DRAFT LEARNING NOTE

**METRO ENGAGEMENT: AUDITING OF PRE-DETERMINED OBJECTIVES AND LINKING ORGANISATIONAL PERFORMANCE TO INDIVIDUAL PERFORMANCE**

06 MARCH 2018

SALGA HOUSE, CAPE TOWN

## INTRODUCTION AND BACKGROUND

Through the identification of goals, vision, mission and core values, organisations determine their strategic direction. In the context of Local Government, auditing of reporting against pre-determined objectives and aligning organisational to individual performance are some of the ingredients that assist in achieving optimal service delivery.

In this light, a SALGA/MILE-facilitated Metro engagement workshop convened at SALGA Western Cape on 06 March 2018. In attendance were delegates representing metropolitan municipalities of EThekwini, Mangaung, Cape Town, Ekurhuleni, Johannesburg, and Nelson Mandela Bay. In addition, AGSA and National Treasury also contributed to the proceedings. The presentations stimulated vibrant conversations amongst delegates regarding experiences, challenges and lessons learnt in their respective spaces.

## PURPOSE OF THE METRO ENGAGEMENT

The workshop centered on information and knowledge-sharing in:-

- Alignment of Individual and Organisational Performance;
- Measuring Impact of Organizational and Individual Performance;
- Municipal Preparation for the audit of pre-determined objectives;
- Challenges encountered during the audit process;
- Identification of challenges; and
- Risks and way forward.

## LINKING ORGANIZATIONAL PERFORMANCE TO INDIVIDUAL PERFORMANCE

### THE CASE OF ETHEKWINI AND MANGAUNG METROPOLITAN MUNICIPALITIES

In the interest of sharing experiences and drawing lessons from them, metros of EThekwini and Mangaung gave presentations showcasing their different contexts and approaches to aligning

organisational and individual performance. Ethekwini Municipality touched on cross-cutting issues related to performance such as recent developments (MSCOA and Circular 88), links of the IDP to Individual Performance, challenges with cascading performance, lessons, and measuring impact. Meanwhile, Mangaung also made a compelling presentation that addressed Performance Management, performance linkages to staff, city-wide planning and measurement of impact.

# DISCUSSION POINTS



## ORGANISATIONAL STRUCTURE

### Silo Mentality

- Budget links and MSCOA are elements worthy of residing in the CFO's Office
- The gravitation of silo mentality in municipalities is strongly evident.
- Strong emergence of performance–related matter and collective ownership is a reform that has the potential of breaking silo mentality.

### Linking SDBIP to projects and OPEX

- It is strongly conceded that this remains a challenge.
- The starting point in addressing it is to finalise the system by putting all the necessary measures in place ie standardization across all municipalities.

### Municipalities in co-operative government

- Section 154 of the Constitution sets out the objectives of government, one of them being to extend support to municipalities.
- It would be useful to re-iterate this point during engagements involving municipal reforms.

### 5 Year Contracts

- Employment contracts for top management (City and Deputy City Management level) often last for 5 years.
- The frequent change of management leads to continuous change of vision and the organisation suffers from a continuous state of institutional change.
- **Recommendation:** SALGA to raise this issue in relevant structures.

## Linking Performance to Strategy

- In some cases, the functions of institutional Performance Management and Employee Performance Management are housed in separate departments. This can pose as a major hindrance to cascading Performance Management to the remainder of the institution (besides s56 employees already included).
- When rolling out municipal-wide Performance Management consideration also has to extend to capacity.
- In the case of EThekwini Municipality, it had managed to successfully incorporate the Performance Monitoring and Evaluation (PME) Unit (dealing with s54-57 employees and scorecard) with Human Resources (dealing with the remaining categories of employees and SDBIPs).
- It is important to note that due to lack of capacity, this Unit is unable to solely manage Performance across the organisation.
- Moreover, EThekwini Municipality has an electronic system hosted by HR, as all other levels of staff are predominantly featured there.
- This whole process was a success due to buy-in from staff, as Unions were thoroughly engaged in the implementation phase.
- Through MILE, the Municipality also hosts a Master Class in Performance Management dealing with a range of issues ie links of Organisational Performance, IDP and HR.
- Change Management is crucial as the system must be as inclusive as possible.

