PERFORMANCE AUDITING IN THE PUBLIC SECTOR

BENEFITS AND CHALLENGES
PRESENTATION OUTLINE

- INTRODUCTION
- MANDATE OF INTERNAL AND EXTERNAL AUDITORS
- SCOPE AND OBJECTIVES OF PERFORMANCE AUDIT
- DIFFERENCES BETWEEN PERFORMANCE AUDIT AND TRADITIONAL INTERNAL AUDITING
- BENEFITS AND CHALLENGES OF PERFORMANCE AUDIT IN THE PUBLIC SECTOR
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What is Performance Audit?
DEFINITIONS OF PERFORMANCE AUDIT

Performance auditing is an independent auditing process aimed at evaluating the measures instituted by management or the lack of these measures to ensure that:

- Resources have been acquired economically;
- and
- Utilised efficiently and effectively.

Source: South African Institute of Chartered Accountants (SAICA)
MEASURES generally fall under categorises namely:- Policy or policy making, Planning, Organising, Coordinating and Monitoring. An example could be refuse collection. Management at the City Councils are responsible for putting in place measures to ensure that refuse is removed once a week in order to ensure health environments. These measures would include timeous recruitment of sufficient staff, procurement of vehicles, refuse bins; keeping vehicles in good running order and conducting regular inspections to monitor whether refuse is indeed removed once a week from each dwelling.
Performance Auditing can also be defined as:

“An independent examination of the efficiency and effectiveness of government undertakings, programs or organisations, with due regard to economy, and the aim of leading to improvements”.

Source: International Organisation of Supreme Audits Institutions (INTOSAI)
Performance audit is simply an audit of sound financial management, namely of the economy, efficiency and effectiveness with which audited entities have carried out their responsibilities.
Performance Audit invariably is referred to as Value-for-money audit or Operational audit.

Performance Audits = Value for Money Audit = Operational Audits
The Public Finance Act No. 15 of 2004, provides legislative support for internal and external auditors in the public sector to conduct performance audits in MPSAs.
Section 11 (2) (c) of the Public Finance Act, 2004 provides that: “…… internal auditors may investigate whether there are adequate measures and procedures for the proper application of sound economic, efficient and effective management of public funds”.
• Section 45 (1) of the Public Finance Act, 2004, empowers the Auditor General to “carry out performance and specialised audits in a Ministry, Government department or statutory corporation as the Auditor General may consider necessary and shall prepare a report on the audit for submission to the National Assembly”.

It is worth noting that sections 7 (3) (e) and 9 (2) (b) of the Public Finance Act, 2004 repose upon controlling officers and accountants, respectively, a duty to ensure efficiency, economy and effectiveness in the management of resources.
Performance audit in the public sector takes place in an environment where it is the responsibility of the management of a given MPSA to institute measures to:

- Acquire **resources** of the right quality, in the right quantity, at the right time and place at the lowest possible cost (*Economy*);
Achieve the optimal relationship between output of services or other results and the resources used to produce them (*Efficiency*); and

Achieve policy objectives, operational goals and other intended effects (*Effectiveness*).
Performance audit is anchored on three pillars referred to as the 3 E’s: Economy, Efficiency, and Effectiveness.
The primary objective of performance audit is threefold: It has to confirm independently that adequate measures exist to:

- Ensure that the above stated standards for economy, efficiency, and effectiveness are achieved.
Provide management with information on adequate and inadequate management measures by means of a structured reporting process

Explain the effect or impact of the management measures
Management measures (Causes)

Apart from examining aspects of economy, efficiency and effectiveness, performance audit also looks at whether management measures are in place or that are inadequate for ensuring attainment of the 3 E’s.
Therefore, performance audit would ensure that the reasons for inadequate management measures or the causes for the ineffectiveness, inefficiency and uneconomical procurements be identified.

