Principles for the audit committee’s role in performance management

The information contained in this guidance paper is provided for discussion purposes. As such, it is intended to provide the reader and the entity with general information of interest and not to address the circumstances of any particular individual or entity.

The information should not be regarded as professional or legal advice or the official opinion of any of the individual organisations represented on the steering committee of the Public Sector Audit Committee Forum (PSACF).

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1. Glossary

Performance indicators –
Identify specific numerical measurements that track progress towards achieving a goal.

Performance management –
Can be described as a strategic approach at different levels to regularly plan, continuously monitor and periodically measure and review performance of the organisation in terms of indicators and targets for efficiency (inputs), effectiveness (outputs) and impact.

Performance management system –
A performance management system entails a framework that describes and represents how the entity’s cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.

Performance measures –
Use interchangeably with performance indicators.

Performance targets –
Express a specific level of performance that the institution, programme or individual aims to achieve within a given period.

2. Introduction

It is widely accepted that risk identification, fraud prevention, internal audit and audit committees are key elements of governance. Thus the role of audit committees is of extreme importance. The aim of the audit committee should not only be to improve organisational governance but also to review financial and compliance issues, accountability measures and the efficient use of resources and provide advice on improving performance.

The importance of performance management is evident in the legislative requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), the Municipal Systems Act, 2000 (Act No. 32 of 2000) and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). Sections 40 and 55 of the PFMA require of the accounting officer/accounting authority to submit the annual report and audited financial statements, including an assessment of its performance against predetermined objectives. Section 46 of the Municipal Systems Act requires that a performance report reflecting the performance of the municipality and each of its external service providers be prepared. The performance report should also reflect a comparison of the performance against targets and the previous year and include measures to improve performance. Section 121(3)(f) of the MFMA requires that 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 for revenue collection from each revenue source and for each vote in the municipality’s budget for the relevant financial year. Section 121(4)(d) requires the annual report of the municipal entity to include 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.
3. Applicable legislation and guidelines

Performance management is a critical part of the mandate of the audit committee in terms of the public sector legislation and audit committee charters. Annexure A includes extracts from legislation relevant to the audit committees’ role in performance management.

3.1 Departments and entities

Although there is not a specific reference in the PFMA or Treasury Regulations to the roles and responsibilities of audit committee members relating to performance management, the legislation indirectly requires of audit committees to play a key role in performance management.

The PFMA requires that the audit committee review the following:

- the risk areas of the institution’s operations that will be covered in the scope of internal and external audits;
- auditing and accounting concerns identified as a result of internal and external audits; and
- compliance with legislative requirements.

This implies that audit committee members also need to review performance management.

The accuracy, completeness and validity of performance information (non-financial information) reported are considered to be some of the key risk areas at departments and entities. It is a legislative requirement that the annual report must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results and its performance against predetermined objectives (section 40(3)(a) of the PFMA). The extent and significance of the audit findings on performance reporting against predetermined objectives further indicate the need for audit committees to review the findings and corrective actions taken in this regard.

It is a legislative requirement for audit committees to review the work of internal audit. Internal audit is required to evaluate and make recommendations on the reliability and integrity of operational information and the effectiveness of operations. Internal audit is also responsible for evaluating and making recommendations regarding the processes through which objectives are established and communicated and the achievement of the objectives is monitored. Audit committees are therefore required to ensure that the work performed by internal audit on the performance management process and information is adequate. Audit committees are also required to ensure the quality of in-year management and monthly/quarterly reports submitted in terms of the PFMA.

Internal audit must coordinate with other internal and external assurance providers to ensure proper coverage and minimise duplication of effort (combined assurance). The audit committee would need to review the combined assurance process and assurance on the management of key risks by different assurance providers.

Furthermore, if one of the requirements for the audit committee, as set out in the terms of reference, is to review performance management, the audit committee needs to ensure that it fulfils this responsibility.