## Measuring medium to long term goals

- As a medium term document, the IDP measures 5 year goals.
- EThekwini Municipality measures the 5 year goals at this level. Annual goals are measured as targets.
- City of Cape Town has a Trend Analysis where all the outcome indicators are detailed and tracked by the IDP. However, this is only at the organisational level and not individual level.
- The scorecard is very minimalistic and details what the municipality can be held accountable for.
- This approach is adopted to IPPs and SDBIPs.
- For SDBIPs, the Lead Directorates must identify the contributing Directorates and their roles. Therefore, at individual level, there is clarity on reporting lines and areas of accountability.
- City if Cape Town also has a Corporate Scorecard that is not taken to individual level.

# STANDARD APPROACH

## Pre-conditions for Performance

- During Section 54-56 appointments in the Nelson Mandela Metropolitan Municipality, during the scorecard/SDBIP alignment period, the Municipal Manager and Senior Managers jointly decide on indicators and the agreement is upfront.

## Methodology for Audit Committee

- A standardised approach applicable to metros is needed. Often the challenge arises when there are changes in the Audit Committees, comprising of new members with different visions.
- In this regard, the City of Cape Town has a very strict Terms of Reference.
- **Recommendation:** These Terms of Reference will be shared with the other metros.


## Over-achievement in performance

- Although City of Ekurhuleni is succeeding in achieving this with Directors and MMC Contracts, it however remain unattainable for staff in the other levels.
- Overachievement is achieved when there is innovation and going over and above the required duties.
- COSO (The Committee of Sponsoring Organisations of the Tradeway Commission) devised a new framework which deals with the desired elements for implementation in municipalities.
- **Recommendation:** The COSO framework can be considered as it is unfair to strictly measure individuals rigidly, as they might be hindered by circumstances beyond their control.


## Uniform Approach to performance and non-performance

- Regarding the weighting of SDBIP/Scorecard, EThekwini Municipality weights 70-80% of it. The remaining 20% is allowance for additional elements. This approach ensures that the focus is on service delivery.
- If the 50% approach is adopted then the chances of losing critical service delivery issues will be elevated. Therefore most of the KPIs are weighted from the SDBIP.
- There is a challenge of the misalignment of performance documents and the actual service delivery. A mechanism that will correct this is required.
- The absence of measuring core services remains a challenge. However, EThekwini Municipality and City of Cape Town have put measures in place to avert the effects.
- EThekwini: An operational indicator section was created within the PME Unit as a dashboard. The biggest source of information is media, core centres and UIPs. It is monitored on a bi-weekly basis. It is effective as the City Manager holds the Head of Departments accountable for the turnaround times in resolving the issues.
- City of Cape Town: There is a "C3 Notifications" system that is used by the public. The system is built-in and tagged and there is an internal dashboard.


## Customer Satisfaction Survey

- In standardising surveys, partnering with institutions like STATS SA will be beneficial. However, funding remains a challenge.
- **Recommendation:** COGTA, National Treasury, and SALGA to engage STATS SA on conducting these surveys every 5 years.

**Linking MSCOA to Performance**

- Municipalities are not on the same wavelength in terms of alignment of organisational to individual performance and MSCOA.
- Important considerations: *How are municipalities coping? Is MSCOA a hindrance or a promoter of alignment?*
- Performance indicators are related to financial management which is cross-cutting. It is crucial for municipalities to understand their role in financial management.

**Cascading effect on the Bargaining Council**

- Cascading Performance to employees other than top management remains a stumbling block. Initiating negotiation at with the Bargaining Council is not gaining traction.
- Unions have an appetite for this as they also desire productivity and performance.

## INNOVATION

**Remuneration**

- There is a widespread perception among staff below top management of Performance Management being about monetary rewards.
- Innovation is required to drive Performance Management non-financial rewards.

