

**Ad Hoc Committee on the Review of Chapter 9 and
Associated Institutions**

Response of the Auditor-General

A. Role and functions of institution

1. How do you view your institution's constitutional/legal mandate? In other words provide a description of your understanding of your institution's constitutional/legal mandate.

1.1 Constitution of the Republic of South Africa, 1996

Section 188 of the Constitution states that the Auditor-General (AG) must audit and report on the accounts, financial statements and financial management of all national and provincial state departments and administrations and all municipalities. The AG must also audit any other institution or accounting entity required by national or provincial legislation to be audited by the AG.

In addition to these mandatory functions, the Constitution furnishes the AG with a discretion to audit and report on the accounts, financial statements and financial management of:

- any institution funded from the National Revenue Fund, a Provincial Revenue Fund or a municipality; or
- any institution that is authorised in terms of any law to receive money for a public purpose.

The AG further enhances accountability by submitting audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. These reports must all be made public.

Lastly, the Constitution assigns additional powers and functions to the AG as are prescribed by national legislation.

1.2 Public Audit Act, 2004 (PAA)

The national statute that prescribes further powers and functions of the AG is the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

The PAA mandates the AG to perform constitutional and other functions.

1.2.1 Constitutional functions relate to all those functions that the AG performs in order to comply with the broader mandate described in the Constitution. Section 4 of the PAA makes a further distinction between mandatory and discretionary audits.

Sections 4(1) and 4(2) require the AG to perform annual, mandatory audits of government departments, administrations, constitutional institutions, municipalities, municipal entities and certain consolidated financial statements. In addition to these mandatory audits, section 4(3) furnishes the AG with a discretion to audit and report on the accounts, financial statements and financial management of public entities and other institutions that comply with certain criteria.

1.2.2 Other functions relate to audit-related services which are commonly performed by a supreme audit institution. These services include anything necessary to fulfil the role of AG effectively.

2. What role or function does your institution perform that is not carried out by other institutions, whether in government or civil society?

The Constitution charges the AG with the specific responsibility of auditing and reporting on the management and utilisation of *public funds* within all three spheres of government in terms of standards appropriate to the public sector. On an annual basis, therefore, a variety of stakeholders are provided

with accountability information appropriate to their respective needs through the different reports that we produce. The audit services that the AG provides are:

- *Regularity audits* – reporting on whether the financial statements fairly presents, in all material respects, the financial position and the results of its operations for the year, including compliance with ;
- *Audits of performance information* – reporting on the performance of an auditee against its predetermined objectives;
- *Performance audits* – reporting on whether the auditee’s resources were procured economically and utilised efficiently;
- *Special investigations* – audit investigations arising from specific complaints or requests;
- *Sustainable development audits* – limited audits in relation to government’s environmental management measures; and
- *General* or transversal reporting – reports on government wide financial management trends.

The nature of public sector audits are such that the AG reports more extensively than private sector auditors on the detail and nature of financial management shortcomings and the root causes thereof, thereby enabling the stakeholders or end-users of audit reports to manage public resources better.

3. In what way, if any, does the role and function of your institution overlap or potentially overlap with other chapter 9 institutions?

There is a potential overlap of functions between the AG and the Public Protector. Section 5(1)(d) of the PAA mandates the AG to investigate any body, institution or entity referred to in sections 4(1) and 4(3) of the Act, if the AG considers it to be in the public interest or upon the receipt of a complaint or a request. The Public Protector is mandated in terms of section 182(1)(a) of the Constitution to investigate any conduct in state affairs or in the public administration in any sphere of government that is alleged or suspected to be improper or to result in any impropriety or prejudice.

It should be noted that the performance of special investigations is not the core function of the AG. Furthermore, although there is not a formalised

understanding of cooperation and working methodology between the AG and the Public Protector, irrespective of this fact, the AG does from time to time refer matters for investigation to the Public Protector in accordance with the provisions of the Protected Disclosures Act, if the Public Protector is better equipped in terms of its mandate to perform such an investigation.