3.2 Local government

The legislative requirements for audit committees with reference to performance management within local government are more direct and comprehensive than for national departments and public entities. Various pieces of local government legislation make reference to performance management. The legislative requirements relevant to audit committees and performance management are set out in annexure B.

In terms of the MFMA, updated in 2008, a municipality and municipal entity must have an internal audit unit that will advise the accounting officer and report to the audit committee on matters relating to performance management. Furthermore, each municipality and each municipal entity must have an audit committee that will advise the municipal council, the political office bearers, the accounting officer and the management staff on matters relating to, inter alia, performance management and performance evaluation.

Internal audit is required to audit the results of performance measurements on a continuous basis, including the functionality of the municipality’s performance management system, compliance of the municipality’s performance management system with the Municipal Systems Act and reliability of performance measurements in measuring the performance of municipalities. Internal audit has to submit quarterly reports on their audits to the municipal manager and the performance audit committee.

The Municipal System Act makes specific provision for the establishment of a performance audit committee (the role of which can be fulfilled by the audit committee) that must include at least one person who has expertise in performance management. The performance audit committee is required to review the quarterly reports submitted by internal audit on performance management, review the municipality’s performance management system and make recommendations in this regard to council, and submit an audit report to council at least twice during a financial year. In reviewing the performance management system, the performance audit committee must focus on economy, efficiency, effectiveness and impact of key performance indicators and performance targets set by the municipality. The performance audit committee may communicate directly with the council, municipal manager or the internal and external auditors of the municipality concerned, investigate any matter it deems necessary for the performance of its duties, access any municipal records containing information that is needed to perform its duties or exercise its powers, request any relevant person to attend any of its meetings and, if necessary, to provide information requested by the committee; and investigate any matter it deems necessary for the performance of its duties and the exercise of its powers. Legislative requirements make reference to the audit committee’s role and responsibilities related to performance management. The following section describes performance management.
4. Performance management

Literature on this subject offers a number of descriptions of performance management. For purposes of this document performance management can be described as a strategic approach at different levels to regularly plan, continuously monitor, periodically measure and review performance of the organisation in terms of indicators and targets for efficiency (inputs), effectiveness (outputs) and impact.

The following figure included in the Framework for managing programme performance information demonstrates the link between the various components of performance management.

Figure 1: Planning, budgeting and reporting cycle

Source: The Framework for managing programme performance information can be viewed on this link: http://www.thepresidency-dpme.gov.za/publications/Pages/Policy-Frameworks.aspx#

The legislative requirements for the audit committee’s involvement, together with the description of performance management, demonstrate the audit committee’s required involvement in all areas of performance management. The following section describes the roles and responsibilities of the audit committee in the performance management process.

5. Roles and responsibilities of the audit committee in the different phases of performance management

To enable the audit committee to fulfill its roles and responsibilities effectively it is critical for the audit committee to have a clear and detailed understanding of the mandate and business of the entity being audited. As part of obtaining detailed knowledge of the entity the audit committee has a specific role to play as part of the strategic planning and annual planning process. The following section elaborates on this.
5.1 Audit committee’s role in the planning process

The audit committee in all spheres of government plays an important role in the strategic planning and annual performance planning of each of the institutions. Although the documentation may have different terms, such as the strategic plan for national and provincial government and the integrated development plan for local authorities, the principles are the same, i.e. a five-year process from election to election and annual performance plans for national and provincial departments, and service delivery and budget implementation plans for local government representing the annual process.

Besides than the need to understand the legislative frameworks and the requirements set out in those frameworks and other guidelines, the audit committee plays an important oversight role to ensure that the strategic plans and the annual performance plans are credible and strategic. The audit committee, with its detailed understanding of the mandate of the entity, together with available resources at the disposal of the entity, should challenge the management that compiles the documentation and sets the key performance indicators and targets prior to submission via the legislative oversight.