## CITIZEN CENTRIC

**Impact on the ground**

- In planning and implementing Performance Management, it is important to be ore citizen-centric.
- Ensuring the benefit of Performance Management cascades throughout is also crucial.
- The reduction of performance "jargon" only known to practitioners will ensure buy-in.
- People should be empowered in terms of new appointments of City/Municipal Managers.
- EThekwini Municipality's City Manager is driving a citizen-centric approach whereby there is a huge reliance on call centres, media and various platforms where there is engagement.

## POLITICAL LANDSCAPE

**King IV**

- King IV was introduced as recommendation and not legislation for measuring Councillor Performance.
- The most fundamental factor in successfully adopting is obtaining buy-in from political leadership.

**Performance and elections**

- Research has proven that municipal performance declines amid elections, and can take another year to pick up.
- In addressing the matter, legislation ie the Systems Act should play an integral role in devising an appropriate solution.
- Appointments of new politicians also results in changes in strategic focus.

## AUDITING OF PRE-DETERMINED OBJECTIVES

**NELSON MANDELA BAY AND CITY OF CAPE TOWN**

The Metropolitan Municipalities shared and unpacked their approaches to prepare for the audit of pre-determined objectives within their respective metro's.

The Nelson Mandela Bay Municipality in preparing for Audit on Predetermined Objectives starts with performance planning which includes developing and aligning the Long-term Development Plan, IDP (incl. Impact / Outcome Indicators) and Budget. Thereafter the Performance Monitoring and Reporting is put in place for providing technical support to departments to ensure policy & legislative compliance (setting indicators in IDP, Key Performance Indicators, performance and budget targets in SDBIP, etc.). The presentations also teased out problematic nauances that might be a threat to progress, this includes the use and rotation of Audit Trainee by AG which has little experience of the functionality of local government

The City of Cape Town Municipality indicated that it extensively utilises the Internal Audit unit to monitor risk on predetermined objectives and measure the performance of the different on programmes and projects. the clear distinction between Audit of Predetermined objectives (PDO) and Performance Audit. The audit of PDO focuses on strategic planning, implementation, monitoring and the reporting of performance information whereas the Performance Audit focuses on specific programmes, projects or processes.

The City of Cape Town took the audience through the internal perfomance auditing process which includes the following:

- Logic Models:
    - It focuses on the management and monitoring of consultant contract
- The Strategic Performance Review  Stragegy as the Municipal Audit Approach:
    - Selection of performance review topics
    - Planning which includes conducting meetings with key managers involved
    - Execution which involves recording and analysing of information
    - Report findings to management and seek responses for recommendation
    - Assess implementation of action plan and detect early warning systems for follow up reviews.
- Audit Process: The following is the standard procedure between Auditor General and the City of Cape Town Municipal Client Management Team:
    - Formally notifies the client management of the audit and high level audit objectives,
    - Develop operational plan to gain an understanding of the activity to be audited from
    - Formally communicate and discuss and clarify the objectives and scope of the audit with client management
    - Analyse, examine and evaluate information against the audit criteria identified during the operational plan
    - formally communicate to all role players the audit findings, as discussed and cleared with client management during testing
    - Formally communicate to all role players the audit findings, as discussed and cleared with client management during testing, formally request the Executive Director and affected Directors of the business process to

- o Confirm the accuracy of the management comments and formally communicate the final results of the audit as previously discussed and cleared with the client management

Overall, presentations sparked robust meaningful engagements whereby all metros leant from one another.

<h2 align="center">PANEL DISCUSSION POINTS</h2>
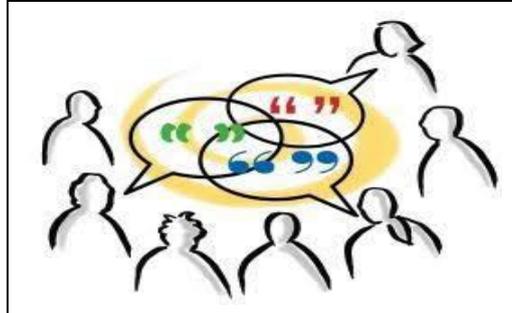


**Municipal Finance Management Act (MFMA) Circular No. 88**

The MFMA Circular No.88 refers to the Rationalisation Planning and Reporting Requirements. The circular provides guidance and assistance to metropolitan municipalities on the preparation of statutory planning and reporting documents required for the 2018/19 Medium Term Revenue and Expenditure Framework (MTREF). It is for the attention of all municipalities, but only applies to metropolitan municipalities. It should be read in conjunction with the MFMA Circular No. 13 issued on 31 January 2005 and MFMA Circular No. 63 issued on 26 September 2012.

