

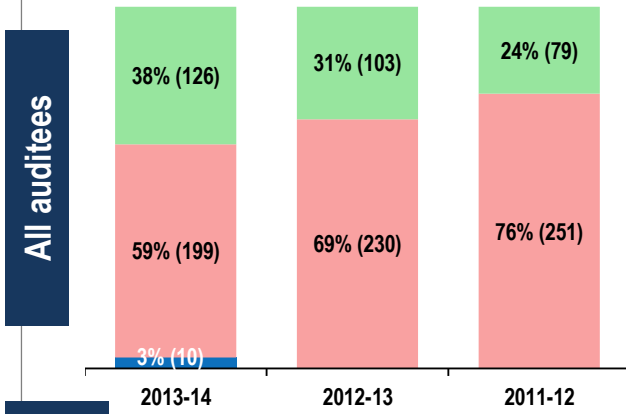
**4**

## **The status of performance management**

### **Back-to-basics:**

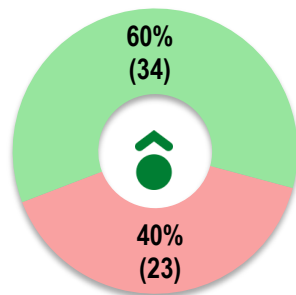
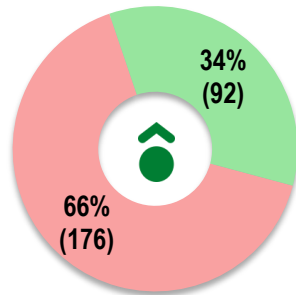
Create conditions for decent living by consistently delivering municipal services of the right quality and standard

Figure 1: Three-year trend – findings on annual performance reporting



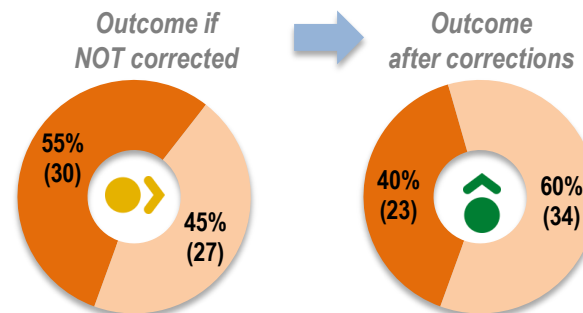
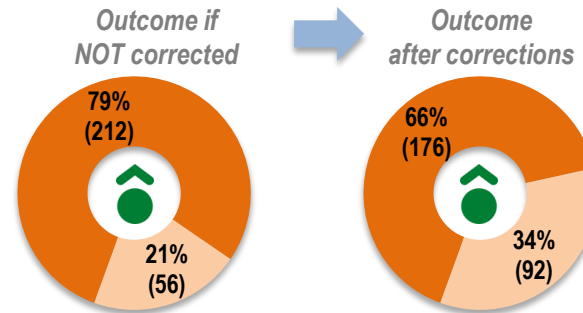
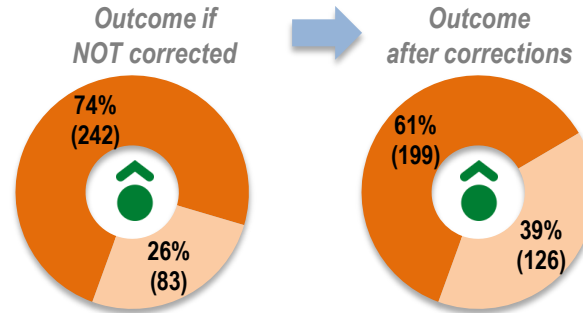
All auditees

Municipalities (268 completed audits)