Often a key issue is setting key performance indicators (KPIs) and targets that meet the criteria as set out in the Framework for managing programme performance information, read with the Treasury Regulations and the Municipal Systems Act Regulations. Failure to set these KPIs and targets responsibly can lead to information being reported that is not credible, and possibly setting KPIs and targets that are inappropriate in terms of the service delivery mandate of the organisation, particularly in the municipal area.

Audit committees therefore play the important oversight role of questioning and challenging management, particularly in respect of the following:

**Are the KPIs being set strategically enough?**

Often operational matters find their way into the strategic plans and annual performance plans, with a number of KPIs resulting in the organisation lacking focus in terms of achieving what is required in terms of the legislative mandate and political/government priorities.

**Are the KPIs relevant and appropriate?**

This is an important consideration to ensure not only that it is within the mandate of the organisation but also enhances service delivery of the organisation. KPIs must relate logically and directly to an aspect of the institution’s mandate, and the realisation of strategic goals and objectives.

**Are the KPIs verifiable and are the targets measurable?**

A very important issue facing most entities is whether they can measure and verify what they are trying to achieve, especially when new indicators and targets are being proposed.

**Are the KPIs well defined and are the targets specific?**

A common area where improvement is required is to ensure that the KPIs are well understood by council, Parliament, the legislature, management, auditors and other stakeholders so that the debate focuses on whether a KPI can be achieved and not on what the KPI means.

**Are the targets achievable?**

Often the audit committee is the only oversight body that can challenge management on this aspect, both ways, i.e. that the targets are not overambitious given the resources of the entity or whether targets are easily achievable. This requires knowledge of the entity in terms of both available resources and past performance.

A further aspect that falls outside this position paper is to ensure that KPIs and targets are cascaded down to employees, including the accounting officer, chief executive officer, chief financial officer and other senior management staff within the employment management system of the organisation.
5.2 Audit committees' roles and responsibilities in the performance management process

The following table summarises the roles and responsibilities of the audit committee in the performance management process.

<table>
<thead>
<tr>
<th>General</th>
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<tbody>
<tr>
<td>The audit committee’s roles and responsibilities in the performance management process should be clearly articulated in the approved audit committee charter.</td>
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<tr>
<td>The audit committee should review the auditing concerns in respect of performance management identified by internal and external audit, ensure adequate corrective actions are taken to address the findings identified and follow up on implementation of the said corrective actions.</td>
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<tr>
<td>The audit committee needs to review and comment on whether an appropriate process is in place to review compliance with legislation, guidelines and best practices relating to performance management.</td>
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<td>The audit committee should include an audit committee member/s with appropriate performance management skills.</td>
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<td>The audit committee needs to demonstrate a good understanding of the performance of the entity.</td>
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<tr>
<td>The audit committee must review and comment on the entity’s performance management system (PMS) and make recommendations for improvement.</td>
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<tr>
<th>Planning</th>
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<tr>
<td>The audit committee must review and comment on alignment between planning documents, budget and performance agreements.</td>
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<tr>
<td>The audit committee must consider any changes to the planning documents and budgets during the year for reasonableness and the impact thereof on the alignment between the various strategic documents.</td>
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<tr>
<th>Setting key performance indicators and targets</th>
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<tr>
<td>The audit committee needs to advise the accounting authority with regards to the setting of KPIs and targets.</td>
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<tr>
<td>In reviewing the PMS, the audit committee must focus on economy, efficiency, effectiveness of KPIs and performance targets.</td>
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<tr>
<th>Monitor performance</th>
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<tr>
<td>The audit committee must review compliance with in-year reporting requirements.</td>
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<tr>
<td>The audit committee must ensure that the entity has established mechanisms to monitor its performance, PMS and the performance information generated by the system.</td>
</tr>
<tr>
<td>The audit committee needs to ensure that internal audit audits the results of performance measurements, including the functionality of the PMS, compliance of the PMS with the relevant legislation, consistency between planning documents and reports, and reliability of performance information.</td>
</tr>
<tr>
<td>The audit committee must review the quarterly reports on performance management submitted by internal audit.</td>
</tr>
<tr>
<td>The audit committee must review and comment on alignment between planning documents and in-year reports.</td>
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<th>Measure and review performance</th>
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<tr>
<td>The audit committee must ensure that the entity has established mechanisms to measure and review its performance against its objectives as well as the KPIs and targets set in the planning documents.</td>
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<tr>
<td>The audit committee must review the PMS and make recommendations to the accounting authority by way of an audit committee report twice a year.</td>
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<th>Improve performance</th>
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<tr>
<td>The audit committee must advise and make recommendations to the accounting authority political office bearers, the accounting officer and the management staff on matters relating to performance management.</td>
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<tr>
<th>Report</th>
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<tr>
<td>The audit committee must review and comment on annual financial statements and the annual performance report and ensure timely submission to the Auditor-General.</td>
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<tr>
<td>The audit committee must review and comment on the annual reports within the stipulated time frames.</td>
</tr>
<tr>
<td>The audit committee must comment on in-year management reports in the annual report.</td>
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<tr>
<td>The report of the audit committee needs to make reference to the following aspects relating to performance management:</td>
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  - Compliance with statutory requirements and performance management best practices and frameworks. |
  - Alignment among planning documents, budget, performance agreements and in-year and annual reports. |
  - Quarterly reports submitted by internal audit. |
  - Annual financial statements and timely submission to the Auditor-General. |
  - Annual reports (including the annual performance report) within the stipulated time frames. |
  - The PMS, including recommendations for improvement. |

