

## **REPORT ON CORRECTIVE ACTIONS ON THE ANNUAL PERFORMANCE REPORT**

### 1 Background and SUMMARY

#### 1.1 Legislative Overview and background

The 2005/06 Annual Performance Report, which is compiled in terms of the Municipal Finance Management Act, 56 of 2003 (MFMA) and the Municipal Systems Act, 32 of 2000 (as amended) (MSA), reflects on the performance of the City of Johannesburg for the period 1 July 2005 to 30 June 2006.

Section 121(3) c of the MFMA requires a municipality to prepare an Annual Performance Report in accordance to the Municipal Systems Act, 2000 (Act, 32 of 2000). The purpose of an Annual Performance Report is to provide a record of activities, report on performance against the budget and promote accountability to the local community for the decisions made throughout the year.

The Section 38 of the Municipal Systems Act, and the Municipal Planning and Performance Management Regulations of 2001, (Regulations No.7146 of 2001), requires that a municipality to establish a performance management system that is best suited to its circumstances and which is in line with its priorities, objectives and targets, as contained in its IDP. The MSA further provides a mechanism to ensure that performance processes and system are effectively implemented, continually monitored and improved upon.

The Auditor-General is required in Section 45(b) of the MSA to provide an assessment of the controls implemented by the municipality to implement and manage its performance management system. The purpose of this report is to provide details in terms of the process followed by the Auditor-General in the assessment of the performance management system for the City of Johannesburg in the 2005/06 financial year and to respond to the findings of the Auditor-General as expressed in the draft report on the City of Johannesburg's performance management system for the year ended 2005/06.

#### 3.2 Assessment Process

In August 2006, a team of consultants representing the Auditor-General's office undertook an audit on the effectiveness of the performance management system. The scope of work included the following checklist which was the basis of the performance audit process.

- Development of an integrated development plan (IDP)
- Development of a performance management system
- Development and implementation of key performance indicators
- Setting of standards for key performance indicators
- Actual service delivery process
- Internal monitoring of the performance measures

- Internal control of the performance management system
- Performance measurement and reporting
- Revision of strategies and objectives

The assessment was done by reviewing and assessing the following documents

- The IDP document for 2005/06
- The City's scorecard and all senior manager's signed performance agreements and scorecards
- Schedule and minutes of all coaching and review sessions between the City managers and senior managers held in the 05/06 financial year
- Schedule and minutes of all coaching and review sessions held with the performance management and remuneration panel (performance audit committee) in the 2005/06 financial year
- Review of all quarterly performance reports and the effectiveness of the electronic monitoring system (ADBS)

### 3.3 Findings

For the period ended 2005/06, The Auditor -General observed the following issues. These are detailed in the Auditor- General's draft report on performance (Attached as Annexure b) of the Annual Report.

<b>Key Objective</b>	<b>Findings</b>	<b>COJ comments and Actions</b>
Development of the IDP	It was noted the amendments to the 2002/03 IDP were made previous IDP's	No action required
Development of a performance management system	It was noted that the City has approved a PMS in 2003 and the system is been implemented and monitored	No actions required, the city is however in a processes of reviewing the system and assessing its effectiveness with the organisation, particularly in lower levels.
Development and implementation of key performance indicators	Key performance indicators (KPI) were reviewed according to the performance management system.	No actions required. The city has sets KPI based on the business plans on an annual basis, however there is still room for improvements in terms of developing Simple, Measurable, Achievable Realistic and Timed (SMART) KPI's.
Setting of standards for key performance indicators	All targets were set for each of the indicators	No action required
Actual service delivery process	The city has an electronic system for tracking and monitoring performance on a	No action required

	quarterly basis and a designated team that ensure compliance to the PMS	
Internal monitoring of the performance measures	The city carried out coaching and review sessions on a quarterly basis.	No action required
Performance measurement and reporting		No action required
Revision of strategies and objectives	The City amended its strategies and prepared the IDP for 2005/06	No action required

### 3.3.1 Internal Controls of the Performance Management System

The area, according to the Auditor- General's report that require attention is Internal controls of the performance management system , the AG's emphasised on the role of the internal audit and Performance Audit committee referred to in the City as the Performance Management and Remuneration Panel.

In terms of Section 45 of the MSA stipulates that the municipality is required to "implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing process". This is to "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

In reviewing the performance management system, there is a requirement for focus to be placed on economy, efficiency, effectiveness and impact in terms of the indicators and targets.

The Auditor General is of the view that the review process was not fully followed based on the fact that no documentation in terms of Audit Committee minutes were available for the assessment by the auditing team

#### 4. Response to the AG's comments

- The City has established the Performance Audit Committee referred to as the Performance Management and Remuneration Panel, in accordance with the Municipal Planning and Performance Management Regulations, 2001.
- The terms of reference for the Performance Management and Remuneration Panel was adopted and approved by Council in 2003.

- The Performance Management and Remuneration Panel over the past 2 financial years has provided an “oversight role” in the implementation of the performance management system and the performance reviews of City Manager and senior managers.
- The City’s Internal Audit Committee Charter has been amended to incorporate the internal audit roles in respect of the assessment of the performance management system as per the regulations.
- In period under review, Internal Audit participated in the final review processes for senior managers. They were responsible for reviewing performance evidence and quality assurance. They also actively participated in the final review sessions with the Performance Management and Remuneration Panel.
- The reason for the unavailability of documentation in terms of minutes was a timing issue, the final reviews for all senior managers were only conducted in October 2006, whilst the assessment team conducted their assessment in August 2006. The minutes and the results of the final reviews were circulated to all members of the Performance Management and Remuneration Panel and were considered by Mayoral Committee and Council on the 22 and 26 October respectively.

## 5. Recommendations and Actions to be taken

### a) Interface between the Performance Audit Committee and the Internal Audit

In reviewing the requirements around sound performance management governance within the municipal context, it has been noted that the role of internal audit could be performed more effectively. In particular, the Auditor General notes that performance management should be reviewed by Internal Audit

- The internal audit will review all scorecards for senior manager and will participate in the Performance Audit Committee.
- Risk areas pertaining to performance will be communicated to the City Manager and designated staff for actioning.
- The midyear and final review performance reports and minutes will be circulated to the Internal Audit and Audit Committee.

### b) Support provided to the Performance Audit Committee

*The following administrative support shall be provided to the Committee:*

- Comprehensive and defensible minutes shall be taken at each sitting of the Performance Audit Committee.
- The City Committee section shall allocate a minute-taker to be present at all meetings.
- A schedule of meetings shall be developed and signed off at the start of the financial year, against which meetings shall be constituted.
- Any changes to the schedule of meetings shall be distributed timeously.

*The following technical support shall be provided to the Committee:*

- An assessment of performance measures, the functionality of the performance management system and compliance issues with legislation shall be undertaken by internal audit, in alignment with the specifications of the Municipal Performance Management Regulations, 2001.
- Internal audit shall present quarterly reports on their audits to the City Manager and the Performance Audit Committee. A copy of this report will also be submitted to the Audit Committee.
- Independent reviewers shall carry out an initial review of performance evidence.
- Reports from this initial assessment shall be submitted to the Committee for consideration.
- Technical support relating to the mechanics of the performance managements system shall be provided to the Committee when required.

**City Manager**  
**City of Johannesburg**  
**M AV Dlamini**