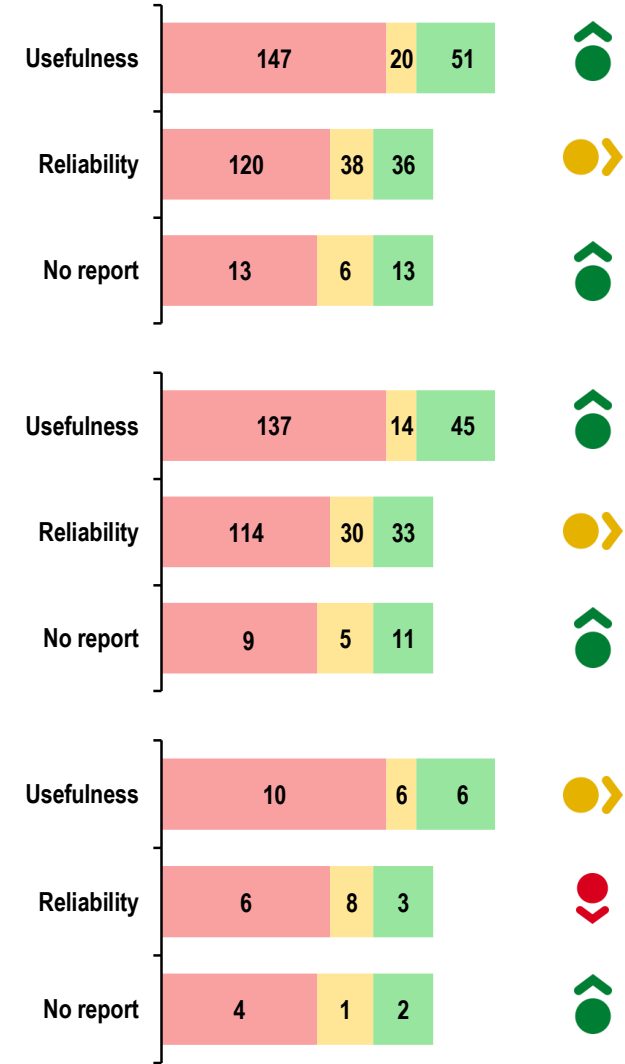
With no findings    With findings    Outstanding audits

Figure 2: Quality of annual performance reports submitted for auditing (completed audits)  
(43 auditees (13%) [2012-13: 28 (8%)] avoided findings due to the correction of material misstatements during the audit process)



No material misstatements    Material misstatements

Figure 3: Findings on the lack of performance reports as well as the usefulness and reliability of annual performance reports (completed audits)



Finding addressed    New finding    Repeat finding

## 4.1 Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives as defined in their IDPs and/or annual SDBIPs, and to report on this in their APRs.

On an annual basis, we audit selected objectives to determine whether the information in the APRs is useful and reliable to enable the council, public and other users of the reports to assess the performance of the auditee. The objectives we select are those that are important for the delivery by the auditee on its mandate. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of these users.

As part of the annual audits, we audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees' planned objectives as defined in their IDP and/or SDBIP. We also assessed whether the performance indicators and targets that were set to measure the achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We further audited the **reliability of the reported information** by determining whether it could be traced back to the source data or documentation and was accurate, complete and valid.

### *Status of, and movement in, audit outcomes*

Figure 3 shows that 19 auditees did not prepare APRs, which is an improvement from the 26 in the previous year. These auditees included the following:

- Northern Cape (eight): Thembelihle did not prepare a report this year, while Pixley Ka Seme District and Khai-Ma, Kareeberg, Siyathemba, Ubuntu, Kgatelopele and Mier also did not prepare a report in the previous year.
- Eastern Cape (three): Buffalo City Development Agency did not prepare a report this year, while Ikwezi and Chris Hani Development Agencies also did not prepare a report in the previous year.
- Western Cape (three): Oudtshoorn, Central Karoo Economic Development Agency and Cango Caves, none of which had prepared a report in the previous year.
- Mpumalanga (three): Emalahleni and Mkhondo as well as Umjindi Local Economic Development Agency also did not prepare a report in the previous year.
- Free State (one): Phumelela.

- North West (one): Mamusa.

Figure 1 shows that there has been an increase in auditees with no material findings on the quality of their APRs when compared to the previous year.

Overall, 89 auditees (27%) (62 municipalities and 27 municipal entities) had no material findings in the current and previous year. A total of 37 auditees (11%) (30 municipalities and seven municipal entities) could address the previous year's findings, but 16 auditees (5%) (10 municipalities and six public entities) regressed from the previous year. Four of the eight metros (Buffalo City Metro, Mangaung Metro, City of Johannesburg Metro and Tshwane Metro) and 21 of the 44 district municipalities had material findings.

As can be seen in figure 3, the main reason for the improvement was the number of auditees that had addressed their prior year findings on usefulness. The movement in findings is analysed further on in this section.

