) 3000 *Assurance engagements other than audits or reviews of historical financial information*. The directive issued by the Auditor-General in 2011 in terms of the *Public Audit Act*, Act 25 of 2004 (paragraph 6) describes the Performance Management and Reporting framework to consist of applicable laws and regulations; the Framework for the Managing of Programme Performance Information, and circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against pre-determined objectives. The table on the next page reflects the criteria currently used by the Auditor-General to audit performance against pre-determined objectives.

An analysis of the audit procedures described in the Auditor-General audit outcomes reports indicate the progress in the nature, extent and scope of audit procedures as part of the phasing-in approach. For the 2005/2006 financial year the focus was mainly on existence (if reporting on pre-determined objectives took place), consistency between planning information and reported information and the report and presentation in the annual report (2006:16). For the 2007 financial year more emphasis was placed on internal controls relating to performance information and the Auditor-General started auditing the information sources or supporting evidence for the reported performance information (2007:5) The procedures for auditing the performance information for the 2008 financial year were similar to those of the previous year, but with more emphasis on internal policies, structures and processes relating to the management and reporting of performance information (2009:214). For the 2009 financial year the same audit procedures were followed with additional procedures focusing on the validity, accuracy and completeness of reported performance information (2009:86). In the 2010 financial year auditors had to obtain sufficient appropriate audit evidence as part of a systematic audit process and carry out substantive procedures as well as testing of the operational effectiveness of controls to be able to provide a level of reasonable assurance (2011:43).



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**Table 1: Auditor-General criteria used for the audit of pre-determined objectives**

Main criteria	Sub-criteria	Explanation of audit criteria
<b>Compliance with legislative requirements</b>	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.
<b>Usefulness<sup>4</sup></b>	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 <sup>5</sup>	The indicators/measures relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives.
	Consistency	Objectives, indicators and targets must be consistent between planning and reporting documents.
<b>Reliability</b>	Validity	Actual performance reported has occurred and pertains to the entity.
	Accuracy	Amounts, numbers and other data relating to actual performance reported has been recorded and reported appropriately.
	Completeness	All actual results and events that should have been recorded have been included in the annual performance reports.

Source: *Guidance for Auditing in the Public Sector Vol. 1 (pp. 94-95) issued by Independent Regulatory Board for Auditors (IRBA) and Auditor-General South Africa.*

<sup>4</sup> According to the IRBA and Auditor-General Guide "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](http://www.intosai.org)).

<sup>5</sup> The explanation of the criteria for relevance was changed after the publication of the Guidance and the current explanation is reflected in the table.

Initially a separate opinion on performance against predetermined objectives was not included in the audit reports. Conclusions on performance reporting were reached as part of the financial audit process, and reporting on material shortcomings in the process of reporting against predetermined objectives was contained in the “emphasis of matter” section of the audit reports, then included in the “other reporting responsibilities” section of the audit report.

The results of the audit procedures are an indicator of the level of maturity in the adoption of management procedures to ensure the quality of the non-financial information produced. The following section describes the results of the audit procedures by the Auditor-General included in the General Reports of the Auditor-General on audit outcomes for the period 2004 to 2012.

### **Application in South Africa – Results of Audit Procedures**

The sources used to reflect on the application of non-financial auditing in South Africa are the General Reports of the Auditor-General for the period 2003/2004 to 2011/12. Table 2 reflects the results of the audit of performance information starting from 2003-2004 until the end of 2005-2006. The information shows a substantial improvement from 2003 to 2006 in all the criteria reflected in Table 2, except for the agreement between Annual Report, Estimates of National Expenditure and the Strategic Plan (consistency), and the reporting of actual performance for each measure/indicator in the planning documents (consistency). In 2003-2004, for Criterion 1, it was reported that 58% of the departments’ information was consistent with their strategic documents. In the following year the percentage declined to 39%, while in the 2005-2006 year the reported consistency reached 71%. The lower percentage in 2004-2005 can be ascribed to the fact that it was the first year that the consistency procedures were required to include comparisons with the Strategic Plan (Auditor-General 2005). Previously the consistency test was limited to the Annual Report and the Estimates of National Expenditure. This could also explain the lower percentage reported in 2004-2005 for the requirement that actual performance should be indicated for each measure/indicator (Criterion 8). Actual information reported was compared to planned information contained in the Estimates of National Expenditure as well as the Strategic Plan, whereas previously consistency was tested only between the Estimates of National Expenditure and the Annual Report (Auditor-General 2005; Roos 2009:100).