Table 1: Steps to fulfil roles and responsibilities of audit committees in performance management
6. Interaction with stakeholders

The audit committee, in its role as an advisory and oversight mechanism, needs to interact with various stakeholders including, but not necessarily limited to, the governing body/accounting authority, management and external and internal audit. It is very important for the audit committee to establish an effective working relationship with the various stakeholders, with clear definitions of roles and responsibilities and regular and transparent interaction and communication.

7. Communication by audit committee to demonstrate fulfilment of roles and responsibilities

The audit committee needs to demonstrate to the relevant stakeholders by way of its report to be completed on a quarterly basis, or more frequently if required, that it has fulfilled its roles and responsibilities.

In-year and annual reports should include:

- a summary of work performed by internal audit and the audit committee related to performance management.
- a report on the effectiveness of internal controls and additional measures that must be implemented to address identified risks related to performance management.
- a summary of the key issues dealt with, such as significant internal and external audit findings, recommendations, and an updated status thereof.
- an assessment of compliance with statutory requirements and performance management best practices and frameworks
- alignment of planning documents, budget, performance agreements and in-year and annual reports.
- an assessment of the performance management system, including recommendations for improvement.
- other relevant comments that may enhance governance and accountability.

8. Practical challenges and recommendations

One of the major challenges related to audit committees and performance management is the lack of a clear definition, understanding and agreement on roles and responsibilities of the audit committee and performance management. The challenge can be addressed by way of an audit committee charter that clearly defines the roles and responsibilities of the audit committee.

Another challenge that requires attention is the need for audit committee members to obtain adequate knowledge of the business of the entity to be able to provide valuable input and contribute to the development of KPIs and targets that meet the criteria set out in the Framework for managing programme performance information, read with the Treasury Regulations and the Municipal Systems Act Regulations.

Inadequate communication on performance management by audit committees through in-year and annual reporting and irregular interaction between stakeholders might impact negatively on improvement in the performance management process and performance information reported by entities. Audit committees should ensure that comprehensive reports on the performance management process and performance information are submitted on a regular basis to contribute towards improved performance. Audit committees should also meet with the various stakeholders on a regular basis.
### Annexe A - Relevant legislation