The other institution that the AG's functions could potentially overlap with is the Public Service Commission, which is charged with the responsibility to oversee matters relating to public administration and discipline in government. Audit work relating to these areas such as the review of conditions of employment, code of conduct, human resource management, etc may potentially overlap with the mandate of the PSC.

In this regard the AG, in 2001 signed a formal memorandum of understanding with the PSC that sought to maximise the co-operation and minimise the duplication of effort between the two institutions.

No real or potential overlap in the functions of the AG and any of the other chapter 9 institutions exists. However, there is immense potential for enhanced cooperation that could maximise our effectiveness in the manner in which solutions to audit finding could be better formulated.

4. **What outcomes do you strive for in order to realise the constitutional/legal mandate set out in 1 above?**

Strategy of the Auditor-General

The AG has a strategic document which serves as the blueprint for the AG. It was built upon a consultation process with all stakeholders and role players, internally and externally, and contains both short- and long-term goals. This strategic blueprint was approved by the Audit Commission in July 2001. (Please see copy provided.)

It is on the strength of this strategic blueprint that the annual strategic plan and budget of the AG is formulated for presentation to the national assembly. The annual strategic plan and budget reflect the performance outcomes in the form of a detailed balanced scorecard (BSC) and a detailed budget.

The monitoring of the overall coordination of the reporting process on performance information, the strategic planning process, the budget process and the regular "in-year" monitoring reside completely with the Deputy

Auditor-General, whose duty it is to carry out this function on behalf of the Auditor-General.

The latest version of the performance outcomes are reflected in the AG's Budget and Strategic Plan 2007-2010 which was presented to the Standing Committee on the Auditor-General (SCoAG) prior to tabling in the National Assembly in September 2006. (Please see *Annexure A* below for details of performance outcomes.)

5. **Does the empowering legislation governing your institution provide a clear, workable, and comprehensive legal framework that supports and empowers the institution to successfully fulfil its core mandate?**

Yes, the PAA only took effect in 2004 and will require revision only once there has been sufficient opportunity to learn from the practical implementation of the Act, possibly after another two or three years.

Major gaps do not exist in the PAA, but some areas have already been identified for possible further clarification by means of either an amendment to the Act or regulations in terms of section 52. The following can be mentioned:

- It is proposed that the members of the Audit Committee be appointed by the Auditor-General and not the DAG as at present.
- The AG should be able to prescribe not only reporting standards, but also auditing standards in the event where the AG has opted not to perform an audit in terms of section 25 of the PAA.
- Clarification of the roles and relationships of various oversight bodies that work with the Auditor-General.
- The responsibility and/or basis of determining the conditions of employment and remuneration of the Auditor-General.

6. What mechanisms do you have in place to measure the outcomes set out in 4 above, and how do you assess the effectiveness and impact of your work?

The AG makes use of the balanced scorecard, as developed by Drs Kaplan and Norton 1999, to measure performance with regard to audit and support services within all the business units.

Balanced scorecard

The AG's Strategic Plan 2007-2010 leads to a balanced scorecard that measures the success based on the strategic objectives. Also linked to the balanced scorecard are clear accountability and compensation links at all levels through an individual performance contract.

Credibility of the AG's balanced scorecard

The AG's balanced scorecard conforms to the basic requirements with respect to:

- Discouraging inappropriate behaviour;
- Setting performance indicators;
- Identifying and managing the cause-and-effect links in all that we strive to achieve within the AG.

7. Have you carried out any evaluation looking at the success or otherwise of your functions, especially in relation to recommendations sent to government, Parliament or other public institutions?

Independent quality control

The AG has a dedicated quality control team that coordinates the quality process within the AG. This process is one of the key measures that the AG utilises to establish whether audits are conducted in terms of the International Standards on Auditing, and whether there is a need for further improvement in quality from one auditing period to the next. The credibility of this process is

enhanced by the annual quality review process performed by an external review entity, the Independent Regulatory Board for Auditors (IRBA). Together with the AG's quality review component, the IRBA performs reviews of both the AG's own work and outsourced work.

Stakeholder satisfaction surveys

Since 2001 the AG introduced the stakeholder management programme that entails independent annual surveys of stakeholders to establish their level of satisfaction with their relationship with the AG. On the basis of the survey results, action plans were formulated to respond to and act on the feedback from stakeholders. The results of these surveys were incorporated in the annual reports of the AG.