The fourth column in table 1 shows that Limpopo, the Northern Cape and the Free State had the lowest number of auditees with no material findings on their APRs, while the Western Cape, Gauteng and KwaZulu-Natal had the highest percentage of auditees with no findings. There were improvements in most provinces except the Free State and Gauteng.

**Table 1: Status of annual performance reports in provinces (completed audits – 306)**

Province	No findings <u>before</u> adjustments made		No findings <u>after</u> adjustments made	
	Number	Movement since 2012-13	Number	Movement since 2012-13
Eastern Cape	10 (19%)		14 (26%)	
Free State	3 (12%)		4 (15%)	
Gauteng	13 (41%)		20 (63%)	
KwaZulu-Natal	30 (42%)		45 (63%)	
Limpopo	3 (9%)		4 (13%)	
Mpumalanga	5 (29%)		6 (30%)	
Northern Cape	2 (10%)		3 (14%)	
North West	3 (13%)		5 (21%)	
Western Cape	14 (48%)		25 (86%)	

### *The quality of the annual performance reports submitted for auditing*

Figure 2 shows that only 83 auditees (26%) submitted APRs that did not contain material misstatements, which is an improvement from the previous year's 75 (24%).

Figure 2 further shows that 43 auditees (13%) (36 municipalities and seven municipal entities) did not have any material findings, only because they corrected all the misstatements we had identified during the audit. This is an improvement from the previous year when only 28 auditees (8%) (25 municipalities and three municipal entities) corrected all the misstatements identified.

The second column in table 1 shows that Limpopo, the Northern Cape and the Free State had the lowest percentage of auditees that submitted APRs with no material misstatements, with the highest being the Western Cape at 48% and KwaZulu-Natal at 42%.

### *Findings on the usefulness and reliability of the 306 annual performance reports prepared*

Some auditees' objectives are material in relation to their budget and mandate, which we then select for auditing. We also report any material findings on the usefulness and reliability of these objectives.

The information on these main objectives as reported in the APRs of 167 (55%) of the auditees was not **useful** – 151 municipalities (59%) and 16 municipal entities (31%). The number of auditees with findings on usefulness decreased by 16% from the 198 reported in the previous year.

The most common findings on usefulness were that auditees reported on indicators that were not well defined (105) or verifiable (87), while targets were also not measurable (101) or not specific enough (89) to ensure that the required performance could be measured and reported in a useful manner. Performance indicators and targets are defined as part of the annual planning and budget process.

The APRs of 93 auditees did not disclose the measures on how performance would be improved, while the measures taken to improve performance were not supported by adequate evidence at 53.

A total of 99 auditees reported information that was not consistent with the objectives, measures and/or targets in their plans.

Findings on **reliability** were identified at 158 auditees (52%) – 144 municipalities (57%) and 14 municipal entities (27%). The number of auditees with findings on reliability increased slightly from the 156 in the previous year.

While the quality of the APRs is continuously improving, the low number of auditees that submitted APRs with no material misstatements (26%), as shown in figure 2, indicates that most of the auditees are still struggling to produce APRs.

## Findings on compliance with key legislation on strategic planning and performance management

The MFMA and the MSA prescribe the manner in which strategic planning and performance management should be performed. We report material non-compliance with this legislation in the audit reports of auditees (also refer to section 3.2 in this regard). Overall, 152 auditees (47%) had findings on their strategic planning and performance management – an improvement from the 166 in the previous year.

The most common finding was that auditees did not maintain an **effective, efficient and transparent system of internal control** regarding performance management (at 59 auditees). The following are other material non-compliance findings that point to material weaknesses in planning and performance management processes:

- Two local municipalities (Camdeboo [EC] and Maquassi Hills [NW]) did not have an **IDP** and 31 did not conduct their affairs in accordance with their IDP – the majority in the Northern Cape (11) and the Eastern Cape (eight). The IDP of 17 municipalities did not include all the required details, while the council did not annually review the IDP in accordance with MSA requirements at 12.
- A total of 34 (13%) of the municipalities did not adopt a **performance management system** as required by the MSA, while the system adopted by 41 (15%) was not as comprehensive as required. A further 44 (16%) did not have mechanisms to monitor and review their performance management system.
- Overall, 10 municipalities did not monitor and review the performance of their **municipal entities** annually and seven municipal entities did not establish objectives and indicators with their parent municipality.