The circular aims to support the alignment of planning and reporting instruments for a prescribed set of municipal performance indicators. The Municipal Systems Act (MSA) and the MFMA require alignment between planning and reporting instruments such as the Integrated Development Plan (IDP), the Service Delivery and Budget Implementation Plan (SDBIP) and the Annual Report

National Treasury initiated a process to review, rationalise and streamline the reporting arrangements of metropolitan municipalities at the end of 2013. This initiative was undertaken in response to the following issues arising from metro reporting on performance information, particularly within the built environment:

- There are too many indicators that national departments expect metropolitan municipalities to report upon and they are not sufficiently strategic.
- There is duplication, fragmentation and insufficient coordination of how this performance information is managed and reporting resulting in an inefficient use of resources.
- Indicators at the output and outcome level are generally undeveloped and insufficient attention has been paid to the relationship between outputs and outcomes in crafting and selecting performance indicators

**Importance of benchmarking to establish good performance management and reporting practices**

- There is a need for municipalities to consider the very distinct roles of the Internal and External Auditors. These different roles are also clearly defined by legislation.
- The sharing of best practices in terms of performance management and reporting between the various metros would benefit other municipalities. AGSA is preparing to issue the MFMA Report on the 16/17 financial year, but overall very limited improvement in Local Government in the area of performance management and reporting is evident.
- Once of the ways to address this is by benchmarking and implementing best practices.
- **Recommendation:** Municipalities are urged to obtain best practices in performance management, monitoring, evaluation and reporting from those metros that are performing well in this area. For instance, EThekwini and City of Cape Town can share best practices as they have achieved a number of successes. In this regard, EThekwini Municipality successfully cascaded performance to lower levels with the full support of political leadership and staff. Whilst the Performance, Monitoring and Evaluation Unit is responsible for Individual Performance Plans of Senior Administrators of the City, Human Resources hosts all other levels of staff on an electronic system. On the other hand, learnings can also be extracted from City of Cape Town's model. The approach is centred on undertaking an organisational Trend Analysis whereby all outcome indicators are reflected. The scorecard is characterised by its minimalistic nature and directly addresses the areas of accountability. This concept is applied into IPPs and SDBIPs.

**AGSA Criteria**

- Audit Standards requires that the audit of predetermined objectives be undertaken in accordance with the criteria developed from the performance management and reporting framework, as define.
- This Framework emanates from legislation, frameworks and guidance such as the MFMA, Municipal Systems Act and regulations, NT Framework for programme performance information, etc. The owners of the overall framework are those central government departments responsible for performance management and reporting, i.e. National Treasury, COGTA, DPSA, and DPME. The AGSA consults annually with these central government departments via a forum, known as the *Performance Information Task Team*, to confirm the contents of the framework.
- Details of the performance management and reporting framework are also shared in the engagement letter with each auditee. The engagement letter summarise the audit criteria i,e. consistency, measurability, relevance, presentation and disclosure, reliability with changes/updates. These details are also included in the AG Directive as published in the Government Gazette.
- The engagement letter is annually issued to each Accounting Officer detailing what is to be audited, how and when. It also comprises of information on the criteria used when auditing financial statements, the annual performance report and compliance. It is issued to the municipalities prior to the audit.
- The engagement letter is to be signed and returned to AGSA.
- In terms of processing operational challenges/queries, the Chair of the Audit Steering Committee must be engaged on the issue.
- There is an escalation guideline that allows challenges to reach the Head of Audit in the respective provinces.
- Although there are numerous audit findings resulting from the audit of the financial statements, audit of predetermined objectives and compliance audits, Performance

Audits (auditing of economy, efficiency and effectiveness) can also be undertaken by the AGSA on request for a qualitative overview.