With the introduction of a specialised Reputation and Stakeholder business unit within the AG, the AG embarked on a comprehensive process to review its reputation and stakeholder management strategy and survey process. The AG aims to build an integrated database of all its stakeholders and do research to understand the needs of the various stakeholders, before more proactive stakeholder management actions are planned and implemented. These stakeholder satisfaction surveys give an indication as to how successful the AG is in conforming to its constitutional and legislative mandate.

8. **What have been/are the major constraints facing your institution and how have these impacted on its ability to achieve its mandate?**

The following areas can be regarded as major constraints to the organisation:

- Non-payment or late payment of monthly invoices by debtors (auditees) resulting in cash flow management difficulties for the organisation;
- Need to improve the timely submission and quality of financial statements by auditees, in non-compliance with the Public Audit Act, 2004, Public Finance Management Act, 1999 (PFMA) and Municipal

Finance Management Act, 2003 (MFMA). This could minimise the pressure on audit teams, (most of whom are studying part time), to work abnormal overtime in order to meet reporting deadlines. This could also allow trainees more time for studies and thus improve their pass rate ;

- The AG operates within an environment where the pool of chartered accountants is limited. The added public sector auditing focus and the employment equity requirements put further constraint on the AG. The AG has embarked on increasing the pool of CAs by having a trainee accountant scheme and also offering full-time bursaries, so that those students, once qualified, can assist in alleviating this constraint. The AG also supports the process of having other professional bodies accredited by IRBA, as this would broaden the pool of professional accountants and auditors.

Although there are other constraining factors, they cannot be regarded as “major constraints” and are very much in the internal locus of control of the AG.

B. Relationships with other bodies

9. **How do you view your institution’s relationship with the executive and Parliament, given its constitutionally guaranteed independence and impartiality and the constitutional requirement to be accountable to the National Assembly? In particular please address the following issues:**
 - a. **What legal and other mechanisms are in place to ensure and strengthen your institution’s independence;**

As far as legal mechanisms are concerned, the AG’s independence is adequately provided for in section 181 of the Constitution, specifically subsections (2)-(4). In addition, the Preamble and section 3 of the PAA confirm the legal provision of independence.

Independence has been interpreted to mean that the Auditor-General must be able to act or carry out his/her constitutional functions without any interference. In a 2001 study of the International Organisation of Supreme Audit Institutions it was concluded that -

...the concept of SAI independence is generally understood to mean the absence of undue subordination to, direction and/or interference from government.¹

Our understanding of the South African Constitution is that the prohibition on interference extends to all external institutions and not only government; for example, legislatures or the media. In the South African context the use of the words “exercise” and “perform” in section 181(2) of the Constitution is interpreted to imply protection from interference or influence, for example, when deciding on the subject matter of an audit, on the manner and extent of the audit, or what to report.

As far as other mechanisms are concerned, independence will also include the extent to which the institution can operate autonomously on a practical level in terms of the control over its own operations and resources, as well as the extent to which sufficient human, material and monetary resources are available to it.

Judge Langa, in *New National Party of South Africa v Government of the RSA and Others 1999*, in dealing with the independence of a chapter 9 institution, ruled that it was necessary to make a distinction between two factors, both of which are relevant to “independence”.

a) “Financial independence” – the ability to have access to funds reasonably required to enable the institution to discharge the functions it is obliged to perform under the Constitution.

¹ *Independence of Supreme Audit Institutions (SAIs) study*, INTOSAI (International Organisation of Supreme Audit Institutions), 31 March 2001, p. 17.

b) “Administrative independence” – there must be control over those matters directly connected with the functions which the institution has to perform under the Constitution. For example, the executive is required to provide the assistance that an institution requires to ensure its independence, impartiality, dignity and effectiveness.