The findings by the Auditor-General provide an indication of the non-compliance with legislative requirements and weaknesses in the quality of performance information being reported. The most prevalent findings in 2006-07 include non-compliance with regulatory requirements, a lack of sufficient supporting evidence for the performance information being reported and non-alignment between the planning, budgeting and actual reporting information (Roos, 2009:103). In the 2009-2010 Western Australia Auditor-General’s Report, similar findings were reported. These include the need to improve data collection, integrity and verifiability of the data. (2010:17).

Table 2: Auditor-General SA findings on performance information for the period 2003-2004 to 2005-2006

Criterion	2003-2004 year	2004-2005 year	2005-2006 year
Agreement between annual report, ENE and strategic plan	58% of departments' information aligned	39% of departments' information aligned	71% of departments' information aligned
Objectives should be formulated to be specific	0% of departments' objectives were specific	71% of departments' objectives were specific	88% of departments' objectives were specific
Level of performance is measurable	12% of departments' level of performance were measurable	71% of departments' objectives were measurable	79% of departments' objectives were measurable
Objectives should be formulated to be time-bound	0% of departments' objectives were linked to time	61% of departments' objectives were linked to time	71% of departments' objectives were linked to time
Sub-programmes are grouped together so that the outputs contribute to a single measurable objective for the programme	77% of departments' sub-programmes were grouped together and contributed to a single objective per programme	82% of departments' sub-programmes were grouped together and contributed to a single objective per programme	86% of departments' sub-programmes were grouped together and contributed to a single objective per programme
Measurable objectives and performance indicators should be consistent from one reporting period to the next	Information not available	39% of the objectives/indicators were consistent from one period to the next	39% of the objectives/indicators were consistent from one period to the next
Presentation should be straightforward and meaningful and should not be fragmented	59% of departments' information presented in a straightforward and meaningful manner	79% of departments presented information in a straightforward and meaningful manner	86% of departments presented information in a straightforward and meaningful manner
Actual performance should be indicated for each measure /indicator	65% of departments indicated actual performance for each measure/indicator	43% of departments indicated actual performance for each measure/indicator	68% of departments indicated actual performance for each measure/indicator
Reasons for differences between planned and actual performance should be explained	0% of departments provided reasons for or explained differences	32% of departments provided reasons for or explained differences	54% of departments provided reasons for or explained differences

Source: *General Report of the Auditor-General on audit outcomes for the financial years 2003-04* (pp. 17-23), *2004-05* (pp. 14-23), *2005-06* (pp. 15-24).

Due to the Auditor-General in South Africa making changes to the report formats that came into effect in 2006-2007, it is not possible to compare all the criteria used for audit purposes for the entire period. However, the high compliance percentages reported in 2006-2007 (Table 3) (the inverse of the non-compliance percentages stated here) indicate a high level of compliance with National Treasury Guidelines, and was recognised as such by the Auditor-General (Roos 2009:102).

For the 2006-2007 year the Auditor-General changed the format of reporting and the findings and frequency of occurrence thereof were reported in the General Report and are included in Table 3.

**Table 3: Auditor-General SA findings on performance information for the period 2006-2007**

Key findings arising from the auditing of performance information	
The percentage of entities that did not report on all the predetermined objectives	15%
The percentage of entities for which the content of their corporate/strategic plans did not include objectives and outcomes, nor key performance measures and indicators for assessing their performance in delivering the desired outcomes	9%
The percentage of entities that did not prepare quarterly reports on progress in achieving measurable objectives and targets throughout the period (reports required to facilitate effective performance monitoring, evaluation and corrective action)	9%
The percentage of entities for which the measurable objectives reported in the annual reports were materially inconsistent with their predetermined objectives as recorded in the strategic plan	9%
The percentage of entities for which objectives were reported in the annual report in spite of not being included as predetermined objectives in their strategic plans and/or budgets	9%
The percentage of entities that could not furnish sufficient appropriate audit evidence to validate performance information	3%
The percentage of entities with systems not adequate to generate the required information	12%
The percentage of entities for which the evidence provided in support of the performance information reported in their annual reports was inadequate or materially inconsistent with the reported information	18%
The percentage of entities that did not provide their performance information in time for audit purposes	3%

Source: *General report of the Auditor-General on the audit outcomes of national and provincial departments, public entities and constitutional institutions for the financial year 2006-07*, pp. 46-47.

