

PERFORMANCE AUDIT

South African Experience

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LEGISLATIVE FRAMEWORK

- The Constitution (Supreme Law of South Africa) establishes the **efficient, economic and effective use of resources** as one of the democratic values and principles of public administration.
- Public Finance Management (PFM) laws assign the principal responsibility for the **economic, efficient and effective use of resources** to the accounting officers of state institutions.
- Principle 8 of the Batho-Pele (“People First”) White Paper deals with **value for money** – it essentially dictates that the public service must provide the people what they want in the most corruption-free, innovative, efficient and **cost-effective** way.
- PFM regulations prescribe that internal audits must be conducted in accordance with the standards set by the Institute of Internal Auditors (IIA).
- The IIA’s Global Internal Audit Standards (GIAS) recognises performance auditing as a form of assurance.
- The GIAS recognises that in the public sector internal audit must identify opportunities for the efficiency, effectiveness and **economy** of government processes and programs.

DIFFERENT MODALITIES OF INTERNAL AUDIT IN THE SOUTH AFRICAN PUBLIC SECTOR

- Fully in-house model (an institution has a fully capacitated internal audit function made up of its own employees).
- Co-sourced/hybrid model (an institution has an in-house internal audit function but complements this capacity through outsourcing).
- Outsourced model (the full internal audit function is outsourced).
- Shared internal audit service (two or more institutions share an internal audit function based on a memorandum of understanding).
- Centralised model (a shared model for a larger group of institutions, e.g. all departments within a provincial administration (regional government)).
- Performance auditing is relatively easier within a certain modalities when compared to the others.

CURRENT STATE OF PLAY

- **Performance Audit**

- concerns the efficiency, effectiveness and **economy** of a specific programme, function, project or management process.
- also known as value for money auditing and is of particular interest to the public who are increasingly demanding that public funds be used more efficiently.
- currently, internal audit functions perform **limited performance audits** but focus more on the audit of performance information.
- the Office of the Auditor-General (Supreme Audit Institution) is the more active participant within the combined assurance model when it comes to performance auditing.
- a number of other specialised government agencies undertake performance audits for the purposes of post implementation evaluation, or in response to public complaints, allegations of mismanagement and corruption, etc.

- **Audit of Performance Information (Audit of per-determined objectives)**

- PFM regulations require that the accounting officer of an institution must establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action.
- the accounting officers delegate the responsibility for validating the credibility of performance information to the internal audit function.
- **auditing of performance information** is essentially an independent and objective test conducted to validate that performance indicators have been well articulated in terms of the SMART principles (specific, measurable, achievable, relevant and time bound) and that there is credible evidence of performance being achieved – **it however stops short of being a performance audit as it does not assess value for money.**
- auditing of performance information is a standard feature of internal audit function's terms of reference.

CONSTRAINTS TO PERFORMANCE AUDITING

- Performance audits are expensive and internal audit functions are often not funded sufficiently to undertake these projects.
- Performance audits are time intensive.
- Internal auditors lack the specialised skills needed to undertake performance audits.
- Data is not available or internal auditors are not able to transform available data for efficient auditing.
- Lack of stakeholder co-operation - as performance auditing does not involve a single auditee, lack of co-operation from one or more stakeholders can have a serious effect on the audit.

FUTURE OUTLOOK

- Centralisation of specialised skills
 - deployment of scarce resources such as Engineers, Analysts, Economists, Data Scientists, etc. will be based on strategic merits.
 - procurement of private sector skills will be easier
- Developing a centralised data hub
 - the intention is to provide internal auditors with credible and readily useable data for audit purposes.
- Strengthening the combined assurance model
 - co-opting participants in the combined assurance model to work with internal auditors in performing certain parts of performance auditing.
 - getting internal auditors and the Supreme Audit Institution to collaborate more efficiently, especially in thematic focused performance audits.
- More focus on capacity building
 - updating and socializing the performance auditing guide
 - re-skilling internal auditors who are mostly trained in auditing financial and operational controls.

THANK YOU