**Extracts from the Public Finance Management Act and Treasury Regulations for departments and entities**

<table>
<thead>
<tr>
<th>Legislation reference</th>
<th>Summary of legislative requirement</th>
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| PFMA¹, sections 38(a)(ii) and 51(1)(a) | “The accounting officer for a department, trading entity or constitutional institution —  
(a) must ensure that that department, trading entity or constitutional institution has and maintains — …  
(ii) a system of internal audit under the control and direction of an audit committee  
complying with and operating in accordance with regulations and instructions  
prescribed in terms of sections 76 and 77; …” |
| PFMA, section 76(4)(d) | “The National Treasury may make regulations or issue instructions applicable to all institutions to which this Act applies concerning - …  
(d) audit committees, their appointment and their functioning; …” |
| PFMA, section 77(a) | “An audit committee –  
(a) must consist of at least three persons of whom, in the case of a department -  
(i) one must be from outside the public service;  
(ii) the majority may not be persons in the employ of the department, except with the approval of the relevant treasury; …” |

| Treasury Regulations section 3.1 | “Audit committees [sections 76(4)(d) and 77 of the PFMA]  
3.1.1 If considered feasible, the relevant treasury may direct that institutions share audit committees. If such a determination is made, the Auditor-General must be informed within 30 days of the determination.  
3.1.2 In the case of a non-shared audit committee, the accounting officer of an institution must appoint audit committee members in consultation with the relevant executive authority. …  
3.1.8 An audit committee must operate in terms of a written terms of reference which must deal adequately with its membership, authority and responsibilities. The terms of reference must be reviewed at least annually to ensure its relevance.  
3.1.9 It must be disclosed in the institution’s annual report whether or not the audit committee has adopted a formal terms of reference and if so, whether the audit committee satisfied its responsibilities for the year, in compliance with its terms of reference.  
3.1.10 The audit committee must, amongst others, review the following:  
(a) the effectiveness of the internal control systems;  
(b) the effectiveness of the internal audit function;  
(c) the risk areas of the institution’s operations to be covered in the scope of internal and external audits;  
(d) the adequacy, reliability and accuracy of the financial information provided to management and other users of such information;  
(e) any accounting and auditing concerns identified as a result of internal and external audits;  
(f) the institution’s compliance with legal and regulatory provisions; and  
(g) the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations. …  
3.1.12 An audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendations.  
3.1.13 In addition to the above, an audit committee must, in the annual report of the institution, comment on –  
(a) the effectiveness of internal control;  
(b) the quality of in year management and monthly/quarterly reports submitted in terms of the Act and the Division of Revenue Act; and  
(c) its evaluation of the annual financial statements. …  
3.1.15 An audit committee may communicate any concerns it deems necessary to the executive authority, the relevant treasury and the Auditor-General. …” |

| Treasury Regulations section 3.2 | “Internal controls and internal audit [sections 38(1)(e)(i) and 76(4)(e) of the PFMA]  
“… 3.2.2 Each institution to which these Regulations apply must have an internal audit function. …  
3.2.5 The purpose, authority and responsibility of the internal audit function must, in consultation with the audit committee, be formally defined in an audit charter and be consistent with the Institute of Internal Auditors (‘IIA’) definition of internal auditing. …  
3.2.11 The internal audit function must assist the accounting officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement.  
The controls subject to evaluation should encompass the following—  
(a) the information systems environment;  
(b) the reliability and integrity of financial and operational information;  
(c) the effectiveness of operations;  
(d) safeguarding of assets; and  
(e) compliance with laws, regulations and controls.  
3.2.12 The internal audit function must assist the accounting officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which –  
(a) objectives and values are established and communicated;  
(b) the accomplishments of objectives is monitored;  
(c) accountability is ensured; and  
(d) corporate values are preserved. |

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¹ The above include some relevant extracts from the PFMA. The full Act can be viewed on this link: [http://www.treasury.gov.za/legislation/PFMA/default.aspx](http://www.treasury.gov.za/legislation/PFMA/default.aspx)  
² Refer to Treasury Regulations 27.1 and 27.2 for requirements applicable to public entities. The full regulations can be viewed on this link: [http://www.treasury.gov.za/legislation/pfma/regulations/default.aspx](http://www.treasury.gov.za/legislation/pfma/regulations/default.aspx)
### Annexure B - Relevant legislation

Extracts from Municipal Systems Act and Municipal Finance Management Act for local government.

