



Internal Audit, Risk and Compliance Services

Increased competition, a shrinking world, the decentralisation of operations as well as the desire of management to monitor the overall operations of the organisation has increased the number of internal auditors finding themselves involved in performance audits (also known as operational or value-for-money auditing). Such a shift enabled internal audit – with the objectives of its perspective and the rigor of its processes – to once again become an independent advisor and value creator to management.

Performance auditing is a technique used by internal auditors to evaluate the economy, efficiency and effectiveness of the organisations' operations so as to assure management that its strategic objectives are being carried out and whether or not they can be improved on. The scope of the audit is expanded beyond the verification of financial controls or compliance with policies as it looks for the existence of management measures such as leadership, employee empowerment, teamwork, risk assessment, management information, communication, resource allocation, productivity measurement, etc. Performance auditing therefore requires flexibility, imagination and analytical skills to provide organisations with innovative solutions and new ideas.

The three E's

The concepts of economy, efficiency and effectiveness, commonly referred to as the three E's, form the basis of any performance audit.

Economy refers to the terms and conditions under which an entity obtains the required resources. An economical operation acquires these resources in appropriate quality and quantity at the right time and place at the lowest possible cost.

Efficiency defines the relationship between goods or services produced and the resources used to produce them. An efficient operation produces the maximum output for any given set of resources input or it has minimum input for any given quantity and quality of service goods provided. The underlying management objective is therefore to increase productivity and lower unit costs.

Effectiveness is defined as how well a programme or activity is achieving its stated objectives, its defined goals or intended effects/outcomes.

More E's

In undertaking our performance audits, we also focus on the following additional E's:

Environment: Sustainable development which means meeting the needs of the present generations without compromising the ability of future generations meeting theirs.

Equity: This refers to fairness and impartiality in the use of public funds i.e. is the selection procedure for beneficiaries of funds fair and void of influence.

Ethics: This refers to the qualities of honesty and integrity in personal conduct and devotion to duty as manager of public funds.

When all government projects are well executed in relation to the 6E's above, there will be an improvement in people's economic welfare bringing about happiness and satisfaction.



6E's + Economic Welfare = 7E's

The extent and value to be gained from a performance audit depends mainly on the scope of the audit as well as the progress the organization has made in successfully implementing the necessary building blocks to install a performance culture within the organization.

The benefits associated with performance auditing therefore could include any of the following:

Economy

- Reduction in costs through better contracting
- Reduction in costs through economies on usage of personnel or other resources.

Efficiency

- Improved productivity and asset utilization levels
- Remedying duplication of effort or lack of coordination.

Effectiveness

- Better identification /justification of need
- Clarifying objectives and policies
- Better achievements of objectives by changing the nature of outputs or improved targeting.

Improved quality of service

- Shorter waiting time
- Reduced response times
- Better access to information Helping the public, clients, industry, etc.

Improved planning, control and management

- Introduction/improvements to corporate planning
- Clearer definitions of priorities and better-defined targets

- Better control and management resources
- Tighter controls against fraud
- Better financial and operational management information.

Improved accountability

- Improved visibility of procedures and outputs
- Better and/or more accurate performance indicators.

Performance auditing is often a huge step for an organization but as with every new initiative, the potential benefits to be gained significantly outweigh the efforts to get there.

How can KPMG help?

KPMG have a dedicated team of performance auditors who specialize in assisting public and private sector clients with performance audit related services. Key services include the following:

Training course

Provision of high-level awareness workshops and training courses, tailor-made to address the requirements of clients in understanding the concepts, procedures and working methodologies associated with performance auditing.

PFMA and MFML compliance

Assistance to public sector clients to ensure adherence to the statutory requirements regulating the concepts of economy, efficiency and effectiveness, as specified in the Public Finance Management Act 1999, and Municipal Finance Management Legislation.

Internal Audit Assistance

Assistance to internal audit functions in developing step-by-step performance audit manuals to guide them in conducting their own performance audits. We also perform peer reviews to evaluate and report on the performance auditing approach and methodologies in use by clients' internal auditors.

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