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**Table 4: Auditor-General SA's findings on performance information for the period 2007-2008 for the Education Sector**

Key findings arising from the auditing of performance information	National Departments	Eastern Cape	Free State	Gauteng	KwaZulu Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Non-compliance with regulatory requirements		X	X			X		X		
Measurable objectives not consistent		X				X	X	X	X	X
Objectives reported in annual report, but not predetermined as per the strategic/corporate/annual performance/ integrated development plan and/or budget			X			X	X	X		X
Lack of sufficient and/or appropriate audit evidence		X	X			X	X	X	X	X
Evidence materially inconsistent with reported performance information		X	X		X	X	X			X
Performance information not received in time			X					X		
Changes to planned performance information not approved			X					X	X	
Deficiencies in controls and monitoring of performance information			X		X			X	X	

Source: *National general report of the Auditor-General on the outcomes of Departments, Constitutional Institutions, Public Entities and other entities for the financial year 2007-08*, p. 67.

**Table 5: Auditor-General SA's findings on performance information for the period 2007-2008 for the Health Sector**

Key findings arising from the auditing of performance information	National Departments	Eastern Cape	Free State	Gauteng	KwaZulu Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Non-compliance with regulatory requirements		X		X						X
Measurable objectives not consistent		X		X	X			X	X	
Objectives reported in annual report, but not predetermined as per the strategic/corporate/annual performance/integrated development plan and/or budget		X		X					X	
Lack of sufficient and/or appropriate audit evidence		X		X			X	X	X	X
Evidence materially inconsistent with reported performance information			X				X			X
Performance information not received in time										X
Changes to planned performance information not approved										
Deficiencies in controls and monitoring of performance information		X		X					X	X

Source: National general report of the Auditor-General on the outcomes of Departments, Constitutional Institutions, Public Entities and other entities for the financial year 2007-08, p. 69.

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For the 2007-2008 year, the Auditor-General moved away from reporting on percentages and combined the results of the audit of national and provincial departments. The Auditor-General reported in the 2007-2008 year that for most criteria the percentage of compliance with guidelines was the same as, or was an improvement on the previous year. Areas of concern were still the lack of sufficient and appropriate audit evidence, and the inconsistencies between the various strategic documents as indicated in Tables 4 and 5 below. The Auditor-General also indicated in the 2007-2008 National Report that there was a need to develop clear and more concise performance indicators to improve monitoring and control of performance (Roos 2009:103).

Tables 4 & 5 indicate the occurrence of non-compliance in national departments and within provinces in the education and health sectors.

Table 6 below shows the results of the audit of performance information by the Auditor-General for the 2008-09 and 2009-10 financial years:

**Table 6: Auditor-General SA's findings on performance information for the period 2008-09 and 2009-10**

<b>Category of finding</b>	<b>Departments 2009-10</b>	<b>Departments 2008-9</b>
Non-compliance with regulatory requirements	56%	44%
Information on performance against pre-determined objectives not useful	53%	47%
Information on performance against pre-determined objectives not reliable	29%	45%
Information on performance against pre-determined objectives not submitted for audit by the deadline	3%	6%

*Source: National general report of the Auditor-General on the outcomes of Departments, Constitutional Institutions, Public Entities and other entities for the financial years 2008-2009 and 2009-2010.*

The pattern for the 2007-2008 seems to continue for 2008-2009 and 2009-2010 including non-compliance with regulatory requirements and information not being useful (specific, measurable, and relevant). Although the lack of sufficient and appropriate audit evidence to ensure information is reliable was still a problem at 29% in 2009-2010, a significant improvement from the 45% reported in the previous year was reported. From 2009-2010 a separate audit conclusion based on the results of the audit was included in the management report but not in the auditor's report.

**Table 7: Auditor-General SA's findings on performance information for the period 2009-10 and 2010-2011**

Category of finding	Departments 2010-11	Departments <sup>6</sup> 2009-10
Non-compliance with regulatory requirements	36%	56%
Information on performance against pre-determined objectives not useful	54%	63%
Information on performance against pre-determined objectives not reliable	41%	29%

Source: *National general report of the Auditor-General on the outcomes of Departments, Constitutional Institutions, Public Entities and other entities for the financial years 2009-2010 and 2010-2011.*

For the 2010-2011 year, the Auditor-General included a section in the national outcomes report indicating the overall findings arising from the audit of pre-determined objectives, including specific comments on various departments, recommendations on the way-forward and an assessment of drivers of internal control over reporting on pre-determined objectives. The following table reflects the overall findings.