<table>
<thead>
<tr>
<th>Legislation reference</th>
<th>Summary of legislative requirement</th>
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| **MFMA**: section 165 | “(1) Each municipality and each municipal entity must have an internal audit unit, ...  
(2) The internal audit unit of a municipality or municipal entity must — ...  
(b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to — ...  
(v) performance management...” |
| **MFMA, section 166** | “(1) Each municipality and each municipal entity must have an audit committee ....  
(2) An audit committee is an independent advisory body which must — ...  
(a) advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to —  
(i) internal financial control and internal audits;  
(ii) risk management; ...  
(v) performance management;  
(vi) effective governance  
(vii) compliance with this Act, ... and any other applicable legislation;  
(viii) performance evaluation ...” |
| **Municipal Systems Act, sections 40, 41 and 45** | “Section 40 – Monitoring and review of performance management system  
A municipality must establish mechanisms to monitor and review its performance management system.” |
| **Municipal Systems Act, sections 40, 41 and 45** | “Section 41 - Core components  
(1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed -  
(a) set appropriate key performance indicators as a yardstick for measuring performance, ...  
(b) set measurable performance targets ...  
(c) ... against the key performance indicators and targets ...  
(i) monitor performance; and  
(ii) measure and review performance at least once per year;  
(d) take steps to improve performance ... where performance targets are not met; and  
(e) establish a process of regular reporting to –  
(i) the council, other political structures, political office bearers and staff of the municipality; and  
(ii) the public and appropriate organs of state  
(2) The system applied by a municipality ... must be devised in such a way that it may serve “as an early warning indicator of under-performance.  
“45 Audit of performance measurements  
The results of performance measurements in terms of section 41 (1) (c) must be audited –  
(a) as part of the municipality’s internal auditing processes; and  
(b) annually by the Auditor-General” |
(1) A municipality must, after consultation with the local community, develop and implement mechanisms, systems and processes for the monitoring, measurement and review of performance in respect of the key performance indicators and performance targets set by it.  
(2) The mechanisms, systems and processes for monitoring in terms of subregulation (1) must –  
(a) provide for reporting to the municipal council at least twice a year;  
(b) be designed in a manner that enables the municipality to detect early indications of under-performance; and  
(c) provide for corrective measures where under-performance has been identified. ...  
(4) The mechanisms, systems and processes for review in terms of subregulation (1) must at least –  
(a) identify the strengths, weaknesses, opportunities and threats of the municipality in meeting the key performance indicators and targets set by it, as well as the general key performance indicators prescribed by regulation 10;  
(b) review the key performance indicators set by the municipality in terms of regulation 9; and  
(c) allow the local community to participate in the review process.  
14 Internal auditing of performance measurements  
(1)(a) A municipality must develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing processes.  
(b) Any auditing in terms of paragraph (a) must include assessments of the following:  
(i) The functionality of the municipality’s performance management system;  
(ii) whether the municipality’s performance management system complies with the Act; and  
(iii) the extent to which the municipality’s performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10.” |

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3 The above include some relevant extracts from the MFMA. The full act can be viewed on this link: http://mfma.treasury.gov.za/MFMA/Legislation/Local%20Government%20-%20Municipal%20Finance%20Management%20Act/Municipal%20Finance%20Management%20Act%20%28No.%2056%20of%202003%29.pdf

4 Chapter 6 of the Municipal Systems Act is devoted to performance management. Section 38 describes the establishment of a performance management system; section 39 refers to the development of a performance management system, section 42 to community involvement, section 43 to general key performance indicators, section 44 to the notification of key performance indicators and performance targets, sections 46 to 48 to reports and section 49 to regulations and guidelines. The full act can be viewed on this link: http://mfma.treasury.gov.za/Legislation/lgmsya/Pages/default.aspx
**Annexure B - Relevant legislation (continued)**