Administrative and financial independence for the AG became a practical reality in 1992 with the adoption of the Audit Arrangements Act (No. 122 of 1992), which established an administration for the AG outside of the public service and created an own revenue fund. Oversight of the AG – until then carried out by the Minister of Finance – was replaced by oversight by a semi-parliamentary body called the Audit Commission. The Public Audit Act of 2004 enhanced the financial and administrative arrangements of the AG, and ensured alignment with the 1996 Constitution, including enhancing the AG’s accountability arrangements and placing the AG under full parliamentary oversight.

We contend, therefore, that the Auditor-General of South Africa conforms to all the independence requirements identified by the INTOSAI study referred to earlier, viz:

- a) *The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework.*
- b) *The independence of the SAI Head, including security of tenure and legal immunity in the normal discharge of their duties.*
- c) *A sufficiently broad mandate and full discretion in the discharge of SAI functions.*
- d) *Unrestricted access to information.*
- e) *The right and obligation to report on their work.*
- f) *The freedom to decide on the content and timing of audit reports and to publish and disseminate them.*
- g) *The existence of effective follow-up mechanisms on SAI recommendations.*

h) *Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.*

b. What mechanisms are in place to facilitate reporting to (and being accountable to) the National Assembly;

The legal and operational independence elucidated in response to question 1(a) above does not imply freedom from accountability. Section 181(5) of the Constitution, and section 10 of the PAA, set out very clear and detailed accountability requirements for the AG. These provisions imply a *post facto* process at least once a year, e.g. by means of the submission of an annual report. The subject matter of such an annual report will include detail on the activities of the AG and the performance of its functions as well as specific matters listed in various sections of the Public Audit Act, for example:

- Audited annual financial statements, including financial and non-financial performance information [section 41(1)];
- Audit standards [section 10(1)(a)];
- Categories of audit-related services and the entities to whom the services have been provided [section 10(1)(b) & (c)];
- Instances of national or international cooperation [section 10(1)(d)]; and
- Overall control of the Auditor-General's administration [section 10(2)(a)].

c. How do you view your relationship with the executive and under what circumstances do you engage the executive.

As the executive is the subject of the audits carried out by the AG (please see section 188(1) of the Constitution), the AG's relationship with the executive is of critical importance. As an institution supporting democracy, it is important for the AG that the executive appreciate the value of an annual audit. As stewards of public funds and other public resources, the perspective provided by an annual audit is of great benefit to the executive. Therefore, although the AG's engagement with the executive on an annual basis is obligatory in terms of the PFMA or the MFMA, the AG strives to reach a position where the

executive will regard the annual audit as an exercise that adds value to the delivery of its own mandate. In practice, the AG interacts much more frequently with the executive.

With regard to relationships with specific executive structures, the National Treasury (and provincial treasuries) are structures with whom the AG has a close working relationship. The AG and National Treasury have for a number of years now interacted in the form of formalised quarterly meetings on areas of mutual interest, as well as in the form of technical team meetings as and when the need arises.

10. Is Parliament currently effectively fulfilling its oversight role over your institution? If not, how can this be improved?

Although the Standing Committee on the Auditor-General (SCoAG) was appointed in May 2006 only, it has already engaged the AG on a number of occasions on its strategic plan and budget for the next three years, as well as its latest AG annual report. In January 2007 the SCoAG and the AG will flesh out in detail their governance relationship and the related information requirements. It is therefore envisaged that Parliament will continue to effectively fulfil its oversight role over the AG.

11. What was the intended relationship of accountability between your institution and other institutions supporting constitutional democracy and the different branches of government? To what extent have these relationships been realised?

As provided for in section 181 of the Constitution, the AG and other chapter nine institutions are accountable to the *legislative* branch of government *via* the National Assembly. There is no accountability in relation to the judicial or executive branches of government.

12. Does your institution have any official or informal relationship with other chapter 9 institutions or institutions of a similar nature? If yes, describe the nature of this relationship and the outcomes envisaged and generated by this relationship.

The AG and the Public Protector (PP) have in the past cooperated in respect of certain investigations and, where appropriate, will continue to do so in future. There is, however, no formal working or cooperation agreement at present. (See also reply to question 3 above.)