This provides an opportunity for improvements where necessary.
Effects or Impact

The scope of performance audit also includes assessment of the effects or impact of management measures on the 3E’s, followed by recommendations for corrective measures. It is necessary to determine what the effects or impact of the inadequate management measures were on service delivery (that is, if refuse removal did not always take place, a health risk to the community would result).
DIFFERENCES BETWEEN PERFORMANCE AUDITING AND TRADITIONAL AUDITS

<table>
<thead>
<tr>
<th>Audit Component</th>
<th>Performance Auditing</th>
<th>Internal Auditing</th>
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<tbody>
<tr>
<td>Objective</td>
<td>To evaluate management measures in order to ascertain achievement of the 3 E’s</td>
<td>To assess compliance, risk management, governance and controls</td>
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<tr>
<td>Focus</td>
<td>Mainly programmes, projects, systems or activities; specific attention is directed management measures associated</td>
<td>Risk management processes, governance and controls.</td>
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<td>Audit Criteria</td>
<td>• Usually more subjective but often based on best/better practices which represent “good management”. • Varies from audit to audit</td>
<td>• Relatively fixed and usually predefined e.g. by legislation                          • Compliance with prescript and all types of legislation tested.</td>
</tr>
<tr>
<td>Methodology</td>
<td>Symptom - based</td>
<td>Risk - based</td>
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Performance audit in the public sector provides the Government with an avenue to demonstrate to the public whether it has fulfilled its responsibilities with regard to accountability of resources.
Performance Audit, therefore, helps in holding implementers of Government programmes accountable for the economic, efficient and effective discharge of programmes.

This may promote better public service delivery while enhancing public accountability and management.
Benefits of Performance Audit......

Benefits of performance audits in the public and private sectors are generally similar, although in the private sector focus is largely on improving efficiency and effectiveness of operations in order to maximise profits and value to shareholders.
More specifically, in the public sector, benefits of performance audit may include the following:

- Helps in the identification of problem areas, including factors that cause problems. This helps in finding alternative solutions, that is, through recommendations for improvements to policies, procedures and structure which could help in reducing wastage and inefficiencies;
Helps in evaluating performance of individuals and departments or sections in an organisation. Evidently, performance audits assist in obtaining a critical view of compliance with legal requirements, policies, objectives and procedures;
Helps citizens obtain insight into the management of different government programmes and activities.

Performance audits may serve as a basis of decisions on future funding and priorities.
CHALLENGES OF PERFORMANCE AUDIT IN THE PUBLIC SECTOR

Implementing performance audits in the public sector has generally come with a number of challenges, given that this type audit is relatively new. The major pitfall of conducting performance audits in the public sector arise from the following salient issues:-
Outputs and outcomes are hard to identify and measure especially in the short term.
National plans may not be linked to strategic plans for Ministries, Provinces and Spending Agencies. Consequently, outputs and outcomes are hard to identify and measure.

Budgetary constraints in the sense that programmes and activities may not be fully implemented due to either inadequate or lack of funding.
While the auditor general has been regularly conducting performance audits, internal auditors on the other hand has not been carrying out such audits. The major challenges faced by internal audit in this regard include, among others, the following:-

i) Inadequate staffing;
i) Lack of expertise to thoroughly conduct performance audits; and

i) Lack of guidelines on how to conduct performance audits. The fact that performance audits are also conducted by internal audit functions affiliated to Institute of Internal Auditors, it is therefore a requirement that they be conducted in line with the International Professional Practices Framework issued by the IIA (IPPF).
CURRENT POSITION AND WAY FORWARD

Notwithstanding the challenges, Internal Audit Department aspires to conduct performance audits in Ministries, Provinces and Spending Agencies in line with the Department’s strategic plan. The department, therefore, has embarked on a number of reforms to meet this objective.
Notably, the department is seeking to revise the structure in order to increase staffing levels from the current staff establishment of 264 internal auditors countrywide.

The department further intends to train auditors in Performance audit so as to empower them with necessary skills.
The department further intends to ensure that performance auditing manual and guidelines be developed in order to align with the International Standards for the Professional Practices of Internal Audit.
CONCLUSION

Resource constraints faced by Government in general, underlie the necessity for Performance Audits as a means to help government to prioritise programmes and ultimately provide quality service delivery.

Therefore, the need for Performance Audits in the Public Sector can not be over emphasised.
THE END!