*Extracts from Municipal Systems Act and Municipal Finance Management Act for local government.*

<table>
<thead>
<tr>
<th>Legislation reference</th>
<th>Summary of legislative requirement</th>
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| **Municipal planning and performance management regulations**, sections 13 and 14. (continued) | (c) A municipality’s internal auditors must -  
(i) on a continuous basis audit the performance measurements of the municipality; and  
(ii) submit quarterly reports on their audits to the municipal manager and the performance audit committee referred to in subregulation (2) (2)(a) A municipality must annually appoint and budget for a performance audit committee consisting of at least three members, the majority of which may not be involved in the municipality as a councillor or an employee.  
(b) A performance audit committee appointed in terms of paragraph (a) must include at least one person who has expertise in performance management.  
(c) A municipality may utilise any audit committee established in terms of their applicable legislation as the performance audit committee …  
(3) (a) A performance audit committee must meet at least twice during the financial year of the municipality concerned. ...  
(4) (a) A performance audit committee must –  
(i) review the quarterly reports submitted to it in terms of subregulation (1)(c) (ii);  
(ii) review the municipality’s performance management system and make recommendations in this regard to the council of that municipality; and  
(iii) at least twice during a financial year submit an audit report to the municipal council concerned.  
(b) In reviewing the municipality’s performance management system in terms of paragraph (a)(ii), the performance audit committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.  
(c) A performance audit committee may -  
(i) communicate directly with the council, municipal manager or the internal; and external auditors of the municipality concerned;  
(ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;  
(iii) request any relevant person to attend any of its meetings, and if necessary, to provide information requested by the committee; and  
(iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.* |

| MFMA circular 65<sup>5</sup> | Part of the responsibilities of the audit committee described in the Circular includes the review of performance management. The Circular also requires of audit committee members to have skills in performance management.  
Responsibilities include:  
- Review and comment on compliance with statutory requirements and performance management best practices.  
- Review and comment on alignment of planning documents, budget and performance agreements.  
- Review compliance with in-year reporting requirements.  
- Review quarterly reports submitted by internal audit.  
- Review and comment on annual financial statements and timely submission to the Auditor-General.  
- Review and comment on the municipality’s annual reports within the stipulated time frames.  
- Review and comment on the municipality’s performance management system and make recommendations for improvement. |

*Also consider legislative requirements as included in the AG Directive. The AG Directive can be located at www.agsa.co.za*

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<sup>5</sup> The above include some relevant extracts from the PFMA. The full act can be viewed on this link: http://www.treasury.gov.za/legislation/pfma/default.aspx  
Refer to Treasury Regulations 27.1 and 27.2 for requirements applicable to public entities. The full regulations can be viewed on this link: http://www.treasury.gov.za/legislation/pfma/regulations/default.aspx  
The above include some relevant extracts from the MFMA. The full act can be viewed on this link: http://mfma.treasury.gov.za/MFMA/Legislation/local%20Government%20-%20Municipal%20Finance%20Management%20Act/Municipal%20Finance%20Management%20Act%20(No.%2069%20of%202003).pdf  
Chapter 6 of the Municipal Systems Act is devoted to performance management. Section 38 describes the establishment of a performance management system; section 39 refers to the development of a performance management system, section 42 to community involvement, section 43 to general key performance indicators, section 44 to the notification of key performance indicators and performance targets, sections 46 to 48 to reports and section 49 to regulations and guidelines. The full act can be viewed on this link: http://mfma.treasury.gov.za/legislation/lgmsya/Pages/default.aspx  
The above include some relevant extracts from the Municipal planning and performance management regulations. The full regulations can be viewed on this link: http://mfma.treasury.gov.za/Circulars/Documents/MFMA%20Circular%2065%20Internal%20Audit%20and%20Audit%20Committee.pdf