The AG and the Public Service Commission (PSC) adopted a memorandum of understanding in March 2001 in respect of areas of collaboration such as –

- Information sharing
- Training
- Sharing of learning or tools of the trade
- Coordination of audits, special investigations and other projects
- Follow-up of findings emanating from investigations/audits

It also happens that from time to time the AG makes available information pertinent to investigations by investigating authorities such as the Special Investigating Unit or the former Office for Serious Economic Offences (now part of the National Prosecuting Authority).

13. What is the extent of collaboration and coordination of the work carried out by your institution and similar/related work carried out by other chapter 9 institutions or institutions of a similar nature? Give examples of successful initiatives in this regard.

Cooperation between the AG and the PSC in cases such as the recent special audit of the interests of public office bearers and senior public servants was successful in that it prevented areas of duplication. (Please see also reply # 12 above.)

The collaboration between the AG and the PP during the Joint Investigating Team investigation of the arms procurement process in 2003 is another example of a successful initiative.

C. Institutional governance

14. What are the institutional governance arrangements in your institution? Are these arrangements clearly set out and do they allow for a smooth running of the institution? Is there a clear, logical and workable division between the members of your institution appointed by the President on advice of the National Assembly and the secretariat? What suggestions do you have to improve the institutional governance arrangements?

The Auditor-General is in overall control of and accountable for the administration of his or her office i.t.o. section 30(2) of the PAA. The Deputy AG is head of the Administration and responsible for the administration of the AG in terms of section 32 of the PAA.

Even though the Auditor-General forms the unitary board, the Auditor-General has appointed an Advisory Board and Remuneration Committee i.t.o. section 5(2)(b) of the PAA to advise the Auditor-General in fulfilling the Auditor-General's duties and exercising the Auditor-General's powers.

In addition, an Audit Committee has been established i.t.o. section 40 and 43 of the PAA to strengthen corporate governance in the AG. An Executive Committee has also been established to assist the DAG.

The Auditor-General is the only member of the institution appointed by the President. In terms of the PAA there is a clear division between the Auditor-General and Deputy AG as head of Administration.

The Standing Committee on the AG in the National Assembly provides for external governance oversight (see also reply to Question 10 above).

15. Does your institution have mechanisms in place to deal with internal conflict in your institution? If yes, what are these mechanisms and are they effective?

Yes. The *Grievance Policy and Procedure* contains a detailed process for the handling of and resolution of internal conflict. The policy and procedure

document is utilised on a regular basis. The effectiveness of the policy is proven by the limited number of matters referred for resolution by external mechanisms/forums, for example the CCMA.

- 16. What mechanisms are in place for Chief Executive Officers, Chairpersons and Commissioners to disclose and/or seek permission for private commercial/financial interests or involvement? Are such mechanisms effective or sufficient to ensure transparency and avoid conflict of interest?**

Yes. The AG's *Code of Professional Conduct and Ethics* requires the Auditor-General and all staff to disclose any direct or indirect relationship or interest (whether of a personal, private or business nature) that may be regarded as incompatible with, or adversely influencing or impairing the values and principles of the Code. A register is kept centrally of all reported interests and relationships. The said register is readily available to provide information in all areas where conflict of interest may exist, for example the procurement process, audit engagements, personnel matters etc. Currently the Code and procedures are regarded internally as sufficient. (Please see copy provided.)

D. Interaction with the public

- 17. What was the intended relationship between your institution and the public? To what extent has this relationship been realised?**

The AG is constantly striving to foster an open relation with all its stakeholders, including the public/taxpayers. Such relationships will ensure that the public has easy access to both the AG's audit reports and all its personnel, including senior management.

Many South Africans, including most of the country's top leaders, are not yet aware of or exposed to the important work the AG is doing to support the country's democracy. One of the priorities of the AG's Reputation and

Stakeholder Management Unit is to (first) educate the public about the role of the AG as the country's supreme audit institution.

To this effect, the AG has started a process of profiling itself in all relevant media; plans are in place to engage and interact with civil society bodies such as non-governmental organisations (NGOs); student bodies and other non-constitutional entities, to foster lasting relationships and sensitise the public about the excellent work the AG does. When these relationships have been cemented and people know what the AG does, the public will be empowered to engage the AG about its work from an informed platform.