## Recommendations

Auditees that had material findings and those that submitted APRs of a poor quality for auditing should strengthen their processes and controls to create a control environment that supports useful and reliable reporting on performance. These auditees should implement at least the following key controls and best practices in place at some other auditees, and which we had also identified through our performance audit:

- **Policies and procedures** to report on performance information should be developed and implemented. The policies and procedures should clearly explain the following:
  - The objectives of reporting on performance.
  - The processes to develop performance indicators and targets.

- The processes and systems to collect, collate, process and report on performance.
- Monitoring and evaluation processes.
- The roles and responsibilities of municipal officials, senior management, municipal managers, mayors, councils, performance audit committees and internal audit units.
- The responsibility of the municipality with regard to performance planning, monitoring and reporting by municipal entities.

- A set of **performance indicators** that are well defined and verifiable should be developed. It should be comprehensive (in other words, measure all objectives) and include balanced measures that promote efficiency, effectiveness and economy in producing outputs and outcomes.

**Performance targets** that comply with the SMART criteria should be developed. This means that the targets should be specific, measurable, achievable, realistic and time bound. In addition, standards or baselines should be determined through documented research and programme evaluations to further ensure that performance targets are realistic.

Furthermore, data definitions for all performance indicators should be defined. The data definitions should be communicated to all staff involved in collecting, collating, verifying and storing actual performance data.

- CoGTA should support local government by developing **customised indicators and targets**.
- The **methodologies and systems** used for compiling budgets should be improved to strengthen the link between budgets and performance targets.
- The **correlation between** planned and actual performance (**performance implementation**) in relation to the budgeted versus actual expenditure (**financial implementation**) should be monitored and evaluated.
- The **organisational structures** required to report on performance should be determined and implemented. This will ensure the following:
  - Auditees have the required capacity and appoint staff with the required skills, competencies and experience. In this regard, special attention should be paid to responsibilities regarding strategic planning as well as monitoring and evaluation (refer to section 5.1 for more detail in this regard).
  - Clear reporting lines exist.
  - Roles and responsibilities have been defined.
- Auditees need to ensure that they have **adequate skills and resources** to perform proper strategic planning, performance monitoring and reporting in

line with applicable requirements. It should be ensured that officials responsible for reporting on performance and management responsible for oversight receive **training**.

- **Formal processes and systems** for the collection, collation, verification and storing of actual performance information should be developed, documented and approved by the municipal manager.

Before finalising the quarterly performance reports and the APRs, the reported performance should be reviewed against the approved annual performance plans (APPs) to ensure that all performance indicators and targets are reported consistently.

- Auditees should ensure that there is an **adequately resourced and functioning internal audit unit** that provides assurance on the quality of the quarterly performance reports and APRs. Internal audit units should focus on the following aspects during their reviews:
  - The effectiveness of performance information processes and systems.
  - The usefulness of reported performance information.
  - The reliability of reported performance information.
  - Compliance with reporting and presentation requirements.

Accounting officers and senior management must cooperate with, and respond to the advice and recommendations of, internal audit units.

Also refer to section 7.4 for more detail on internal audit units.

- There needs to be sufficient **oversight and monitoring** of performance during the reporting cycle to ensure that performance targets are reported as planned. The accounting officers should provide effective oversight and hold the responsible officials accountable for the preparation of performance reports.
- **Monitoring and evaluation** processes should be developed to ensure the following:
  - Variances between planned performance targets and actual performance are identified in time.
  - Valid explanations are provided for variances between planned performance targets and actual performance.
  - Supporting evidence is maintained for the explanations.
  - Programme managers and senior management formally approve the explanations.

Larger auditees should consider a dedicated strategic planning and/or monitoring and evaluation unit. These units should be empowered with

competent and capable individuals who have a good understanding of the requirements for performance reporting. Appointed officials should be responsible for collecting, collating and verifying performance information.

