

4 % DISCRETIONARY ALLOWANCE (UNFORESEEN SALARY FLUCTUATIONS)

MOTIVATION CRITERIA

- Early indications of the surveys done indicate that the salary increases for 2007-08 will be higher than the 6% increase budgeted. The projected increase will be higher than 8% as of August 2006 - *the remuneration committee to confirm in November 2006.*
- Based on historical trends, trainee accountant salaries for board candidates tend to fluctuate outside budgeted norms.
- Pending results of the review of policies that will facilitate the alignment of corporate services pay ranges to the industry norms.
See note 4 of budget document 2.

21 September 2006



AUDITOR - GENERAL

PERFORMANCE BONUSES

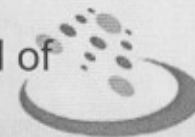
FUNDING

- Performance bonuses are not budgeted for, but are provided for in the funding schedule.
 - and paid only if the Auditor-General makes stretch.
 - Stretch is achieved if the Auditor-General makes an additional 1% of gross profit which translates to an additional 3% of projected net surplus.
 - In addition the Auditor-General has discretion to award performance bonuses.

GOALS AND TARGETS

- The goals and targets are set-out in the Balanced Scorecard (BSC) and Individual performance contracts (IPC's).
- Review period January to December.
- Qualifying criteria is more than comply on performance and the top end of comply as determined by the Auditor-General.

21 September 2006



AUDITOR-GENERAL

SURPLUS RETENTION

Projected funding statement

- 2003/04 approval for retention still outstanding. Auditor-General and National Treasury are in the process of formulating guiding principles. Appointment secured to finalise this process on 26 September 2006.
- 2004/05 not necessary due to R45 thousand deficit.
- 2005/06 not necessary due to R20 million deficit.

Guiding Principles

(see annexure 3 of budget submission)

1. Status of the funding position.



AUDIT TARIFFS

Explanation of the calculation of the tariffs used by outside firms

Process

- The South African Institute of Chartered Accountants publishes the rates to be used by registered auditors when performing work on behalf of the Auditor-General.
- The rates are the result of consultations between AG and SAICA public sector committee.

Basis

- Cognisance is taken of the difference in the business models used by private audit firms (profit model) as opposed to the AG (break-even model).
- The overhead factor applied to earnings is capped at:
 - 2.75 to compensate for business risks faced by firms.
 - 2.15 to cover the overheads by the AG.
- The average differential in charge out rates between audit firms and AG has consistently been in the region of 28%.
- The research has been commissioned by the AG and SAICA in order to review the overhead factor of audit firms.
- The result of the research will confirm the optimal level of the charge out rate differentials between AG and the audit firms.