18. Does your institution have mechanisms in place to deal with complaints by the public about the work done by your institution or the failure to attend to issues?

Yes. The AG implemented a *Policy and Procedures on the Handling of Complaints against the Auditor-General* in March 2006. This policy was drafted in compliance with section 13(1)(c) of the PAA, but covers a much wider scope of complaints than that which is required by the Act. The policy describes four categories of complaints with a process to follow for each category. The policy also provides for an appeal process. (See copy provided.)

19. If you deal with public complaints, what mechanisms are in place to deal with such complaints, to follow through on such complaints and to successfully resolve such complaints?

(Please see response to question 18 above.)

E. Financial and other resource matters

20. Give an indication of your budget allocation, additional funding and expenditure over the past five years.

The AG's income and expenditures for the past four years, and the budgeted income and expenditure for the current financial year, are as follows:

	Fiscal year 2007 Total Budget ² (R'000)	Fiscal year 2006 Total Actual (R'000)	Fiscal year 2005 Total Actual (R'000)	Fiscal year 2004 Total Actual (R'000)	Fiscal year 2003 Total Actual (R'000)
Total income	885,744	764,204	613,322	583,446	520,449
Total expenditure	872,844	784,130	613,367	547,138	501,020

No additional funding was received other than the above income generated by means of audit fees. Although section 36(1)(b) of the PAA – and previously the Audit Arrangements Act – provides for the possibility of Parliament appropriating funds for the purposes of the AG, since 1993 no parliamentary appropriation has been necessary.

(For a detailed breakdown of the AG's income and expenditure please refer to the AG's Annual Reports of the last four years, as well as the latest budget, copies of which have been furnished to the Committee.)

21. Please provide detailed information of the remuneration packages for office-bearers and Commissioners.

TOTAL PACKAGES FOR OFFICE BEARERS

	Auditor General R	Deputy AG R
2002	1,074,414	882,919
2003	1,211,800	966,796
2004	1,401,400	1,005,468
2005	1,640,000	1,500,000
2006	1,746,600	1,500,000

² Extracted from the AG's detailed budget for 2007-08, page 67 of the *AG Budget and Strategic Plan for 2007-2010*.

22. Please illustrate the budget process followed by your institution, including the process of allocation of funds.

The main steps of the annual AG budgeting process as provided for in section 38 of the PAA are as follows:

- AG strategic session (in November of the previous year), followed by the preparation of a budget guideline circulated to business units to guide the of compilation of budgets (June)
- Staff requirements per audit centre structures submitted by audit business units (July); presentations to AG internal budget committee of preliminary budgets by Corporate Services business units (July) and audit business units (August), followed by presentations of all final business unit budgets (end August), and approval by AG Executive Committee of consolidated budget (15 September)
- Review by the AG Advisory Board of budget and strategic plan (20 September)
- Submission i.t.o. section 38(2)(a) of the AG's budget and strategic plan to the National Assembly and the Standing Committee on the AG for its consideration, and to the National Treasury i.t.o. section 38(2)(b) for the planning of preparing of the national budget (by end of September)
- Report on the AG's budget by the Standing Committee on the AG i.t.o. section 38(3) submitted to the National Assembly and the National Treasury (by end November)
- Implementation of the budget (w.e.f. April the next year)

23. Are the current budgetary and administrative arrangements sufficient to ensure autonomy of chapter 9 institutions?

Yes (please see reply to Question 9a above).

24. To what extent are the resources allocated to your institution directly spent on meeting its key responsibilities?

In our view, the utilisation of all AG resources is directly related to meeting the key responsibilities of the AG, including the overhead costs required by the AG to operate effectively).

25. Please tabulate the full staff complement of your institution, including all executive and non-executive staff. Please separate staff in the head office from regional offices, where applicable.