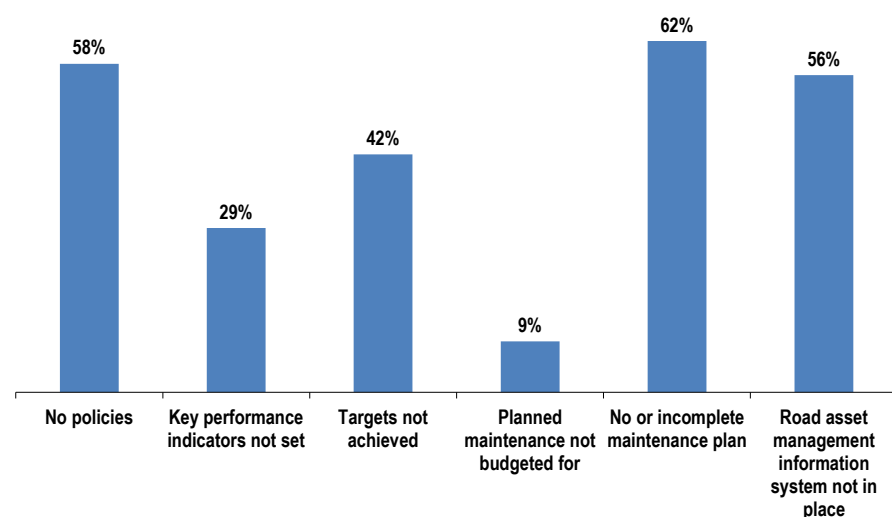
- Auditees should prepare an **audit action plan** based on the audit findings of the 2013-14 financial year, including definite actions to address these audit findings. Management should be held accountable to implement action plans, while progress on the implementation of action plans should be monitored monthly. The municipal manager should improve oversight by intervening decisively and in a timely manner to ensure quicker responses. Action plans need to address the root causes of weaknesses in performance reporting and the implementation of internal controls to ensure that predetermined objectives are collected, collated and reported completely and accurately each quarter.

## 4.2 Roads infrastructure

Local government has an important role to play in providing and properly maintaining basic services, including roads. As reported in the MTSF, the government has expanded access to basic services over the past 20 years, but backlogs remain and the quality of services is not the same everywhere. In addition to ensuring access for all, the challenge therefore remains to improve the quality and consistency of services, which requires improvements in the performance of the public service, municipalities and service providers. According to the South African National Roads Agency, South Africa has 168 000 kilometres of urban roads.

In terms of the Constitution, the functions and powers relating to roads rest with those municipalities classified as roads authorities. We finalised the audits of 212 roads authorities nationwide, of which the findings on roads infrastructure are shown in the following graphic:

Figure 1: Findings on roads infrastructure



This is the second year that we executed procedures on roads infrastructure. Municipalities were slow to address the warning signals identified in the previous year, as we again reported 46% of the findings.

The leadership must urgently pay attention to the following to ensure that government’s objectives relating to roads are achieved:

- A proper policy on roads infrastructure is key to manage this asset successfully. At more than 50% of the municipalities, such an approved policy was not in place. Furthermore, at some municipalities where a policy was in place, it had not been implemented.
- Municipalities did not set KPIs relating to the maintenance, construction and upgrading of roads.
- Where municipalities had KPIs, at least 42% did not achieve the targets.
- Municipalities did not always budget for planned maintenance in their operational budget.
- Most municipalities did not have an approved road maintenance plan.
- Municipalities did not have a road asset management system.

The condition of roads directly affects road safety. It has an impact on all citizens and, as such, poor road conditions create challenges for many with unnecessary time delays; increased transportation costs; and reduced access to education, health care and social services.

## Recommendations

The most common cause of the deteriorated paved roads is neglect. If road maintenance is delayed, the cost of repairs and rehabilitation increases exponentially. In government’s back-to-basics programme, the patching of potholes has been identified as a crucial maintenance aspect.

To sustain basic standards of living and economic activity in our towns and cities, the planning, implementation and maintenance of basic infrastructure such as roads are critical. Municipalities should therefore focus on the following:

- Implement comprehensive policies to ensure the consistent application of the provision of new roads as well as the maintenance of existing roads.
- Implement a road asset management system to plan and budget effectively.
- Budget in such a way that KPIs can be achieved.
- Develop and implement comprehensive infrastructure and maintenance plans.
- Maintain and repair potholes to reduce the deterioration of existing roads.
- Improve mechanisms to deliver new infrastructure at a faster pace while still adhering to the relevant standards.

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