The Auditor-General's report indicated that the main findings in the area of non-compliance relate to a lack of effective, efficient and transparent systems and internal controls. The increase in the number of findings for usefulness can be attributed to the departments having difficulty in developing targets that are specific and measurable. The increase in non-reliability related specifically to the lack of evidence to support the information reported in the annual performance report.

The situation remains similar when the 2011-12 audit results are analysed. Only 14% of the auditees with findings on pre-determined objectives showed an improvement. Of the total entities, 40% still have reported findings on pre-determined objectives compared to 45% for 2010-11. The areas of findings include non-compliance with legislation relating to strategic planning, performance management and reporting (12%) and material adjustments made to annual performance reports (16%). The Auditor-General reported that 42% of the entities reported 80% or less of planned targets achieved. This could be an indication that targets set are not realistic and achievable or inadequate monitoring to identify challenges with implementation and to take the necessary early corrective steps. Findings on the criteria of usefulness and reliability of information for departments indicate that repeat findings and new findings exceed previous findings addressed by more than 50%. (Auditor-General 2013:11).

In the United Kingdom five areas of best practice to strengthen performance management capacity were identified as robust and reliable internal data reporting,

<sup>6</sup> It is possible that the previous year's figures were re-stated to include audits finalised since the previous general report was issued.



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strong leadership, clear accountabilities, performance review combining challenge and support and transparent rewards and sanctions (HM Treasury Cabinet Office 2004:2). An important consideration would be to decide on the actions and interventions that should be taken in case of non-performance in terms of timely, regular and reliable performance data (HM Treasury Cabinet Office 2004:2). The following section incorporates some recommendations for the South African context.

### **Conclusion, Recommendations and Areas for Future Research**

The analysis of audit findings demonstrated above indicate a considerable improvement in performance information being reported within the first three years after the Auditor-General started with the audit process in South Africa. In the subsequent two years, there was improvement in compliance to legislation, but in succeeding years it seems that improvement was either very slow or almost stagnated. The Auditor-General continued to report on non-compliance, the lack of sufficient and appropriate audit evidence, the inconsistencies between the various strategic documents and the need to improve the usefulness of performance information (specific, measurable, and relevant).

The previous section on application indicates that there are still numerous challenges facing the application of performance reporting in South Africa. Some of the areas that need attention, some of which were also included as part of the observations and recommendations by the Auditor-General, are:

- Proper oversight by ministers, portfolio committees, audit committees, accounting officers and authorities.
- Leadership setting the right tone by taking ownership and drive commitments to improvements.
- Implementation of a system for managing performance information in the entities. This will assist with compliance of regulatory requirements. The Framework for Managing Programme Performance Information lists the elements of such a management system to include:
  - Documentation;
  - Appropriate capacity to manage performance information;
  - Appropriate systems to collect, collate, verify and store the information;
  - Consultation processes that ensure the information needs of different users are taken into consideration when specifying the range of information to be collected;
  - Processes to ensure the information is appropriately used for planning, budgeting and management within the institution.

- Development of policies and procedures to guide entities on planning, monitoring and reporting, including the roles and responsibilities within its organisational structure.
- Implement proper record-keeping procedures suitable to local conditions.
- Monitor effective implementation of corrective actions taken through periodic review and monitoring of the status of key controls.
- Incorporate reporting on performance in the risk management process.
- Use of internal audits to verify the adequacy of systems and supporting documentation.
- Increased practical guidance, training and support by National Treasury to improve the quality of performance information being reported. Areas of guidance to include performance information being useful and easily understood by non-specialist readers and setting targets on a sound basis.
- Quality control to ensure quarterly report and annual report information is accurate and complete and the reasons for variances are explained and followed up.
- Quality control to ensure consistency between planning and reporting documents.
- Making annual reporting about performance easily understood by non-specialist readers.
- Establish a forum for public sector entities to share information and learning about performance information.

An analysis needs to be done to determine what the causes of the high percentage of lack of compliance, usefulness of information, and non-reliability in the audit findings are and whether they reflect on the capacity of the auditees to report on their performance, or a general unwillingness among the auditees to comply with the Treasury regulations on performance information. Similar research analysing the results of audits in local government needs to be completed. Further research on the leadership styles to effect improvements is an imperative.

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