Staff complement (see Note 3, page 78 of AG Budget and Strategic Plan)

AUDIT STAFF

Business executives	17
Senior managers	96
Managers	286
Auditors	406
Trainee accountants	806
Admin staff	114
Business unit admin managers	15
<i>Subtotal</i>	<i>1,740</i>

SUPPORT STAFF

AG, DAG and corporate executives	7
Support team (corporate executives)	7
Business executives	8
Senior managers	30
Managers	98
Specialists and practitioners	48
Admin staff	64
Subtotal	262
Total	2,002

REGIONAL AUDIT COMPONENTS

Gauteng (Jhb)	147
Free State	104
KwaZulu-Natal	179
Limpopo	111
North West	94
Mpumalanga	64

Northern Cape	74
Eastern Cape	151
Western Cape	160
National A (Tshwane)	121
National B (Tshwane)	130
National C (Tshwane)	137
National D (Tshwane)	144
Information Systems Auditing (Tshwane)	63
International Auditing (Tshwane & New York)	21
Specialised Audit Services (Tshwane)	40
<i>Total</i>	<i>1,740</i>

ANNEXURE A

[Extract from AG Strategic Plan 2007-2010 – please see RP 225/2006]

Primary focus areas: measurable objectives and medium-term output targets

Primary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
1. Auditing					
1.1 Quality	Deliver audit conclusions that meet professional quality requirements for audit	Quality of auditing as determined by IRBA wrt international standards of auditing (ISA)	Excellent performance (C2 and C3): 75% Good performance (R1): 25% Poor performance (R2): 0%	Excellent performance (C2 and C3): 80% Good performance (R1): 20% Poor performance (R2): 0%	Excellent performance (C2 and C3): 85% Good performance (R1): 15% Poor performance (R2): 0%
Measurement process	<ul style="list-style-type: none"> Internal Quality Control conducts quality control assessment on audits Internal assessment reports are then compiled and used to determine frequency of future quality reviews IRBA conducts external quality reviews of audit reports and audit process annually 				
Tool	Quality control assessment				
1.2 Cost of auditing to government	Provide cost-effective public sector auditing	% stretch target on efficiency gains	Additional 1% on the projected efficiency gains of 33%	Additional 1% on the projected efficiency gains of 35%	Additional 1% on the projected efficiency gains of 35%

Primary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
Measurement process	Calculate the additional 1% efficiency gain over and above the gross margin % of audit income, as reflected in the projected income statement				
Tool	Monthly variance report				
1.3 Timeliness	Finalise audit reports within prescribed deadlines for financial statements submitted on time (PFMA and MFMA: 2 months deadline)	% frequency of all audit deadlines achieved by the AG (excluding auditees)	100% achievement of all audit deadlines	100% achievement of all audit deadlines	100% achievement of all audit deadlines
Measurement process	AG introduced an Audit Tracking Tool that is used to store and capture all audit information, including audit deadlines. The deadlines can then be tracked using the tool to ensure that deadlines are met				
Tool	Audit Tracking Tool				

Primary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
1.4 Auditing of performance information	Phasing-in of the auditing of performance information	% compliance with predetermined audit-coverage milestones as defined in section 7.1.1(d),	100% achievement of milestones set per annum	100% achievement of milestones set per annum	100% achievement of milestones set per annum
Measurement process:	The AG will measure whether the project milestones as defined in section 7.1.1(d), have been met.				
Tool	Project progress report				
1.5 Performance auditing	Increase the focus on performance audits	% audit resources allocated to performance auditing	8%	10%	10%
Measurement process	Business units indicate the % of resources that will be allocated to performance audits separately from other audit activities, during annual budgeting. This information is then tracked throughout the year using an automated report from PeopleSoft (ICT system)				
Tool	Automated PeopleSoft report				

Primary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
1.6 International auditing	Maintain international audits within reasonable norms	% audit cost allocated to international auditing	No more than 5% of total audit income	No more than 5% of total audit income	No more than 5% of total audit income
Measurement process	International resource allocation (budgeted) per annum, may not exceeding 5% of total audit income. This is tracked annually				
Tool	Calculation using PeopleSoft report				
2. Employment equity	Maximise AG's contribution to the national EE initiative	Achievement of affirmative action targets	80% from targeted groups 20% from non-targeted groups	80% from targeted groups 20% from non-targeted groups	80% from targeted groups 20% from non-targeted groups
Measurement process	Analysis per business unit with regard to compliance with set targets as outlined in the AG's Employment Equity Plan. The Employment Equity Plan actions and timelines are predetermined to meet the requirements of the Employment Equity Act No. 55 of 1998				
Tool	Manual tracking and progress report				