- **Recommendation:** SALGA, as the voice of Local Government to engage Treasury and COGTA to ensure specific inputs are made with the *Performance Information Task Team.*

## A concern was raised that Auditor-General does not always understand and/ or follow protocol when engaging on the AOPO. AGSA Responded that:

- Since 2010, AGSA has expressed an audit opinion on the report against predetermined objectives (as contained in the annual performance report) in all management reports.
- While the audit opinion is only included in the report to management since 2010, all material findings that lead to the audit opinion in the management report was included in the audit report – but with no explicit expression of an opinion in the audit report.
- The decision on when to publicly share the audit opinion on the performance report in the audit report is the prerogative of the Auditor-General. Once this decision has been made by the Auditor-General all auditees will be notified one year in advance of implementing the decision.

## Re-iteration of escalation process of matters during the external audit process

- AGSA is very clear in terms of due processes that must be followed during the audit process and channels to follow when there are grievances. All audit process matters should first be discussed with the senior manager responsible for the audit or with the Business executive (Provincial Head of audit).
- However, it is a reality that municipalities may not all be on par with these processes and guidelines, thus they require assistance in this regard.
- Also, in some cases, AGSA processes take place at different levels ie at MM level only.
- **Recommendation:** Facilitate engagement with municipalities on AGSA escalation processes and guidelines.

## Utilisation of trainee auditors during audit of predetermined objectives

- It has been reported that in some instances Trainee Auditors, with limited experience of the municipal environment, undertake municipal audits.
- In order to enhance their comprehension on the complexity of Local Government, SALGA Western Cape has facilitated 2-day training workshops for them on an annual basis.
- **Recommendation:** Institutionalisation of training to address the inexperience.

## Establish AG Uniformity on Audit of Predetermined Objective

- There is a challenge of lack of AG uniformity across the various provinces, as practices and interpretations differ.
- **Recommendation:** Issue an objective questionnaire to all municipalities to obtain a realistic experiences on the ground.

**MONITORING AND EVALUATION**

**The use of Monitoring and Evaluation as a tool by municipalities**

- Exclusively relying on indicators is limiting, as it only reflects certain aspects and excludes others.
- The recognition and ability to distinguish between the different tools availed by Internal and External Audit and Performance Auditing is crucial.
- Evaluation plays a role of providing a broader suite of tools that are available in order to address aspects excluded by indicators.
- Evaluation also seeks to interrogate the gaps of indicators at more depth using the pieces of evidence. Available.

**Inconsistency of Monitoring and Evaluation indicators**

- It is worth emphasising that indicators do not fall entirely in the ambit of municipal responsibility.
- A challenge of inconsistencies in the methodology to indicators is predominant, especially around households and housing units. Metros are presenting contexts in one way but also using different definitions of that information. This is due to the various systems, coverage and issues around the reliability of info shared in diff metros around indicators.
- Therefore, emerging from this is a need of uniformity and standardisation, and mechanisms have been put in place to address it.
- Over the years, it has emerged that some indicators are more ready than others. There have been attempts in arranging them in a readiness scale (level 1 and 2), which indicate that they can be reported. Indicators categorised on level 3 and 4 give a reflection that there are still definitional/methodological issues associated with monitoring and evaluation, thus it can be reported on.
- Circular 88 has sought to recognise the value to be gained by apportioning the different responsibilities for different indicators within a common overall framework. It introduces the idea of national shared or metro responsibility reporting but it also introduces the levels of readiness of indicators.

**WAY FORWARD**

In concluding the session, the following commitments were made as a way forward:

- The draft learning note will be e-mailed on Tuesday (13 March 2018) for feedback and additional comments.
- The turnaround time for feedback is one week, and is anticipated to be forwarded on Tuesday (20 March 2018).
- Thereafter the final learning note, coupled with the Metro engagement presentations for will be uploaded onto the MILE website on http: www.mile.org.za
- All challenges, lessons learnt and recommendations will be appropriately processed through SALGA structures.