Primary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
3. Black economic empowerment	Maximise the AG's contribution to BEE and capacity building, including a dedicated focus on broad-based BEE	% compliance with BEE criteria	100% compliance with BEE criteria per annum	100% compliance with BEE criteria per annum	100% compliance with BEE criteria per annum
Measurement process	AG monitors that all procured goods and services, including audit contract work, comply with BEE criteria as determined by the AG				
Tool	Manual BEE compliance report				
4. Leadership	Enhance leadership effectiveness (reflected in the organisational culture)	Gap between desired culture and current culture	2 - 3% increase from baseline	2 - 3% increase from previous year	5% increase from previous year
Measurement process	Gaps between current and desired culture are to be determined by assessing the culture and defining the desired culture through a series of assessments and best practices. The measurement will be on the % improvement from the baseline and this measure will be determined by conducting annual culture surveys				

Primary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
Tool	Annual culture surveys				
5. Reputation	Improve the corporate reputation and branding of the AG in relation to all its stakeholders, internal and external	Reputation index	1% increase from baseline	1% increase from previous year	2% increase from previous year
Measurement process	The reputation index survey will be conducted on an annual basis by an independent and external party, to determine % improvements				
Tool	Independent surveys conducted by external firm				

Table 1: Primary focus areas: measurable objectives and medium-term output targets

Secondary focus areas: measurable objectives and medium-term output targets

Secondary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
People					
6. Learning and growth	Narrow the competency gap between the required and the actual knowledge, skills and abilities	Number of qualified audit professionals	Minimum 20 qualified audit professionals per annum	Minimum 30 qualified audit professionals per annum	Minimum 40 qualified audit professionals per annum
Measurement process	AG to measure number of qualified audit professionals trained and qualified per learning institution (SAICA, SAIGA, IPFA, ECCA, and CISA).				
Tool	Manual tracking of number of qualified audit professionals				
7. Retention of staff	Reduce staff turnover to be within the industry norm of 12% to ensure that the AG benefits from its professional assistance investment	Turnover rate	12%	12%	12%
Measurement process	Determine the % turnover rate on an annual basis				
Tool	Automated tool that will provide staff turnover rate				

Secondary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
Process					
8. Operational excellence	All key business processes have reached a level of compliance and control w.r.t. capability maturity model	Level of maturity of all business processes	Internal controls are defined and all business processes comply with all internal controls: 25% Proper internal controls are defined but not standardised: 75% No proper controls in place: 0%	Internal controls are defined and all business processes comply with all internal controls : 50% Proper internal controls are defined but not standardised: 50% No proper controls in place: 0%	Internal controls are defined and all business processes comply with all internal controls: 100% Proper internal controls are defined but not standardised: 0% No proper controls in place: 0%
Measurement process	Internal audit to determine the maturity levels of all business processes with regard to the six maturity levels set for the AG. The result will indicate whether the focus should be on the improvement of controls (level 1 – 3) or performance (level 4 – 6). Please refer to annexure 4				
Tool	Final report from internal audit				
Financial performance					
9. 1. Efficiency gains	Achieve stretch target on the budgeted efficiency gains as tabled in the projected income statement	% achievement of budgeted efficiency gains	Additional 3 % on projected efficiency gains	Additional 3 % on projected efficiency gains	Additional 3 % on projected efficiency gains

Secondary focus area (performance outcome)	Goal	Measure	Target 2007-08	Target 2008-09	Target 2009-10
Measurement process	Calculate additional % efficiency gain on the projected income statement				
Tool	Analysis of the projected income statement				
9.2. Debt collection	Timely collection of cash from debtors	Debtors days outstanding	National and provincial not more than 30 days Local government not more than 90 days	National and provincial not more than 30 days Local government not more than 75 days	National and provincial not more than 30 days Local government not more than 60 days
Measurement process	The optimal cash flow will be measured by determining the age of debtors for the different tiers of government.				
Tool	Automated age analysis report				

Table 2: Key efficiency drivers: measurable objectives and medium-term output targets

